The book, written as a doctoral thesis, examines the development of the personnel function in labour organisations. Starting from a history of personnel management in the Netherlands during the second half of the 20th century, it analyses the structural transformation in the societal-economic environment from which originate far-reaching changes in employee relations. The transformation from the post-war model of guided capitalism towards its neo-liberal variety has serious consequences for intra-organisational power relations which result in a one-sided articulation of interests. This erodes the moral fabric of the labour organisation as a social institution. In this context special attention is paid to the wide-spread erosion of corporate ethics in the 21st century. The intensification of the labour process - a consistent phenomenon in industrial capitalism – has got a new impulse, due to the lack of countervailing power within an eroding system of labour relations as well as to superior production techniques and technologies. These tendencies have a deteriorating effect on the substance of the personnel discipline, ending up in a loss of function.
THE MAINTENANCE CREW FOR THE HUMAN MACHINERY

A historical-sociological analysis of personnel management
Colofon

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THE MAINTENANCE CREW FOR THE HUMAN MACHINERY
A historical-sociological analysis of personnel management

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A historical-sociological analysis of personnel management

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Introduction

To develop a theory...

The aim of this study is to develop a theory. The subject is personnel management, which is the specialization within management that concerns itself with the human factor in the organisation. Personnel management, or HRM as it is often called these days, has changed dramatically over time and the basic assumption of this study is that the transformations in its content can contribute to our understanding of the reasons why the personnel discipline in organisations functions as it does. For why did its content – that is what personnel managers advocated in theory and practised daily – differ so much in the 1990s from say the 1970s? The only possible answer is that the societal and economic context has changed in the meantime and personnel management, being the managerial discipline that is closest to the societal coal-front, reflected this transformation in its theory and behaviour.

Because the study focuses on developments over time, it takes the approach of historical sociology, the discipline that combines the academic disciplines of history and sociology. This theoretical approach is based on the notion that, in order to understand the functioning of social systems, one has to take into account how they came into being in the first place and have developed since. The two disciplines of sociology and history are clearly distinct from each other. Sociologists focus primarily on general theory; historians tend to be more interested in unique events and issues that are limited in time. There is however a certain overlap in scientific approach between the two. It should be noted here that the classical sociologists – Durkheim, Weber, Tönnies – all based their theories on historical macro-trends in trying to understand how social life had been shaped in varying societal contexts. For their part, Fernand Braudel and the historians of the Annales School tried to combine their chronologies of events with the structural aspects of social systems – culture, social structure, population and ecology – in order to understand the role these played in major historical trends. This offers a fine example of two disciplines working from the edges to the middle.

More than any other management speciality, personnel management is sensitive to influences from the society around it. When it comes to the forces that mould the substance of our subject of research, one should start by thinking of structural societal trends. Further on in this study we will postulate the possible end of Human Resources Management as the leading concept of the personnel discipline. The line of reasoning will be that this concept offered solutions for the challenges of the 1980s, which are no longer suitable for problems arising from the present societal context.

An historical analysis is singular in two respects: in time – historical events do not repeat themselves so that they are not suitable for generalisation – and in place. The historical evidence presented in this study focuses on the development of the personnel discipline in the Netherlands, with which the author has a long-standing familiarity. First as editor-in-
chief of the leading professional magazine on personnel management and later-on as the editor and owner of a small publishing company in the field of man-work-organisation, I closely followed the personnel discipline for about thirty years.

The focus on the development in one particular country does rise the question to what extent the results of such a case study may be generalised. First, as we will see, theory on Human Resources Management is rather international; that is, its concepts are derived from American-based theorizing. To put one case study against a general theory is sound methodology. It is true that the methodological approach of qualitative research, of which the case study is a variety, is subject to certain limitations, but it offers opportunities as well which we will elaborate in chapter 2. It is fair to say that the theory to be developed in this study is in fact a hypothesis. The methodology is deduction rather than induction on which the empirical approach in social sciences is built. This may be conceived as a disadvantage in an age in which the focus is so much on the what-we-can-measure-we-can-know type of research. Qualitative research however can offer a contrasting perspective – it can explain what by other approaches can only be stated as fact.

To give an example. Since the late 1990s a serious crisis in management manifests itself. There is sufficient empirical evidence to demonstrate the existence of this phenomenon as a fact. But for an historical sociologist this is not enough. He will want to know why and why at this particular point in time? That’s an historical approach. It cannot provide ‘proof’ in the way empirical science can, but it can offer an explanation. And in the end, in the Popperian line of reasoning, any hypothesis stands, as long as it is not falsified.

**The substance of personnel management**

So this study is based on historical change. But what do we mean by saying something like ‘personnel management has changed considerably?’ How can we make tangible the subject of our research? What are the constituent elements of a discipline within an organisation? For a start we have to separate substance from practice. The substance of personnel management consists of three elements:

- **challenges:** the critical problems that are recognized as such by the practitioners in the discipline;
- **visions:** shared concepts and opinions on what personnel management is or should be;
- **tools:** the instruments personnel managers have at their disposal that enable them to reach certain aims of personnel policy.

Practice is what personnel managers have done in their daily work, when and how. The focus on certain aspects of personnel policy will shift over time. For instance, during the low ebb of the business cycle, when supply on the labour market is abundant, less attention will be given to recruitment and selection and binding the employees already in. This is only one example of the way in which external circumstances, labelled as ‘fields of influence’ in
the theory of this study, determine the practice of the personnel discipline.

Practice follows substance, so the latter is of prime interest in this study. But how do we explicate the problems of which personnel managers agreed that they were critical to their profession at a certain point in time, or the visions on men and work they shared? It is obvious that these changes do not emerge from within the discipline itself, as personnel managers don’t function autonomously, but in a derived, facilitating role to their organisation. So, to explain how personnel management functions, we have to understand how organisations function.

Throughout the years, the substance of personnel management has reflected the way production was structured. So, when standardised Tayloristic production systems needed standardised human behaviour, personnel managers offered detailed job descriptions, fixed wage scales and predetermined career paths from the moment of entry into the company through to retirement. At the turn of the millennium labour relations were not fixed any more. The new Human Resources Management became ‘defined’ in buzzwords like competency-based appraisal, employability and outsourcing - concepts aimed at realising maximum flexibility, and as such just the exact opposite of the standardised approach of mass production.

Karl Marx would not have been surprised. In his materialist conception of human history he allotted a central role to the changes over time in the conditions under which people earn their living in society, the production relations, in his own words. These constitute the base on which the superstructure of political, judicial and philosophical ideas is built. This pair of concepts was later popularised by Bertold Brecht’s famous line in his Three Penny Opera: zuerst kommt das Fressen, dann die Moral (eating comes first, morals come afterwards). Translated to our subject, this philosophical approach means that industrial relations are formed by the way production is structured, not the other way around.

Ideology doesn’t change the basics on which work in our society is organised. Braverman, who theorised on the structuring of work in the Marxist tradition, had this to say on the subject:

“Work itself is organized according to Taylorian principles, while personnel departments and academics have busied themselves with the selection, training, manipulation, pacification and adjustment of ‘manpower’ to suit the work processes thus organized. Taylorism dominates the world of production; the practitioners of ‘human relations’ and ‘industrial psychology’ are the maintenance crew for the human machinery.”

His point is aptly demonstrated in the case of the Humanisation of Labour Movement which led to a limited number of experiments with job redesign in the 1970s. In hindsight it is easy to conclude that it focused too one-sidedly on the human aspects of work life and

1 Braverman (1974), 87
2 Known as Quality of Work Life in Anglo-Saxon literature.
failed to back them up with hard criteria for economic result. So the Movement fizzled out in the harsher economic climate of the 1980s, with its mass lay-offs first and the quick grabs for the big money by those well placed in the job structure later.

**Some reflections on personnel management in the Netherlands**

For a start, what is personnel management? It may seem obvious that it is what the word tells it is: a specialised form of management. During the history of Dutch personnel management however, this appears to have not always been the case; a fact that becomes apparent when we look at the subsequent designations that have been in use for what we can describe, in a rather neutral way, as ‘the personnel function within the organisation’ (comparable with for instance the financial function).

In an earlier phase it was designated as *personeelswerk* (personnel work), a term with a clear socio-agogic connotation, more or less like social work. A ‘personnel worker’ in a role as the company’s counsellor is quite different a type of person than what we understand to be a manager. An unclear job designation is of course not the root cause of lack of clarity about one’s professional role. But there was a time when one could determine a tendency to blur any direct relation with the management function at all – based, more often than not, on the implicit supposition that handling the human factor in the working environment is a somewhat loftier vocation than solving the daily bread-and-butter issues which line managers are occupied with. So the argument goes the other way round: that the ambiguous term *‘personeelswerk’* reflected the underlying ambiguity in the interpretation of the personnel function within the organisation.

A ‘neutral’ term can have the same separating effect. So the professional group was (and sometimes still is) designated in a neutral way as *personeelsfunctionarissen* (personnel functionaries) and the personnel function as PZ (*personeelzaken*, personnel affairs).

‘Functionary’ relates to a function within the organisational structure, not necessarily a management function – preferably not, it appeared at that time. It was, not coincidentally, the term consequently used in the concept of a professional code, designed by the Association for Personnel Policy (*Nederlandse Vereniging voor Personeelbeleid*, NVP) in the 1970s. This code never came into force, for reasons which in hindsight are all too obvious. As we will see later-on, it stressed an ‘independent’ professional role as a kind of objective mediator between management and labour. In this way it lacked a clear notion of the relation of personnel management towards top management, as well as a power base to create an autonomous position within the organisational structure. In the end, the reality of managerial power spoke louder than ideology.

In quite another meaning of the word, *‘personeelsfunctionaris’* is used to indicate the basic - non-managerial - level within the personnel department, reserving the term personnel manager for the higher strata of the personnel bureaucracy. A quite common term today for the personnel function is ‘P&O’ (and ‘P&O-er’ for the person who fulfils it).
stresses the expert role in the field of Personnel & Organisation – again not primarily a management role.

There are different designations for the personnel function in use to indicate certain developmental phases in its history. Commonly this development is described as the sequence of *personeelsbeheer* (personnel administration), *sociaal personeelsbeleid* (social personnel policy), personnel management and Human Resources Management. (In this study ‘personnel management’ will only be used between brackets to designate a certain developmental phase in the ‘personnel discipline,’ normally however as a general term for ‘people management.’) These stages would mark an evolution from the machine bureaucracies of the 1950s, (a people independent way of organising and managing) via the democratisation of the 1960s and ’70s towards a “people dependent way” that would have become manifest from the 1980s. This development might finally lead to a “people determined organisation” and correspondingly to “self-management by people” as the dominant organisational model for the future. Again: a personnel manager in an organisation that allows its work force to manage itself fulfils quite another role (if any) than what we understand to be a manager’s. That is apart from the question whether this rosy perspective of future management-labour relations will become a reality within a foreseeable time-frame.

So terminology means a lot when we try to understand what the substance of the personnel function really is, or what it was at a certain time.

♦

**The ‘O’ of ‘P&O’**

Personnel managers operate within the power structure of the organisation. To what extent did they have at their disposal a power base of their own?

When the Head of Personnel is a member of the Management Team, obviously his ability to influence the process of decision-making in this team depends on his expert knowledge on the ‘production factor labour.’ A closer look however unveils some weak spots. First, for a long time no-one knew how to precisely value this expert contribution. As early as the beginning of the 1950s Peter Drucker observed that personnel managers were constantly worrying about “their inability to prove that they are making a contribution to the enterprise.” This put them in an awkward position. Heads of Marketing, Production and Finance all had to meet their targets, but these did not exist for the personnel manager. That really set apart the men from the boys in the management team.

A second flaw was more fundamental. It concerns the personnel managers’ lack of influence on what in this study is referred to as ‘the inside of work.’ The concept will be elaborated in chapter 6. For now it suffices to understand it as shorthand for the way in which production systems are designed and work is organised. The designing is the engineers’ job, but it determines the content and quality of the work that will emerge in

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3 Tissen (1991)
4 Drucker, 1954, 2755
Introduction
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the system. Whenever personnel managers were confronted with problems relating to quality of work life issues - job content, qualifications - the root cause was beyond their scope of influence. They could explain that the motivation of the workforce deteriorated in an alienating work environment, but not how this related to company goals, let alone how work processes should be organised otherwise. This shortcoming didn’t strengthen their power base within the management structure.

Between ideology and reality

A characteristic feature of the Dutch personnel discipline has been its high content of ideology. Textbooks on personnel management in the Netherlands agree that its history is to be described as a sequence of *stromingen* (currents), more or less coherent complexes of ideas about the use of and control over human productive capacities. These constructions of thought on the one hand contain images of man in the labour environment that constitutes an important part of his social context. Concurrently however they are suitable to derive practical insights which can be packaged into management concepts that are applicable in daily practice.

So we see *paternalism* arise in the last quarter of the 19th century, when the Industrial Revolution at last reached the Netherlands. It was a movement initialised by a limited number of ‘enlightened’ employers, based on the principle that the employee, being incapable of self-governing, will loyally carry out his duties in total subordination to the employer, who will therefore take care of his needs in a good willing, tenant-like way. The first pension funds and housing estates for workers date from this period.

In the years after WO I the focus changed to a rationalisation of work and labour relations, under the influence of Taylor’s Scientific Management. *Rationeel personeelsbeleid* (rational personnel policy) is based on the concept that people should be deployed in a rational way to reach the most efficient operational management as possible. In the time between the wars Scientific Management had a limited impact. It was only in the years immediately following WO II, in which the United States had given such an astonishing demonstration of efficiency as the ‘arsenal of democracy,’ when Tayloristic concepts were wholly embraced by the impoverished economies of Europe. Raising productivity is their primary aim. Elements like piece-rate systems, horizontal and vertical division of labour – by splitting up work in simple routine manufacturing and separation of execution and control – and rationalisation of personnel selection methods, dominated the workplace during a major part of the post-war period.6

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6 In fact, one might say during the whole second half of the 20th century. There can a time sequence be ascertained - from the 1950s, when Tayloristic work principles were introduced in manufacturing industry, to the 1960s when the craft of shipbuilding was rationalised, to the 1970s when Taylor made his inroad into the financial services. By the end of the 1990s I presented the thesis to a number of personnel managers in the health care sector that Taylorism had only recently be introduced in their branch of trade. They all nodded in assernt. Standardisation, yes we know all about it – standard times all over for washing a patient, cleaning a room. Economies of scale of course – mergers are supposed to make us more efficient. And lots of managers to control that efficiency. So it took almost a century for production modernity to traverse the whole road from the T-Ford to health care.
The primary focus of personnel management in its emerging phase however, was not so much on efficiency, as well as on another contribution from across the Atlantic: the Human Relations-movement. It stressed the informal organisation as a network of social relations between people. Work, the advocates of this new approach taught, is not primarily an economic and organisational phenomenon, but a social activity. Not the wage level, but the status and respect that the worker derives from the work and his social relations within the group are the prime motivators. The managerial control system is to be strengthened by social means, based on shared values.

The fact that, at this early point in time, rational Taylorism and the social oriented Human Relations approach coincided possibly indicates that the visions of line managers and those of the still limited number of thinkers on personnel management tended to drift apart from the start. On the other hand, there was a close interconnection between the two, as the Human Relations-movement seemed to be the perfect ideology to cope with the basic problem of worker motivation in an alienating work environment, created by the dominant Tayloristic production system. It was “the backlash against Taylorism,” as Donkin remarks. “It tempered it with a timely warning that people were not machines, but it did not deliver a neat formula (...) to the one best way of people management,” - in the way Taylor meant he had demonstrated the one best way of production management. Nor seems, in hindsight, the scientific solidity to be assured of the original foundations on which the Human Relations-movement was based: the famous Hawthorn Electric-research. Donkin more or less accuses Elton Mayo and his contributors of having ‘fiddled the books.’ They would have purposely neglected the effect that the wage level actually had on the originally enigmatic rise in productivity in their experiments – none, according to their theory. However, “it sounded so appealing, so simple, so human. It had to be true, and the most damming point of all is that it probably was.”

This all in all fits neatly into the definition of an ideology:

a set of cultural beliefs, values and attitudes that together offer a theory which aspires both to explicate the world – and thereby to a certain extent justifies and legitimises either the interests of dominant groups or of movements for change – as well as to transform it according to these interests.

The Human Relations-movement made a very strong impact, from the 1950s until late into the 1970s. A whole generation of personnel managers grew up with Maslow’s theory of the hierarchy of human needs. The conclusion from this theory - that man had reached the final stage in the development of his needs: the drive for self-actualisation - delivered a clear-cut ideology at the time. ‘Self-actualisation of the worker’ became a main concept, which created much employment for personnel managers who aimed at a loftier task than the regulating duties they had to perform in the first place.

7 Donkin (2001), 174-176
These regulating duties arose from another basic trend: Institutionalisation. It emerged from the founding of the welfare state, which brought with it legalising the workers’ rights - rights highly to be valued for sure, but which ended up in so much over-regulation that it became a potential threat to employment. And personnel management was (and is) first and foremost about regulations.

♦

**High hopes**  
In the early 1980s the era of guided capitalism comes to an end. The welfare state and the institutionalisation of workers’ rights have reached their limits and at corporate level the production bureaucracy loses its functionality. It had been these both institutions that made personnel management emerge in the first place and offered it its growth perspective later. This resulted in a ‘conceptual vacuum,’ which is disastrous for a conceptual profession like personnel management, and ended in a deep crisis of legitimacy.

At that time a new concept emerged: Human Resources Management. The simultaneousness can hardly be ignored. The reason why such high hopes were pinned on the HRM-concept was precisely that it created a new legitimacy at the time it was most needed.

The concept is based on the principle that

- horizontal integration of HR instruments into one consistent system, and
- vertical integration of HR policy into strategic corporate policy
- will lead to a demonstrable contribution to corporate performance.

Internal, or horizontal integration would forge the instruments that personnel managers have at their disposal into a coherent set of tools which would, in a synergistic way, contribute to corporate performance. More important, the external, vertical integration would ensure that HR policy would become a coherent part of corporate strategy. The notion is widely endorsed that there is a close relationship between the two. HR policy on the one hand sets pre-limiting conditions to long-term corporate policy, while on the other hand it opens strategic opportunities.

The focus on the ‘demonstrable contribution’ legitimised the place in the boardroom that personnel management had craved for so long. And in the end, HRM is a development oriented concept, based on the insight that people are not costs but assets. And while costs have to be curbed and controlled, assets have to be nurtured and raised. The Human Capital Thesis, that states that human beings are the only production factor that is really scarce in the end, and therefore creates a high return on investment, offered a new ‘conceptual perspective.’
The theoretical framework

The elements of the theory to be developed in this study can be summarised in a theoretical framework (to use the word ‘model’ would be a bit too high-handed as this would suggest a level of abstraction that cannot be substantiated). As an aid, this framework has been graphically captured in figure 1. It consists of three levels, of which the upper one (figure 1, level 1) is depicted below.

FIGURE 1. THE THEORETICAL FRAMEWORK - LEVEL 1

From there we will construct the framework step by step.

Managerial power: the ultimate explanatory variable

The framework starts from the phenomenon of managerial power as the ultimate explanatory variable. This should come close to stating the obvious. The personnel function is part of the management function within a given organisation. So, if one wants to develop a theory to analyse and understand the personnel function, one first needs a theory of the management function in general. This function is to create a unity of action within the organisation, by means of control of processes – financial, technical and behavioural. The concept of control is almost synonymous with that of power; therefore an analysis of the management function is practically synonymous with a study into managerial power. The flow of power solidifies in a management structure of competencies and responsibilities, lines of command and reporting, of which personnel management is a part.

More-over, the personnel function is linked to the power structure in a special way. It primarily deals with a power-based relationship, whereas, for instance, the sales function deals with a negotiation-based relationship. The labour relation between employer and employee is founded on the labour contract, the essence of which is subordination of the...
employee to his superior managers. When there is no subordination, there is no labour contract but an agreement between equals in principal, such as a free-lance agreement. Therefore, the personnel function should be comprehended from the perspective of the power structure of the organisation. This point cannot be overstressed as the factor of managerial power is almost absent in theory on personnel management.

The way managers actually exert their power highly depends on the environment in which they operate, the restraints it sets as well as the opportunities it offers. A way to analyse the interaction between the organisation and its environment is to look into management concepts as a tool of interpretation of that environment. As the societal-economic structure changes over time, so will the management concepts that influence corporate strategies, which in turn shape HR strategies and policies. This is depicted in the upper oval of the framework which, like the ones at the left and the right, are explanatory variables of managerial power.

The political component is located between the subordinate’s ears: why should he and does he obey his superiors? This is due to either domination or authority which constitute the extremes of the continuum. The extent to which managerial power is actually based on either one highly depends on the equivalence of the employer-employee power relation. Imbalance of power relies on domination, more than on authority. In early industrial capitalism the power relation was almost completely one-sided and consequently managerial power was mainly based on coercion. As rationality took over as the guiding principle for organising production, domination as a means to gain workers’ obedience faded away to the background in favour of authority. Zuboff calls it the “spiritual dimension of power” because “it depends upon faith in a system of meaning that decrees the necessity of the hierarchical order.” Because of this faith, “legitimate authority need not depend on either violence or reasoned argument to elicit the desired action.” However, this smooth execution of managerial power lasts as long as the faith stays intact. The moment this moral base underlying the managerial authority would erode, authority would tend to regress into domination.

The structural component consists of the techno-structure, which can place the subordinate in a position where he can do nothing else than obey. When Henry Ford invented the conveyor belt he created more than a tool to boost efficiency. It rationalised away any possibility of workers’ disobedience by making the machine dictate the content as well as the pace of work. Advanced technology can be applied in the same way, at a higher level of sophistication. Technology therefore is to be conceived both as an instrument of production as well as a part of the power structure of the organisation, ‘built into’ the production and communication structure.

If personnel management is part of the organisation’s power structure, what then is its own power base? In general, the ‘expert power’ of a professional group rests on a

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8 Braverman (1974), 66
9 Zuboff (1988), 221
dependency of the organisation as a system to cope with specific uncertainties; in the case of personnel management arising from the growing complexity of labour relations. There is however one factor that is especially relevant in the context of the personnel managers’ place in the power structure. It has to do with the evolution in managerial power from domination towards authority and therefore with the moral basis of managerial power. The separate personnel function emerged because of an integrative function. From its early start, morality has been its core business.\(^{10}\) In practice this happens any time when a personnel manager tells his boss that ‘this is not the way we treat people here.’

As a consequence we will have to develop, as part of our theory, a yardstick to assess the level of corporate morality. This instrument can be deducted from Durkheim’s theory on societal cohesion, transcribed to the level of the business enterprise as a social system.

\[\text{Substance of personnel management}\]

In this way we may conceive the factor of corporate morality and its ‘quality management’ as the connection between the levels 1 and 2 of the framework: between managerial power and the substance of personnel management.

\[\text{FIGURE 1. THE THEORETICAL FRAMEWORK – LEVEL 2}\]

 elastic work
• actors • goals • coalitions

managerial power

societal flow

power base
morality

substance of personnel management:
• challenges • visions • tools

the inside of work
• production processes

‘Substance’ consists of three components. First, we have to ask ourselves what at certain points in time were the critical challenges that personnel management as a profession recognised as such and why it did so. Why for instance, was the quality of labour in monotonous, repetitive and machine-paced production conceived as a problem in the 1970s, while it was not in the 1950s? These central problems shape the ideas, theory and visions that personnel managers use to interpret the socio-organisational environment in which they operate and to formulate solutions. So, the concerns over the quality of low-skilled work gave rise to theories on job design that ended up in the Humanisation

\(^{10}\) Clegg et al. (2006), 82-86
of Labour Movement. Ideas, theories and visions are summarised as the ‘ideation tool-kit.’ The content of this tool-kit is filled from a body of knowledge we can designate as ‘the humanistic business approach’ which reflects the moral function of the personnel discipline. Thirdly, there are the instruments, such as wage systems and appraisal techniques, which personnel managers apply in their daily work - designated as the ‘operational tool-kit.’ The content of this second tool-kit is shaped by the problems at hand as well as by theoretical insights at the time.

The substance of personnel management takes shape in adapting to two major fields of influence. One is between itself and the society in action. Societal flow can be considered as shorthand for the pressures and influences from the society at large. Here we find various actors with divergent objectives who operate in fluctuating coalitions. In the 1970s especially, we can observe that the debates within the personnel profession to a great extent reflected ongoing societal debates.

The ‘inside of work’ is also shorthand. It represents the way production systems are designed. The choices that the engineer makes at his drawing-board have great consequences for the type of work that will emerge, quantitatively as well as qualitatively. One could equally well imagine long rows of conveyor belts and lots of blue collars around, as a fully automated factory where three white-clothed men push the odd button now and then. A structural problem of personnel managers has always been that they never could exert any influence over the engineer’s choices (nor did they have any insight into their technical implications), while at the same time they were confronted with the outcomes of these choices in terms of the qualifications of the slots they had to fill on the labour market.

The substance of personnel management ends up in what exactly? At a certain point in its history it was thought of as a profession. But it ended up far away from the classic sociological model of professionalism, demarcated to the outside world by a certified educational system and governed by autonomous norms for professional behaviour. Personnel management is all but autonomous - reason why it reaches no farther than a semi-profession.
Practice of personnel management

The personnel manager’s ideation and operational tool-kits determine his contribution to the organisation in daily practice. The practice of personnel management can be summed up as: what did personnel managers do, when and how? For instance, what are the differences between the common recruitment practices in the 1960s and the 1980s?

This personnel manager’s contribution to his organisation is shaped on the one hand in adaptation to the labour market, on which he is a buyer. It is important to stress at this point that the labour market is not only a quantitative affair about numbers of job seekers and vacancies. Qualitative developments play an important role too. Probably the question ‘what kind of jobs?’ is more relevant than ‘how many jobs?’

‘The inside of work’ is the counterpart of its ‘outside.’ It relates to the network of labour laws, tariff agreements and co-determination regulations that puts limits on personnel policy and practice.

A third field of influence consists of the demands on the personnel department arising from the organisation; often, but not exclusively, directly steered by top management. Various role senders voice expectations about the personnel manager’s contribution and the importance attached to the various task fields over time. These task fields sometimes fluctuate in the short run, as the practice of personnel management is extremely sensitive to cyclical fluctuations.

This may make one rather critical to abstract theory that distances itself too far from daily practice. As one author put it: “Not much literature really reflects the challenges and worries that line managers as well as personnel managers see themselves confronted with on a daily basis.” In the end he concludes to ‘the impossibility of consistent social policy.’
Neither is there any permanency over time, nor constancy and absence of internal inconsistency in daily practice of social policy. The multidimensional relationship between employer and employee manifests itself in a turbulent and complex environment. Societal, economic, organisational and individual variables do raise demands on social policy in fluctuating configurations. Moreover, these demands are not objective in character, but always tied to the position of various stakeholders. Therefore, much of formulated social policy is founded on an inappropriate pretension of consistency and achievability.

By the way, this makes it difficult for scientists to determine any long term effects of ‘HRM practices,’ as such an approach presupposes continuous application of practices that are considered best.

This completes the theoretical framework that will be developed in this study. The graphical representation summarises the theory by showing its basic elements and the relations between them.

The framework completed

- The three central ovals reflect the theoretical levels: managerial power, substance and practice of personnel management.
- The ovals in between show the connections between these three levels.

Bolweg (1995)
morality connects managerial power and the substance of personnel management, the semi-professional character of which influences its daily practice.

• The ovals at either side, above and below represent the ‘fields of influence’ that create restraints as well as opportunities at each of the three levels in the model. The left hand fields of influence are grouped together in such a way that they can be considered as the ‘software-side’ of the framework; the right hand ones as its ‘hardware-side.’

• The arrows represent the interrelationships between fields of influence. The ‘soft’ societal pressures and influences solidify in the ‘hard’ laws and regulations that are the meat and bread of the personnel manager’s work. Conversely, the ‘hard’ production structure shapes demand and supply at the labour market in the long run; quantitatively, but especially in qualitative respect.

The logic of this framework is reflected in the structure of the study.

The structure of the study

Part I Part I offers an overview of the elements that are relevant to this study and the main methodological issues that are at stake here.

Chapter 1 contains a history of personnel management in the Netherlands for the period 1950-2000, sketched against the backdrop of development in the economic structure and labour relations. The standard way of description in terms of sets of ideas and concepts, shortly outlined before, functions as the backbone. It will be supplemented with historical source material and ‘testimonies’ of people who had an active role in and have a living memory of the history of Dutch personnel management.

This history, constructed both in an impressionistic and fact-based way, works towards three peculiar turning points. From the mid-1960s on the newly created vocational training and the foundation of the professional association for personnel managers stimulated a strong professionalism and often self-proclaimed role attribution. The basic principles the personnel discipline stood for at that time are critically discussed.

A second turning point is to be located around 1980, when the most serious recession since the war hit the Western economies. Suddenly, much of the basic tenets of personnel management in the previous period became dubious, to say the least. From this crisis Human Resources Management (HRM) emerged as the leading concept of personnel management. The chapter contains a critical examination of this approach, which underwent a crisis in the mid-1990s (a third turning point) when the second wave of globalisation attained its full force.

Chapter 2 situates this study in the radical tradition of the social sciences. It pleads
the case for the validity of qualitative research at a time when the empirical-quantitative approach dominates. More specifically, it argues for historical sociology as an approach to gain insight into the reasons why social systems function as they do. Philosophical and methodological aspects are discussed.

The perspective of a radical organisation theory places this study opposite the mainstream research in the field of personnel management: Strategic Human Resources Management (S-HRM). This body of theory is based on the assumption that certain activities in the field of HRM lead to certain HR outcomes which in turn lead to better (financial) results of the company. In other words, its design and theory works from the inside outwards. S-HRM claims to be an empirical approach, a claim however which is questioned in this study.

To the opposite, the historical-sociological approach follows a line of reasoning that goes from the environment of the economy and society, to managers’ perceptions of that environment, to their strategies and actions, in order to understand the content and practice of personnel management in the context thus given. That is, it works from the outside inwards. It doesn’t focus so much on the effects of HR practices, as well as asks why personnel managers do what they do in the first place, given a certain socio-economic context at a certain point in time.

Part II

Part II contains an essay on the division of labour and managerial power.

Chapter 3 analyses the origins and the development of management. The managerial class emerged and could establish its power only when it was able to gain control over the ‘inside of work.’ Thereto it had to ‘disown’ the craft knowledge that until late into the 19th century had been in the possession of the workers. The struggle over the ‘ownership of know-how’ goes on till the present time.

As rationality took over as the guiding principle on which design and governance of the production process was based, domination as a means to gain workers’ obedience had to fade to the background for reasons of efficiency. The new paradigm of efficiency demanded a frictionless production process that required a frictionless execution of managerial power. Or, stated otherwise, the efficiency of production became dependent on the efficiency of the execution of managerial power. In this way, the underlying changes in the characteristics of the production structure explain the historical evolution of managerial power from domination to authority.

However, morality is always two-sided. The moral duty to obey is complementary to the belief that what is good for management and the company is in line with what is good for the worker. The extent to which this congruence is a fact in reality could be referred to as the quality of managerial power.
It is here that personnel management comes in. From the start it had an integrative function. Personnel management had to protect the dual morality – that is to guard the quality of power for the sake of efficiency of power. It is this role as the quality manager of managerial power that gives rise to what was a common misunderstanding when it had been taken for a role as an advocate of workers’ rights which was so often attributed to personnel managers. The two roles look alike but are fundamentally different.

In Chapter 4 we try to develop a yardstick to measure the state of corporate morality. It is based on Durkheim’s theory which states that the cohesion in society originates from the societal division of labour. Work, because of its obliging character, creates between people a system of rights and duties that binds them to each other in a durable way. Under certain circumstances however the same division of labour creates ‘social pathologies’ which undermine the cohesion because they destruct the values and norms on which solidarity between humans is founded. A state of anomie sets in that can be analysed in terms of certain specific ‘pathological’ conditions.

Subsequently, the concept of anomie is transcribed from the level of society as a whole to the underlying layer of the labour organisation (corporate anomie). Each of the ‘pathological conditions’ that Durkheim specified can as well be observed at corporate level.

The chapter demonstrates that it is possible in principle to research the anomic phenomena empirically; that is to determine indicators for a certain state of moral disintegration within a company. Such an analysis could give us an indication of the dysfunctionalities of management practices and tendencies that work contrary to social integration in organisations. It may as well explain the crisis in management that became manifest from the late 1990s onwards and culminated in the economic crisis of 2008.

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Part III is devoted to the environmental context in which organisations have operated: the historical interplay between the societal-economic structure and managerial ideology that shaped corporate strategies, and personnel policies as their derivative.

Chapter 5 analyses the fundamental changes in the societal-economic structure, during the period of ‘guided capitalism’ and after. The era of guided capitalism has been of special importance for the emergence and development of the personnel discipline, because it brought the welfare state and the institutionalisation of workers’ rights. These were social artefacts erected under specific historic circumstances. This chapter analyses these conditions and the circumstances that lead to the erosion of the model of guided capitalism.
Introduction

Since the mid-1980s this model has been abandoned. A new type of ‘turbo-capitalism’ emerged, that could, by lack of restraints, come close to the ideal type. Capitalism, by its innate character strives to accumulation of capital. In its unbridled variety it strives to the absolute virtual command of capital over the real economy and ultimately over society as a whole. Virtual economics supply the leverage by which the human effort in the real economy is surpassed many times over by returns on investment by way of manipulation of expectancies.

Capitalism has evolved to a higher stage of abstraction, the outward sign of which is the wide-spread adherence to the principle of shareholder value as the ultimate benchmark to judge corporate performance. Shareholder value is an abstraction, a formula which reduces all human endeavours to monetary assessable market transactions here and now. As a formula it is not related to morality; it is, in other words not immoral but a-moral. In this way the trend towards the virtual economy strongly contributes to the state of corporate anomie as analysed in the preceding chapter.

Chapter 6 researches production concepts: These are sets of ideas that relate to the design of production systems and the functioning thereof (the ‘inside of work’). Quantitative and qualitative effects on employment are analysed.

When the alienating effects of work in mass production systems sprang to the eye, experiments were undertaken with a socio-technical approach. It is aimed to find an optimum between the demands of the technical and the social subsystem respectively. A case study demonstrates the economic feasibility of the socio-technical concept. In the end however, the production concept of lean production prevailed, being the superior system in terms of efficiency.

It ushered in a new wave of intensification of the labour process. Ever higher targets at shop-floor level are dictated by the spread-sheet reality of the virtual economy. To squeeze the last drop of value added out of the production system requires a strengthening of the control function. This is demonstrated by the long-term rise of the relative number of managers to non-managerial workers (the Management Ratio). This tendency contradicts what theory on the learning organisation tells us about the space for autonomous development that knowledge workers need so that they can make a qualitative contribution to the organisation.

The tendencies mentioned above contribute to the ‘shattered labour order,’ as demonstrated in a two-fold erosion of the institutional framework of industrial relations in the ‘Anglo-Saxon’ as well as the ‘Rhineland’ part of the Western world. At macro level, untamed capitalism that approaches its ideal type, by definition cannot take stakeholder interests into account. The concept of industrial relations is about two things, one of which is to legitimize the stakeholders’ voice.

The other one is to generate and regulate countervailing power to managerial

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12 An expression coined by Edward Luttwack: Luttwack (1999)
privilege. This study strongly argues that the counterweight does not derive from the ‘outside of work,’ like co-determination legislation, but from its inside. The ‘black box of professionalism’ contains the work-related knowledge and know-how that is in the heads of the workers (their human capital). As human capital cannot be owned by the company, just rented, the ‘black box’ is intruded by management that will try to crack it in order to transform human capital into intellectual capital (which can be owned).

Finally, chapter 7 analyses the interplay between the societal-economic structure and the content of management concepts, theories on how to manage the human factor within large organisations. The latter are conceived as ‘the ideology of management,’ as they both contain a theory to interpret the environment as well as the practical means to change it. Management concepts can be divided into rational and normative ones. The first assume that people behave like rational, calculating economic beings. By consequence these concepts will be behaviouristic in nature, with reward and coercion as its instruments of motivation. The second type of concepts aim to reach the same goal of raising productivity via a roundabout route, so to speak, by stimulating the ‘in-built’ human motivation. The chapter analyses the alternating prevalence of these types of (ideological) management theories over the course of time and in relation to the societal-economic context and the long term business cycle.

The second part analyses the substance of the personnel discipline from its origin to its present functionality. Personnel management emerged when mass production systems required a transformation of the character of managerial power from domination to authority based on morality. This original function will lose its relevance in an ideal type of capitalism that denies stakeholder voice and demands a demonstrable and quantifiable contribution to the accumulation of capital. Morality however is in the realm of the indemonstrable and inquantifiable. Loss of function of the personnel discipline is determined in a shattered labour order, characterised by superficial labour relations. This is demonstrated by outward signs such as the massive outsourcing that takes place of erstwhile core tasks of personnel management like personnel administration, recruitment and selection, training and personnel care in safety and health at work.

Part IV

In the preceding chapters the major elements of the theory have been formulated. In the final PART IV these are assembled together.

Chapter 8 summarises the constituent parts of the theoretical framework which are elaborated in the preceding chapters.
The final chapter 9 analyses the historical development of personnel management in the Netherlands in the light of the theory as well as its possible consequences for the future.

There are at present two tendencies that tend to undermine the personnel manager’s core role. One is ‘the shattered labour order,’ Business morality was once solidified in systems of industrial relations that codified workers’ rights. These collective arrangements now tend to erode in a climate of individualisation of labour, resulting from the endless deconstruction and reconstruction on a global scale in the present ‘informational’ economy. At the other side, management authority has been based on a knowledge monopoly – a shared belief that ‘the boss knows best, for the best of us all’ – which rapidly becomes obsolete in today’s knowledge economy. Both tendencies tend to loosen earlier restraints on managerial behaviour and thereby erode business morality. To the extent that this is true, personnel management will be confronted with loss of function, as the personnel manager’s role as the quality manager of managerial power will become less relevant.

A general understanding of the functioning of personnel management will allow us to design scenarios about the future of the profession. Thereto we select and analyse the tendencies (basic social forces at work in present society) and extrapolate them by reasoning to their logical end.

13 Castells (1996), 470-471
14 Zuboff (1988), 236-237
References for the introduction

PART I. THE SUBJECT AND HOW TO DO RESEARCH ON IT

1. How Personnel Management Changed in the Netherlands

“History is the account of the things that mattered most in the past, and it derives its chief interest from the assumption that those things were largely the causes of what matters to us now.”

George Unwin (1870-1925)

1.1 A QUESTION OF LOYALTY
1.2 THE YEARS OF CONSENSUS
1.3 IN SEARCH OF AN IDENTITY
1.4 HIGH HOPES… AND DOUBTS
1.1 A Question of Loyalty

In the mid-1970s, I first came into contact with personnel management as the editor-in-chief of the leading professional magazine in the field. In my long-standing relation with the discipline over a period of more than twenty-five years, I saw it change dramatically. Good research emerges from amazement. The first story I wrote for the magazine was located at the steelwork Hoogovens (nowadays part of Tata Steel), and its subject was the position of the department ‘personnel worker,’ APC by its Dutch acronym. In the end it was about his loyalty.

The APCs formed the base of the personnel hierarchy, positioned close to the shop floor and far away from the top. As a result they had hardly any role in defining corporate personnel policy. Maybe in a reaction at this lack of influence, a number of these junior level personnel managers actively participated in union activities at shop floor level – which led to a number of questions. Such as: to what extent are they the mouthpiece of the workforce; to what extent are they its advocate? Are they allowed to strike? Some years before Hoogovens had experienced a major strike in which a number of APCs had participated – a fact not forgotten by senior management. Are they allowed to share information - received in an early phase of decision making, due to their function in the personnel apparatus – with workers’ representatives and union officials? Which in the end boiled down to: which side do you take – managements or workers’ and unions’?

It is hardly conceivable today, but this was a hot issue at the time. One often had some difficulty to detect a direct relation between what personnel managers did in practice and discussed in theory (which I reflected in my work as a journalist) and the way business processes took place. The company employed well-paid people, but their contribution was unclear – maybe contrary to the organisation’s goals.

How could that be? Amazing it is indeed.

A kaleidoscope

These were the 1970s, the time when vermaatschappelijking van de onderneming (corporate societal responsibility) had become the central issue. Companies had to answer about their role in society. In this context the term sociaal personeelsbeleid (social personnel policy) was conceived in the broader context of the general corporate policy, including a strong external (societal) component. The term personeelsbeleid (personnel policy) became reserved for the internal policy component, targeted at employees. Quality of work life and corporate democratisation became important issues, leading, among other things, to a new co-determination law. The contrast with today’s

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2 Ligteringen (1977)
3 Leafing through the back issues of the magazine I edited at that time, I was struck by the amount of space we reserved for issues about unions and labour relations, even labour relations abroad. I must assume that this editorial choice reflected the readers’ interest at that time.
The practice of Human Resources Management (HRM) couldn’t be greater. The personnel function in organisations has changed almost incomparably from say thirty years ago.

The history of the personnel discipline in the Netherlands as presented in this chapter, is not meant as a factual history, to analyse ‘wie es eigentlich geschehen ist’ (how it really happened) in Ranke’s words. Every historian selects his sources with a certain aim in the back of his mind. That aim can be to carefully reconstruct the facts of the past: ‘what happened?’ In this case the source material will be arranged in such a way that it illuminates the turning points. Such a narrative focuses more on interpretation: ‘why did it happen?’ After all, that is the function of a theory, as we undertake to formulate in this study.

The historical chapters in some textbooks on personnel management offer the chronological framework, but not much of an interpretation. An indication of the development in the substance of personnel management can be obtained from a bibliography that the author constructed from the thematic catalogue of the Royal Library of the Netherlands. At first glance, the titles of books published at certain points in time, especially during the ‘turning points,’ tell us what subjects were at the centre of interest among personnel managers. And some documents derive their historic value from the influence they had at the time.

This source material is supplemented by ‘testimonies’ added in boxes to the main texts. In the run-up to this study I interviewed a number of people who had, like me, experienced a part of the history of personnel management in the Netherlands. They all were or had been personnel managers themselves; some had added presidencies of the professional association for personnel management to their curricula, some had become university professors, teachers or well-know authors in this field.

This part of my research was not meant as a ‘scientific’ survey on a random selected sample. Far from it, I selected my interviewees from the former network I maintained as a journalist. Some of them I hadn’t seen for ten or fifteen years. The aim of the interviews was to add contrasting visions on the development of Dutch personnel management to my own impression of it, as I outlined in the introduction. Thereto I used only one open question as a starter: ‘Suppose you were to write a history on the development of personnel management in the Netherlands, what would then be the basic trend of your argument and what would be the landmarks in this development?’ These interviews highlight a great number of peculiar aspects that together form more of a kaleidoscope than one coherent consensus on what really mattered in the past. This reflects the multifaceted character of the discipline.
1.2 The Years of Consensus

By 1950 the worst was over. The Netherlands, due to its central location in Europe, had been one of the countries hardest hit by the Second World War. In 1945 the total damage to its production infrastructure was estimated at 29% of what it had been in 1939, national debt had risen almost fivefold. Only a few years later the country was back on track. The ‘miracle Neérlandais’ can be ascribed to three factors combined:

- the tripartite cooperation of labour unions, employers’ confederations and the government within the newly created consultative framework;
- a solid support for a government policy aimed at rapid industrialisation and export growth;
- the European Recovery Plan (Marshall Plan) that gave the initial push out of the post-war stagnation and helped to unleash the potential for a rapid rise of productivity.4

In the context of the Marshall Plan, America showed the great example on how to raise productivity. A group of labour union leaders on a study tour through the United States was “deeply impressed” by the high rate of mechanization in agricultural production they encountered, in combination with an industrial efficiency fully exploiting the advantages of standardization, specialization (what we later would call ‘core business’) and the economies of scale furthered by a large internal market. Even a decent system of social security beckoned as a promising perspective along the road of efficient industrial production.5 This can be conceived as the formal acceptance of the Fordist concept of mass production by the labour movement. Employers and government couldn’t agree more.

Productivity growth was the pushing hand behind the unprecedented explosion of wealth during the post-war era. The main factor at work was the transition of workers from low-productive agriculture to higher productive industrial jobs. The primary sector lost 33% of its workforce between 1950 and 1965, while industrial employment grew by 24% over the same period.6 This in itself would have given productivity a boost. But the effect was multiplied by the fact that only after the war the rather small-scale, craft-based Dutch industry did fully reap the fruits of American-style, mass production methods and the economies of scale that went with them. The effect is illuminated by the following index figures (1950=100): in 1960 GDP had risen to 157; GDP per worker grew to 139; and industrial production rose to 174.7 It was clear that industrial productivity acted as the locomotive engine of the economy as a whole. And the exponential growth of wealth in this period, it must be added, was spread quite equitably.

This admirable achievement was the result of the strong policy consensus among the three parties concerned – unions, employers and government – within the newly created

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4 Messing (1982), 173
5 Berger (1950)
6 Negentig jaar statistiek in tijdsrekenen (1989), table P 43-44
7 Fortuyn (1983), table 36
consultative infrastructure. *The Sociaal-Economische Raad* (Social-Economic Council) became the main platform for social-economic policy formation. It is constituted tripartite by representatives from unions and employers’ confederations and expert members appointed by the government. Although officially an advisory body, a consensus reached among these three parties was seldom ignored by government. *The Centraal Plan Bureau* (Office for the Central Plan), unlike its ominously Soviet-sounding name, offers macro-economic studies and forecasts on which social-economic policies can be objectively based. *The Stichting van de Arbeid* [the Foundation of Labour] arose from contacts between union and business leaders during the years of Nazi occupation. It became the platform on which labour and capital could elaborate initiatives on social policy among themselves.

The birth of the Foundation went with a clash on a matter of principle that did cast its shadow far ahead. In the last days of the Occupation a tiny circle of top business and union leaders had prepared a manifesto that announced their newly structured cooperation, ending as follows: “Employers: keep your gates open. Employees: fulfil your duty. The Country needs everybody. TO WORK!” The crucial clause in this high-minded text was the following:

> “Active labour participation in the management of business not having been asked for, agreement has been reached on the desirability of ample representation of the Trade Unions in the highest economic councils that will assist the Government.”

“Not having been asked for” was slightly beside the truth. When the text of the manifesto reached wider circulation, the absence of co-determination in it drew wide criticism, especially within the socialist union confederation NVV. When the employers’ foreman Dirk Stikker was confronted with these objections he staged a tantrum. When union functionaries would make a matter of principle out of this issue he would consider this as a breach of good faith.\(^8\) Thereby the unions’ newly won position as a fully recognised partner in economic decision making was at stake; not a sinecure at a time when the Dutch economy showed strong elements of planned statism. So they backed down for this power play and the co-determination law of 1950 dutifully limited the authority of the newly formed works councils to voicing workers’ grievances and supervision on the execution of legal prescriptions on safety and health, working time schedules and the like.

Stikker, in his memoirs, came back on this issue, defending the way he did stick to his heels.

> “It is worth noting that one point in this manifesto – the phrase ‘Active participation in the management of business not having been asked for’ - covers

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\(^8\) Bottenburg (1995), 53
Box 1
“*In the 1950s we defined chairs, not people in those chairs*”

A long-standing career in consultancy. At the time of the interview an independent consultant, professor of HRM and editor of one of the professional magazines in the field.

“Only in the first post-war years the Netherlands started thinking about labour issues. We had no tradition in the personnel function. Before the war only a few major industrial companies knew a social policy. But the infrastructure of industrial relations had still to appear. The reason is that we became industrialised at a very late stage; in fact only just in the 1950s. And after that industry has been dismantled at high speed.

We had to develop a personnel profession from scratch. The Americans taught us how to recruit and select people for functions. Psychometrics is a key concept of the 1950s. In those early years attention was primarily fixed on personnel stewardship. That doesn’t require much craftsmanship. One can do a lot with a simple job classification. Working times were regulated, pensions here and there – all very austere.

Gradually, a profession emerges from islands: job classification, recruitment and selection, compensation schemes, secondary labour conditions, training – personnel management is as Taylorised as the work itself. Later on, the training function became further divided into Management Development and instruction for the rank and file. In the 1960s consultancy grew out of organisational psychology, from the same Tayloristic perspective. The Christmas tree was turned upside down: while everyone became a super specialist, the profession as a whole got no concentration.

Soon the humanistic perspective came to the fore. Self-actualisation became an issue. Training is done not only for the boss but has a self-inherent goal. And very characteristic for the ‘personnel work’ of the 1950s till far in the 1970s is that there is no relation felt with the company’s mission. The ideological movement which culminated in the co-determination law of 1979 was antagonistic: ‘we’ against ‘them.’ The contest was between shop floor activism and job consultation. There had to be something between management and the works council; the distance was too great. The company opted for job consultation. The unions placed their bet on shop floor activism: the union within the company gate offered them power over management.

When industrial work is dominant, little more is required than personnel administration and personnel stewardship. Only in the 1970s the service economy emerged. That became a turning point in our profession. Then there is a need for everything that personnel management stands for. Its tools had to be transferred to line management to work with them. In the beginning the two didn’t go well together. Personnel managers had developed their profession, but line managers were too busy to be interested. The real issue was that, for the first time in its history, ‘Personnel’ had to make a contribution to the company. No longer the a humanistic perspective dominated, but the primary process. In the 1980s the HRM-approach emerged. My guess is that less than five percent of companies have a real HRM policy at their disposal. There is still too much simple work around that doesn’t need HRM.

In the 1950s we defined chairs, but not people in those chairs. It was a combination of classic Taylorism and Weberian principles of bureaucracy which we were very good at. In the meantime our tool-kit bulges out: there are some 180 job classification systems in the Netherlands.

After that psychology got a more prominent place in the personnel discipline, because aptitude became a more important factor. The last phase is human factor management in which personal characteristics play a role. The link between Personnel & Organisation and the primary process is only made now. The balanced scorecard is an important tool. But we have to be careful that it will not be a applied in a Tayloristic way.”
one of the basic political, even philosophical, issues still in dispute today, twenty years later, in Western European organization. Should there be nationalization, as of British steel or French banks? Or labour participation in management, as in Germany? Or, as is now suggested in Holland, labour membership in boards of directors obligated by law to ‘fulfil their duties within the framework of public interest?’ At the time of our manifesto we thought – apparently over-optimistically – that we had solved this problem for the Netherlands.

Indeed, co-determination would turn out to be one of the neglected issues swept under the carpet of post-war consensus.

The general interest was the guiding principle during the first twenty years after the war (with the exception of the Communists, whose role as the outsiders to the national consensus was as well ascribed as self-declared). Consensus could be based on a guided society, that was buttressed by the Calvinist, Catholic and Socialist ‘pillars,’ the cradle-to-grave networks of religious or ideologically based organisations that allowed the substantial minorities into which the nation was divided to live their lives separate from (and indifferent to) each other. The system lasted as long as the wise leaders, who had to make the necessary compromises at the top of the pyramid, could be sure that they were followed by their rank and file. Submissiveness was the offer that paid out its dividend in steady social progress – near full employment in the first place. This was a balm on the trauma of the Great Depression, in which Holland had been one of the countries hardest hit. In a foolhardy attempt to stride against the tide the country had been the last to give up the gold standard with disastrous results for an economy that was (and is) for a major part dependent on its exports. It was this experience, more than what had happened just before during the Nazi occupation, that shaped the nation’s consciousness at the time.

Fine-tuning

Typically was the docility with which the working population underwent the guided wage policy. It was aimed at stimulating exports in a Europe that slowly opened up its borders for business, and managing the business cycle - which it did quite well in both respects. The recessions of 1950-51, 1957-58 and 1965-66 were mild and short-lived. The main instrument was the ‘dispense curtailments,’ the strictly Keynesian policy measure that prescribed lowering of real incomes, raising of interest rates and a balanced budget in order to fine-tune a counter-cyclical flow of the economy.

Fine-tuning is indeed the right term for the detailed intervention by government in the process of wage formation. Till 1954 wage rises were strictly based on the general index on cost of living. On this basis the ‘wage building’ was erected, that allowed for differentiation by education, work experience, cost of living in various parts of the country, gender and

9 Stikker (1966), 58
Box 2
“One doesn’t practice the craft any more”

A former president of the Association for Personnel Policy in the early nineteen eighties with a background in Philips Electronics. At the time of the interview active in the board of an institution for higher education.

“In the early phase, when the personnel function emerged from simply keeping wage records, it was strongly influenced from academies for the social work and from the universities by sociologists and psychologists primarily. Only to a small extent by lawyers. The perspective clearly was a social one, to stand up for people in a production process that is determined by a capitalist environment.

Personnel work at that time was strongly aimed at articulating interests. And this was tolerated by management. Its basic attitude too was a social one: if you care for your people they will become good employees.

In this respect the Netherlands differed clearly from the countries around us. In Germany ‘Personnel’ is all about systems; it’s a lawyer’s job. In Britain one would find an economist or an engineer in this position; in Holland a social worker more likely.

In the end, this approach from the perspective of employee care brought the personnel function in an isolated position. Much attention was given to the substance of this new discipline, to the development of craftsmanship in recruitment and selection, in job classification and some career development. But the personnel function was nowhere seen in terms of a contribution. And its practitioners stood at a great distance from the economic as well as technological aspects of the business process.

During the 1970s the first discussions emerged about personnel management. In large companies age - all expressed in points that were calculated and administered in great detail by the experts of the College van Rijksbemiddelaars (College of State Mediators, in fact arbitrators in a field of widely contrasting interests). From this system the job classification schemes evolved that formed the personnel managers’ primary tool in those early days.

After the mid-1950s the labour income quote became the criterion for allowing wage raises. This guaranteed workers their share in the growth of wealth, but the state mediators were keen on guard to prevent the wage drift from surpassing productivity growth. “The wage differentials that emerged in this way, due to these argumentations and calculations, gave a semblance of rationality and objectivity that pushed the wage-political character to the background.” Thus the controlled wage policy became a model of guided capitalism till the acceptance of this dirigisme was eroded by its inherent weaknesses. One was the resentment following from the fact that the government was far less successful in maintaining price control, so that the wage development always limped behind the index of consumer prices.10 The fundamental axe at the root however was the unions’ suspicion that the state mediators structurally underestimated productivity growth - maybe understandably so, to stay at the safe side, but biased nevertheless. They found their point proven in the emergence of the ‘black wages’ that employers were willing to pay, sometimes substantially in amount and in growing numbers, above the officially negotiated tariff rate.

10 Bottenburg (1995), 97-98
a director Social Affairs was situated close to the Board and they pushed the social function more in the direction of a shared responsibility for reaching the company’s objectives. Slowly, one could observe a shift from employee care to co-management. We have had many congresses at that time on issues like: can a personnel manager be an employee counsellor when he is responsible for employee appraisal as well?

So we can observe a development from the personnel work of the 1960s to personnel management during the 1970s to HRM in the 1980s. As president of the Association I have closely watched the struggle of the personnel discipline to become accepted by management on the one hand, and stay accepted by the workforce on the other.

At present, the company formulates a strategy of which HRM is an integral part. But almost all parts of the personnel function have been eliminated; they have been either transmitted to line management or outsourced externally. Formerly the personnel department formulated the changes in the job evaluation system; nowadays one hires Hay Consultants. A major restructuring? McKinsey will do the job for you. For the technicalities of a redundancy pay scheme you have your external law firm. Even the keeping of wage records, where it all started, has been outsourced.

In the context of HRM, the tools which personnel management has at its disposal are much closer linked to the business process. Today’s personnel manager has become a business manager of networks. He knows his profession which has become far more realistic than before. We can compare ourselves with the American or British personnel function, while formerly British personnel management was way ahead of us professionally. But he doesn’t practice his craft any more. The company’s strategic HR advice function should be kept in-house. But for the rest one is a facility manager who purchases outside services.”

This “was the paradox of the guided wage policy: each attempt to differentiate and create more leeway within the system only resulted in more rigidity and infringement of liberties.

There was no way between continuation and abolishment.”

When in 1963 a ‘wage eruption’ levelled out the imbalances of an overheated labour market, the system of guided capitalism in its strictest form was over. It had failed in its primary function, wage control, because the basic principles of consensus and centralism could no longer be upheld amongst the complexities of a liberalising economy and society.

What left was a nagging feeling that manual workers had been short-sold.

Cogs for the production machine

Those Dutch textbooks on personnel management that do pay attention to its history treat it as a sequence of phases in which conceptual systems dominated management thinking in distinct periods in time. From the 1920s and the mid-1940s these would have been the scientific management and human relations approaches respectively. Now in general it is not that sets of ideas alternate like soldiers at the changing of the guard. But in this case there are strong indications that the two realms of thought shared the same watch, so to

11 ibid, 137
12 Some authors deny the succession of conceptual models at all. According to one source, in the early 1970s the field of action of personnel management would have contained activities dating back to 19th century paternalism as well as contemporary institutionalism. Van der Meulen (1973)
speak. During the Interbellum the theory of scientific management in combination with the practice of Fordist mass production got a lukewarm reception in Europe. Especially in the Netherlands, a trading nation with a rather weak industrial base, application of ‘American methods’ was rare.

So, in the literature of the immediate post-war period we see elements of both systems coincide in time. The deposit of the thinking of the human relations school shows itself in the importance attached to personnel care. One of the original wells from which ‘personnel work’ sprang was corporate social work. It focussed on better communication between management and workers to further harmonious labour relations. Practically, it introduced measures to tie workers to the company: housing estates, canteens, staff associations, pension schemes and social funds, either to support employees in need or to finance their children’s advanced education. In this respect it could connect to the end-19th century tradition of paternalism. The lasting effect was the creation of a welfare bureaucracy, in isolation from the business process. At the shop floor, outside the view of the social worker, the overreaching importance of productivity growth made that the contribution from the side of scientific management predominated.

During the 1950s psychometrics was a major subject of interest. Emerging mass production required placement of the right man at the right place and the selection methods that the American military had developed and refined during WW II received a warm welcome. Industrial psychology was the first academic discipline to deliver a scientific contribution to personnel management in its nascent stage. As the right man had to be enabled to do his job in the right way, enhanced importance was attributed to task focused training. Again the Americans offered the methods of Training within Industry that had underpinned the ‘arsenal of democracy.’

Thirdly, objective compensation schemes came in demand, resulting from the same mass production systems. Job classification became the first real tool of personnel management, stimulated by both external demands, in order to execute the guided wage policy, as well as for internal-organisational reasons. As will be elaborated further on in this study, the mass production machine couldn’t function without a kind of mechanical reasonableness. These elements together came close to the ideal type of social engineering which must have been the dream, consciously or not, of the early personnel manager. After all, the substance of his tasks at this point in time could easily be grasped in a mechanical metaphor: first to pick out the suitable human cogs for the production machine, then to fit them into their slots and finally to see to it that they were well oiled.

Labour-related literature at the time reflects the notion that the labouring human being had entered a new and different era. In this early stage, quite some attention is paid to the possibly alienating effects of unskilled industrial labour. One of the founding fathers of the consultancy profession in the Netherlands observed a diminishing separation between skilled and unskilled manual labour and the emergence of a new class of production.

13 Pellicelli (1976)
technicians, between manual workers and brain workers. As we will see later on, this adequately describes the effects of ‘deskilling’ under the regime of scientific management. Remarkably, at the one hand this early treatise recognises the negative effects of the new system, especially in the case of machine-paced labour. It even states that the majority of the working population has to “live one’s life as a human character” outside the “creative possibilities” that their work has to offer. On the other hand it advocates cooperation and even corporate democracy to overcome these alienating effects. It is here that the echo of the Human Relations School rings through. Management has to feel responsible for harmonious labour relations and the task of the personnel department is to remind it of this responsibility. Once guidelines and policies to this respect have been instituted, the personnel department has to supervise compliance. Personnel managers are even allotted a role as an arbiter in individual labour conflicts.

“A good personnel department can offer an important contribution to the rule of justice in the company. When the interests of an employee may get in conflict with what appears to be the company interests, the party concerned should be assured that his grievances are to be examined in full impartiality. The personnel department is better suited to this task than his supervisors whose attention is too much drawn by the immediate work at hand.”

That was certainly not as far as employers were willing to go. In a publication on the place and task of the personnel department by the employers’ confederation it is noted that from time to time the opinion is heard “that the personnel department executes a function that places it between management and workforce. A task of mediator is ascribed to it, to advocate certain interests of personnel towards management.” We consider this opinion to be wrong. The personnel department is an organ of management.” Throughout the whole document personnel management is warned not to interfere in the chain of command. It has to know its place as an auxiliary service, to support management, to contribute to a certain unity of action in social policy, but not to direct it.

This subordinate role however was partly rhetorical, due to the fact that goals and guidelines as well as responsibilities in the field of social policy were often vaguely formulated. In practice this gave personnel managers a certain leeway. In the mid-1960s, only 30% of the respondents to a survey issued by the newly established professional association NVP said to work under clear instructions; 21% had policy aims and principles put down in writing. In those exceptional cases the focus was primarily on human related issues, far less on business related aspects or the integration of social policy into company policy.

Nevertheless the same survey gives the impression that a coherent and integral social

14 Hijmans (1950), 62-71, 84-86
15 De taak en organisatie van de personeelsdienst in de onderneming (1956), 12
The Maintenance Crew for the Human Machinery

Box 3
Was social harmony so realistic after all?

One of the founding fathers of the vocational training in personnel management. After a life-long career in teaching and consulting, retired at the time of the interview.

"The vocational training course of personnel managers started in the mid-1950s out of a striving for re-Christianisation of the population. From that perspective, the labour organisation was an important place to be the social voice of the churches made heard. I was an idealist; I wanted to contribute to the Christian mission in society. From there I have seen the Christian academy were the training course was founded change into a Marxist one in the 1960s.

In those early years we invited people from companies to explain how they did performance assessment, how their wage system was designed... One couldn’t appoint a teacher for each of these separate curricula. But after a few years I could teach it myself.

Originally there were only a handful of students; the majority was more interested in social work. Business was not very popular with students and the vocational training course was not popular with business. The third of the four-year course was planned as a trainee year. I had to find trainee posts but to well into the 1960s business didn’t see the good of vocational training. It was generally felt that it was a vocation one couldn’t learn in school. The only thing needed was that one was good at policy was taking shape. Almost all of the top ten fields of activities that had gained more importance during the first half of the 1960s can be placed in this category. The issues mentioned as most important were: training and development, the design of procedures for recruitment and selection, communication effectiveness, long-term personnel planning including career planning and compensation policy and systems. Together these activities show that the emerging personnel discipline was beginning to fill its operational tool-kit.

A humanistic approach

This trend corresponded with the growing content of the ideation tool-kit. In the phase that the textbooks designate as ‘revisionism’ (dated from about 1960) the academic voice grew louder. The ‘revisionist’ element in the thinking of academics like Maslow, Argyris, McGregor and Likert was that it broke out the one-sidedness of both scientific management and the human relations approach - ‘the organisations without human beings’ and ‘human beings without an organisation’ as it was sometimes typified. It was the time when the social sciences definitively made their entry in personnel management and, in a wider context, in labour relations. Revionist thinking developed during the 1960s as an expression of a sincerely ‘normative’ outlook on man and organisation, in opposition to ‘rational’ concepts. The ‘normative’ perspective was well in tune with the societal climate of l’imagination au pouvoir. From there it flowed in two directions.

16 Ontwikkeling van personeelsbeleid en personeelszaken in Nederland (1967), 47
17 In short, the one conceives the organisation as a community, the other as a structure of exchanges. See sub-chapter 7.1 for a further elaboration of this pair of concepts.
handling people. That was when I realised in how a primitive phase the profession found itself.

Then suddenly companies realised how retarded they operated: we don’t have specialists in the social field. Dutch Railways was the first company that asked us whether we could train groups of their people. The part-time training course – on Friday and Saturday - started in 1963. Normally one had about five full-time students; now it suddenly were twenty or more, from different companies, each of whom had business experience already. These people knew what they were talking about.

The ideological strife was far less apparent in the part-time course. An educational institute should not advocate one political opinion or the other. Politics have interested me less than vocational development and the professionalism of the personnel manager. I was a proponent of the ‘harmony model.’ One can criticize company policy, but when having to bear the ultimate responsibility oneself, could one behave differently? So it is important that parties are in good consultation with each other. In the 1960s the theory on social welfare made its entrance which contributed much to discussion techniques.

I left the academy after the ideological revolution in the early 1970s. Since then I have concentrated on vocational education only to further develop the professionalism of the personnel discipline. In hindsight I have a bit of a fright from what I preached. Was that realistic after all? Nowadays it is all about HRM. That was not what I had in mind. I stick to personnel management as it originally was.”

On the one hand there was the ‘participative’ approach. Opposite to the ‘cog in the machine,’ the revisionist thinkers placed the self-conscious and autonomous individual. From there came the drive towards the ‘self-actualisation of the worker’ which became the proclaimed aim of personnel work in the 1970s. Much value was attached to the motivational aspects of leadership which led to experiments with participative management.

Job consultation was tried throughout the decade. It was applied as a tool to counter negative trends like “alienation, absenteeism, diminishing motivation and higher job stress, to which management had to react,” according to a report on this form of participative management. But not less important was the aim to bar unions in their attempt “to gain influence on company policy by means of shop floor action and work place agreements.” The experiences were not too positive after all. Mistrust from the side of the unions and lack of interest from workers played a role, as well a resistance from middle management not willing to share responsibility, or due to lack of social skills if the will was there.18

There was a wide gap in perception:

“While employers were of the opinion that job consultation was a far-going form of co-determination, the union movement’s stance was that job consultation – without change in relations within the company – enabled employers to more manipulation.”19

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18 Ervaringen met werkoverleg in de praktijk (1980), 123, 23-24
19 Schafrat, Stierhout (1993), 73
The ‘participative’ trend culminated in the 1970s in the management concept of Organization Development (OD), conceived as a company-broad social intervention program that would change the organisation towards higher effectiveness by creating a shared culture. Three elements were important in this approach: the company-wide scope, its participative character and the learning process. The attempt was made to develop the organization and the people who make it up in a systematic and planned way, with particular emphasis on the ability of the organization members to innovate. This moved the attention away from the development of the isolated individual, towards developing the individual within a work-group, and the work-group within an organization. To be effective, OD programmes had to be led by the most senior people in the organization, pursuing the programme as a key activity, thus seeking to bring about an initial change in the climate of the organization as a base on which further development can take place. In hindsight, organization development has, to some extent, suffered from being a too smart, too idealistic and over-ambitious attempt that, in the end, ran aground on the harsher reality of high costs versus questionable benefits.

Nevertheless, the revisionist perspective and its participative approach had a deep impact on personnel management. It brought a transformation from personnel administration to social policy as a fully fledged discipline within management, equal to technical, commercial or financial management. For the individual personnel manager the participative movement required a role change from the administrator to change agent. In most cases it was grabbed with both hands, out of sincere social commiseration as well as status aggrandisement. Therewith it placed itself however amidst the forces that amassed against the solid structures of production and managerial power.

The theoretical insight that the economic, technical and social aspects of the production process had to be considered as a whole brought back the organization of labour (in this study labelled as the ‘inside of work’) back on the agenda. This could no longer, as in the context of Taylorised mass production, only be considered from the perspective of efficiency. Neither could alienation be lifted by outside measures - such as compensation for ‘unfavourable working conditions,’ that is buying off bad work - but should be solved in the work itself.

The ‘humanization movement’ was the second flow in which the revisionist thinking branched off. It manifested itself at a time when efficiency in mass production was brought to its limits. It led to the job design experiments of the 1970s and took its final form in socio-technical systems design that made its inroad a decade later. Its aim – to balance the economic, technical and social subsystems that constitute the production system as a whole – may be considered as the ultimate outcome of a humanistic approach towards labour related topics.

On the shorter term however, every attempt to interfere in the internal organisation of the company ran across the existing managerial prerogative. ‘Active participation

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20 See chapter 6.2
in the management of business” had been given away by organised labour in the 1945 compromise; now came back as a boomerang. Labour relations rapidly ‘politicised’ as the road to ‘democratisation of business’ led via societal mobilisation and political pressure. Logically, co-determination became the focal point from the mid-1960s. Subsequently, unions sought to build a countervailing power by means of shop floor activism.

Personnel management was dragged with the tide of politics.

A livelihood with contentment

Indeed, political times were laying ahead. In fact, the preceding 1950s lasted in politics as well as industrial relations to the mid-1960s. Industrial relations were harmonious; labour conflicts were rare. In 1960 the Supreme Court even ruled strikes as such to be a breach of the collective wage agreement. This forced unions to gain the legality of each separate strike in court battle. But they were hardly necessary. Gradually many annexes were built into the system of social security. The welfare state made a wide range of social benefits into citizens’ rights. The sick and the disabled, the unemployed and the elderly, the orphaned and the widowed, all were granted guarantees by law. Full employment swept away former fears, well remembered, but happily overcome now. Growing wealth and the feeling of security both coloured the societal climate of the late 1960s.

It was still an era of unprecedented growth of wealth. Around 1965 the Netherlands had overtaken and even surpassed the American productivity level that had been the original challenge. The system of mass production now entered its second phase. The techniques that Frederic Taylor and Henry Ford had brought up had been implemented in industrial production and had solved the immediate post-war scarcity. These sources of internal efficiency had now been used up. When Western Europe entered the era of affluent consumerism, economies of scale became of the essence. Mass production in itself is an inflexible system. It can only adapt to the fluctuations in growing and widening markets by the law of big numbers. A merger wave struck from the mid-1960s onwards, propelled internally by the requirement to boost efficiency by scale as well as externally by the necessity to conquer wider market share. Of the more than two thousand mergers and acquisitions during the period 1958-73, 729 (36%) took place from 1966 to 1969 alone. Enlargement of scale did contribute to the intensification of the production process. We will elaborate this phenomenon in chapter 6. Here it is sufficient to say that it can be observed all through the history of industrial capitalism, albeit at a different pace at several of its evolutionary phases. By 1970 there were indications that industrial production ran to the limits of human endurance.

People still lived ‘a livelihood with contentment,’ as a book by that title reflected the feel of the time. It presented interviews with unskilled factory workers, a group commonly neither seen nor heard in societal discourse. On the one hand, blue-collar workers “had

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21 Ligteringen (2003), 13
22 Ibid., 127 ff
23 Messing (1982), 182
come to modest wealth." Labour law and full employment had made that they no longer needed to accept humiliation and unfairness. That was progress which made them ‘content’ with their work. At least that was what they told social researchers in employee satisfaction surveys. However,

“When people are content in circumstances that seem unbearable to others (as factory work seems unbearable to intellectuals and managers), what to think about this ‘content’ people? What to think of someone who pulls the same handle eight thousand times a day and is ‘content’ with it? ‘He doesn’t know better; knows nothing else.’ But, if he knew better, could he be discontent and could he be content and responsible in better working conditions? (…)"

Or else: Manual workers can bear what others can’t because they aren’t really people, no ‘thinking’ people like the personnel manager, the social expert or the union leader. Whoever heard an organisation psychologist talking about his test subjects or a manager about his work force knows that this is exactly the dilemma

Box 4
A paradox

A long career in personnel management, ending as CEO of a temp agency quoted at the stock exchange. At the time of the interview chairman of one of the Chambers of Commerce

“Twenty-five years ago the personnel function sailed with the tide of co-determination. We thought that we acted as the social conscience of the company. Everybody was busy earning money, but we had an eye for loftier things: the human being… Verbally, that is. In practice we tried to profile ourselves by doing many things that line managers questioned for their value added to them. The basic assumption was the employee’s inability of expression for which he needed a personnel manager to see him right. Many problems emerged from the fact that line management couldn’t relate to their people very well.

From this perspective the reasoning became: it is inconceivable that the company doesn’t have a policy on… You had been to a congress and it was all on motivation, performance appraisals, humanization of labour, social statute – why don’t we have all that? Next day the union official came along who had been to the same congress. So very well, every company should have a social statute, isn’t it? The personnel department started to write: the central focus is on the human being, intrinsic aspects of work have to be attended to. Management’s idea was that there was no harm in it. But there was not any lead for change because it had little relation to reality.

It was a cul-de-sac. Job design from a humanistic perspective did not emerge from the work itself. I have learned much from engineers. What they knew, but we hadn’t learned at all, is that one has an onus of proof. With concern to safety and health we used to say: the noise level must not be too high. The engineer would ask: what is too high? What is the norm? That forced us to think about norms, to think quantitatively, which most personnel managers are unable to. It forced us to relate social
principles to the reality of work.
In that period attempts have been made to raise the professional level of personnel management which has succeeded only very partially. University professors had something to say about the substance of the profession, on which there was much discussion. I don't know whether we couldn't make it or stopped half-way. Anyhow, the process didn't come to an end.

There has been a time that the discussion was about a seat in the management team for the director P&O. That's gone. In the board there is nowhere a seat for 'personnel,' certainly not in greenfield companies. At present, a line manager takes on 'personnel' for a while, in the context of his career planning. Surely, he will not do this in a bureaucratic way.

So, one could say that the personnel function has made itself superfluous. When my father wanted a salary raise, he had to go to the personnel department. When I hear from my children about problems in their work, I never hear a word about the personnel department.

It's a paradox. The individual can quite well speak for himself nowadays. There has been great progress in the quality of management. Most have a background in business administration and know that in a service economy they are more dependent on their employees. Their people management will be part of their job appraisal. So while the individual in his work has come to the forefront, it is for business reasons to which we as personnel managers have not made any contribution.

That is one side of it. But there are some areas where the demand for professionalism in people management manifests itself strongly. One is in organisation development in order to assure that people – the elderly, minorities – can participate; this from a societal obligation by the company. And in change management I see a very important, strategic role for HRM. Work relations in the past no longer offer securities for the future. People know this and as self-articulated individuals they make their own trade-offs. But at the same time you want them to commit themselves with the company, even to show pride in working here. To combine flexible labour relations with adherence to a strong company culture really is top-of-the-bill personnel management."

Again there was the feeling that those at the bottom of the production hierarchy had been treated unfairly.

By the end of the 1960s it became clear that the constituting elements of the peaceful socio-economic order steadily moved out of control. In time government would reach the limits of its regulating capacity. The more social issues it took on as tasks, the more effort it took to co-ordinate the multiple policy effects, intended as well as unintended.

Wage policy had been the main button on the macro-economic control panel. It failed of its own complexity. General 'wage rounds' failed because they were conceived as intrinsically unfair, meant to sell short the common man (an opinion not exclusively held by the extreme left). Wage differentiation would link wage increases to productivity growth. It failed because it turned out to be impossible to keep wages in the high productive draught horses of the economy (chemical industry, electronics) isolated from the rest of the economy. While productivity growth in the private sector was quite respectable – 3.6% (1961/65), 5.3% (1966-70), 4.75% (1971-73) – it was far outpaced by the average wage

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24 De Swaan (1972), 128
increase: 9.6, 10.9 and 13% over the corresponding periods. The effect of this wage drift would make itself felt in the subsequent decade. By 1970 wage control was lost, rendering Keynesian income policy obsolete.

The ‘engineered society’ became somewhat like a mirage; the more it neared its definitive fulfilment, the more it seemed to fade away behind the horizon. It raised expectations; it confirmed feelings of injustice in inequalities that would be taken for granted a generation before. At the beginning it made great strides to meet these expectations and to ameliorate the injustices. When it got caught in its own complexities its fruits became the stake in political strife. Polarisation around political positions was the outward sign of the diminished expectations of the 1970s.

Adaptation versus change

In industrial relations the issue that first came to the front was co-determination, later-on widened to democratisation of economic power structures. According to an industry survey dated 1967 a broad-based support existed for this aim: 80% of all respondents wanted an enlargement of co-determination. There are several circumstances that may explain the striving for wider worker participation. One is that, when the legitimacy of the outcome of the societal division of labour is questioned, this raises a more assertive reaction from the supposedly underlying party - while leaving the hierarchical structure intact, by the way. “In the workers’ opinion top management ought to stay at the top of the enterprise, they themselves at a lower level. The results of this research do not indicate that the workers desire to ‘dethrone’ top management. On the other hand it became clear that, in their opinion, differences in co-determination between management, themselves and their representatives are too large.” Stikker’s fear of workers’ self-determination underestimated the solidity of the conservative forces that buttressed the Dutch socio-economic order.

The atmosphere of industrial relations did change however, due to the merger wave mentioned before. Larger scale did ‘companies with a human face’ evolve into amorphous multinationals, behaving more anonymously in labour relations, a development which would in due time do away with the last remnants of paternalism still to be found in Dutch business life. To the extent that ‘monopoly capital’ became to dominate the economic scenery, the legitimacy was questioned of the ultimate decision making rights derived from the ownership of the means of production, which had been so obvious in the case of

25 Fortyn (1983), 129 (table 102)
26 Van Zuthem, Wynia (1967), 12-15. The outcome of this survey seems to confirm two hypotheses. The first is the tendency towards proximity. Of blue collar workers 95% supported consultation in matters relating to own (workers) interests, versus 57% were in favour of co-determination via labour unions in company policy. The tendency towards retention of power is demonstrated by the declining support for enlargement of co-determination by place in the hierarchy: 69% of white-collar workers, 47% of middle management and 30% of top management.
27 Ibid, 17
the smaller, family-owned company. When the character of the contribution of capital shifted from private ownership (with all liabilities attached of doing business at one’s own expense) to investment at limited liability, one could reasonably ask, as the labour union movement did at the time, whether the structure of private enterprise wasn’t founded on an obsolete conception of private property. This affected the existing economic order and its established power structure.

One of the academic opinion leaders at the time criticized personnel policy for being a policy of adaptation. “It is a service policy that essentially asks for the requirements from technology and economics, in stead of standing for its own perspective, its own policy aims.” Lack of a vision of its own would breed the pitfalls of the personnel discipline: incompetence and insecurity about its role and responsibility within the organisation. To the contrary, a policy of change would be based on the principle of equivalence of social policy aims – spiritual and material well-being of people and the striving for humane labour conditions - as an inherent ethical value from which they derived their legitimacy.

But wasn’t the capitalist economic order based on the principle of profit-making? In that case, “social aims are derived and subordinated by definition. This system however allows a certain variety in policy aims. Sometimes profit is the one and only aim, sometimes it is a condition for continuity. (...) Sometimes social objectives are mentioned such as maintaining employment. (...) Admittedly, our economic order presses for stiff demands on cost-effectiveness of production, but doesn’t require a hierarchy of objectives.”

The term often used was the ‘institutionalisation of the corporation,’ which could be conceived as “the process by which the company wrests itself from the one-sided interest of the suppliers of capital.” It was an idea voiced mainly, but not exclusively from academia. Phillips Corp had clauses on welfare politics and employment written into its mission statement. And when the Dutch State Mines were privatised to become DSM, the government formulated in its charter that the company should be a social-economic entity that aimed at profit-making as well as promoting the social interests of the workers within the company. So, corporate responsibility was an idea not entirely out of step with the employers’ conception of their role in society.

Thinking on the employers’ side progressed not that fast, but it did. “Personnel policy,” as it was defined by the employers’ confederation in the mid-1960s, “is the part of company policy that is aimed at promoting the good co-operation between management and work force and between employees among themselves so that the enterprise functions effectively and profitable as possible, taking into consideration the employees’ interests in the context of the business.” The recognition of those interests was a major pace along

28 Van Gorcum (1967), 9-12
29 Van Zuthem (1967), 12-6
30 Van Zuthem (1971), 7 (italics by this author)
31 Van Zuthem (1967), 20-21
The path that industrial relations were taking since the 1950s.

Further development took place under pressure of the law. Co-determination, shoved under the carpet immediately after the war and rebounded in the unruly climate of the 1960s, was finally brought to a solution in the subsequent decade. Two amendments of law were introduced in 1971 and 1979. The major issue at stake was the choice between a works council which is a cooperative institution of the corporation, and a workers council that is instituted to voice workers’ interests. As so often, Dutch politics found an elegant compromise. On the one hand the former bipartite council, presided by the top manager, was substituted by a council exclusively consisting of workers’ representatives under its own president. Simultaneously, article 25 of the new law made obligatory a consultative meeting of the council and management together, to be held at least six times a year. Equally obligatory was preceding consultation by the council in case of all far-reaching economic and financial decisions: investments, financial participations, credit liabilities and major reconstructions of the company. Supplementary to this right to be heard, consent was required in all major decisions concerning personnel policy, thus creating a right of veto.

This forcefully strengthened the position of the newly formed personnel discipline.

Compliance with article 25 and subsequent paragraphs in the law “can judicially be assessed,” the employers’ federation found, somewhat worrisome, in a paper on social policy. 33 This means that already in the preparation all measures containing more or less far-reaching consequences for personnel (…) will have to be carefully assessed on their

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Box 5
A concerned member

A former president of the Association for Personnel Policy in the early seventies. At the time of the interview an executive searcher

“…In the early 1970s there was a movement of the ‘concerned members’ in the Association, a result of the student protest of the 1960s. It was at a time when all and everything was focussed on visions: what do we stand for; where are we heading for? That ended in a report by the Association on professionalism.

We spoke with the powers that be, with unions and employers associations. Since then the personnel profession has been diluted. The inflow has been of a too low quality.

Originally the vocational training for personnel management emerged from the course in industrial welfare work. That is the reason why it became located at the academy for social work. From that orientation, the threat of ‘commercialising’ was an issue of debate in the 1970s. Could commercial consultants become a member of the Association? Nowadays everything has become commercial.

Since the period from 1987 to 1990 there has been no discussion of substance any more within the Association. It is all focussed on instruments. But there is little new in it. Instruments have been built up like tiles, the new ones on top of the old. It’s all old stuff. Issues like employment protection, terms of employment, management development – it is all more of the same. In the meantime we know everything there is to know in this field."
social consequences.” Thereto “investment in socially expert manpower will be needed, if only for the simple reason that in no other way new generations of assertive and more developed people will be inclined to accept authority.”

And yes: “In a societal context, initiatives (…) may not be one-sidedly aimed at certain persons or groups, neither may they bring about effects exclusively positive or negative for certain stakeholders.”

And yes again: “Social policy is an integrated part of company policy as a whole.”

Sometimes the text reads like a conditional surrender: “Within all this, one has always to keep in mind that after all an enterprise – in the most literal sense of the word – has to make a profit. This is for the simple reason that without a profit there is a loss, and not only in financial respect. This has nothing to do with maximization of profits. An indispensable criterion for reasonable economic behaviour is at stake here that even Marx has never rejected.”

Employers appealing to Karl Marx; they must really have felt the wall against their backs.

Along the same path In hindsight, the opinion leading voice from academia did touch the economic order. It was however quite in line with the principles of guided capitalism and the ‘engineered society’ that went with it. In reflecting the Zeitgeist it looks like it was only one step ahead of the debate within the professional group of personnel managers. As we will see hereafter, this debate was again one step ahead along the path that employers followed reluctantly.

The positions seem to have differed gradually, not radically.
Box 6
A loss of substance

A prominent opinion leader in the field and most productive author; a teacher, trainer, entrepreneur and at the time of the interview a teacher again.

“During my student years in the 1960s the profession was highly involved in the ideological debate at that time. The self-actualisation of the worker – that was your concern. This made you more or less a natural adversary of management, which created the field of tension between the ‘harmony model’ and the ‘conflict model.’ As a personnel worker in the organisation you still had to operate according to the rules of the ‘harmony model.’ While outside the gate, you saw the union employ the ‘conflict model.’

One had the strong feeling of a moral obligation: making ideological choices, that was what you stood for. Such as the ideology on the essence of personnel work – personnel policy means policy of personnel, advocating its interests. It was a sometimes highly esoteric debate, like bishops discussing how many angels can take place on the point of a needle. For at best personnel policy is policy for personnel.

It was also at the end of the 1960s that the first instruments arrived. Before, there were hardly any tools. Performance reviews for instance were non-existent, as workers were generally paid on piece rate. The transition to fixed wages made instruments essential, for performance assessment, job classification, work group consultation and co-determination. The unions bargained these tools in turn for the disappearance of piece rates.

The ideological debate ran from 1965 to 1975 and it coincided with the discussion within the Association on the professionalism of the personnel function. The report on professionalism counted no less than four visions: the personnel profession should operate from the interests of people, from the interests of both people and the organisation, from the substance of the profession itself or from the interests of the organisation, period. We toured along all the regional departments with this report and slowly one saw the ideological involvement in the debate wither away. But the awkward question remained: what is your core business? That has to do with the efficiency of labour, but also with a qualitative substance. The wellbeing of employees and the quality of labour is related to efficiency – absenteeism is a signal of dysfunctioning of the organisation. Absenteeism control should be part and parcel of the personnel department’s task.

During the 1980s the personnel function has become more specialised and as a result it lost parts of its domain. Safety and health care for instance, absenteeism control included, belonged to the personnel department, but it lost it to specialised institutions. Later on keeping salary records, where it once all started, has been outsourced. Matters of quality of labour have been shifted to the quality departments.

One might say that the profession lost the ‘O’ of ‘P&O’ and is now losing the ‘P.’ What does it contribute substantially to issues of people and labour? Not much more than fixing things and thinking up new instruments, like personal development plans. But what are these tools aimed at? In the 1960s we knew: the aim was to enhance the self-actualisation of the worker. Now it is formulated in economic terms, in value added, in an efficient inflow and outflow of personnel and cost reduction.

That the profession lost its ideology belongs to the spirit of the time. That it lost its substance I deplore deeply. What rests? A specialty of business administration, that no longer has a concern for people.”
1.3 In Search of an Identity

A profession?
From the mid-1960s the personnel discipline found its organised form. The establishment of the professional association Nederlandse Vereniging voor Personeelbeleid (NVP) in 1965 coincided with an enlargement of the personnel managers’ tasks from his original duties - which had been primarily administrative ones - to social policy. In its earliest phase – the 1950s and early 1960s - one could hardly speak of a profession of personnel management, as consisting of a recognised body of expertise. It looks like that up till the middle of the 1960s the practice of the personnel discipline did not go far beyond the five basic personnel functions in hierarchical organisations: recruitment, assignment, welfare, punishing and rewarding. That made the former officers in the merchant fleet and the military one could encounter in the early personnel departments, quite qualified for the job.

From that point in time the first students, fresh from the newly created vocational training on ‘personnel work’ entered the labour market, overflowing with new theories and insights that substantially widened the scope. Co-determination, self-articulation of the worker and organisation development came within the orbit of responsibility. And the new entrants were only too eager to shoulder these new responsibilities. Soon they took over the reigns within the newly founded NVP -where in 1970 they made their voice heard as the ‘group of concerned members.’ From there on they stimulated a reflection on the professional substance and proceedings of the personnel discipline. It was, as one person involved put it, “a search of an identity.”

The debate on ‘professionalism’ within the NVP covered the whole of the 1970s. Was the substance of the personnel discipline developing in the direction of what could sociologically defined as a profession? This question followed from attributing to social policy a value in itself, which had been the wisdom of the 1960s. If social policy is indeed a distinct element of company policy and, at least in principle, its aims are equivalent to economic ones, then, somewhere in the organisation the social interest has to be secured. Thus, the personnel manager, as a guardian of social policy, would need a certain degree of independence of judgement, not unlike the classic professions. This is not that far-fetched as it may seem, looking back from our point in time. No one denies the need for an independent legal counsel, even if the lawyer is technically an employee.

There where however those who doubted the validity of the claim to professionalism for the personnel manager. For a start, the general level of education and craftsmanship of those united within the NVP was far too low. “Only a group consisting of real experts, being in the limelight in the field of social policy, selection, performance reviews and organizational structure, would be able to bring pressure to bear upon national level and the own company.” Implicitly it was stated that a professional association that united only

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34 Bertels (1990)
Box 7
The father of the code

A career in personnel management at one of the largest multinationals in the Netherlands. A lawyer, who became the ‘father’ of the job application code that was instituted in the 1970s by the Dutch Association for Personnel Policy. At the time of the interview retired.

"In hindsight, I must conclude that in partial aspects personnel managers have succeeded to prove their point. These were policy aspects where management had to concede that it required a specialist. There are for instance many systems for job classification. It takes a specialist to explain which system suits this particular company and why. Personnel planning is another specialisation that is still in a developmental phase.

But till into the 1990s I often saw that the acceptance of personnel management as a separate discipline strongly depended on the people who executed it. It has been a handicap that it has taken so long – till the early 1990s – before an academic curriculum was developed. Management in large companies consisted mostly of academics; with an education at a vocational training level one had often difficulty to prove oneself.

Against this background it may well be that the possibility to work on a professional code concerning the treatment of job applicants has been seen by the Association’s committee as a means to make an impact. Till then little more had been developed than a number of visions on professionalism in the personnel discipline.

The actual start was a government sponsored research report published in 1978 on the position of job applicants. There was a widespread feeling in society that they often were unfairly treated. From the findings of this study, a task group within the Association has set itself to develop a professional code. With my background in law, I have constituted the first draughts.

It constituted some simple rules, such as the applicant’s entitlement to compensation of travel expenses, the employer’s duty to both supply sufficient information on the vacant job and adequate grounds for refusal, and the inadmissibility of enquiring about the applicant’s present salary, because this is irrelevant to the compensation of the job that is offered.

Within the Association there was wide support for a attempt to ameliorate the position of job application. The government sponsored study enabled us to make our point for ourselves. After the code had been adopted, it has been widely distributed among employers’ associations. Subsequently I chaired the guidance committee in which we handle five to ten complaints a year. On each we informed the company on our findings based on what the rejected applicant had told us."

real ‘experts’ would be a very small institution.

More fundamental was the objection that “the issue of personnel work is interwoven with other aspects of corporate policy to such an extent that it is often impossible to separate it completely within a distinct personnel department.” This objection would be made painfully clear two decades later when the organisational principle of ‘personnel policy back into the line’ was introduced. And some criteria for a full professional status would be unobtainable – a more or less homogeneous membership of the professional association and a standardised professional education – or an unacceptable and unwise

35 Fetter (1971)
36 Nolen (1971)
intrusion in the corporate organisation when a professional ethical code and legal recognition were strived for.  

“We see ‘professionalism’ in the first place as a problem of legitimacy,” wrote a committee installed by the NVP in 1973 in its introduction to a report on the subject. “A profession has a problem of legitimacy when its members face trouble to make clear to others their definition of their professional proceedings and to get them accepted and sanctioned.” That hit the head of the nail right-on: professional positions are ascribed, not self-ascribed.

In an outline of what the ‘ascribed domain’ of the personnel function could be the potential weaknesses of the claim to a legitimate professionalism became clear. It distinguished three dimensions within the domain, relating to the issues of staffing, motivation and the distribution of power. The committee concluded that the position of the personnel discipline in the sub-domain of staffing (recruitment and assignment) was strong. The motivational issue is determined by the organisational structure and more specifically the production system. This domain is strongly in the hands of the economists and the engineers. However, the personnel manager could hardly abstain from influence in this field, as “the labour task determines the possibilities for individual development.” Admittedly, a striving for ‘humanization of labour’ from the side of the personnel discipline would run into stiff opposition, as it “more often than not frustrates the logic of economic rationality.”

However, the societal development would come to the rescue. “It forces itself into the organisation and ‘de-solidifies’ the power structure.” In such a conflict situation “all parties concerned will need help to solve their contradicting opinions and behaviours and to come to some form of cooperation.” Implicitly, the personnel manager would enlarge his power base in his role as the ‘intermediate helper.’ So the motivational aspect and the quality of work life issues related to it would be “forced into” organisational decision making from the outside.

Two opinions were noted at the time. One was that social policy “leads an independent life,” unrelated to the external world. In this context, outside influence is considered as “an intrusion into the own good intentions and the autonomy of a social responsible, autonomous corporate policy.” To the opposite there was the opinion that “the personnel function as such could influence society.” Both lines of thinking would lead into a cul-de-sac, the summarizing conclusion ran.

Corporate policy is primarily a matter of economic rationality. At the same time it are the societal relations of power that determine the boundaries between which social norms will be brought to bear. (…) Not the social-ethical calling but the

37 Zuidema (1971)
38 Mok (1973)
39 Boering (1973)
harsh societal reality will from now on determine the importance of the personnel function."\textsuperscript{40}

It looks like it was a fair assessment of the balance of organisational powers:
• a strong ascribed function of the personnel discipline in the field of labour supply;
• a weak position in the field of motivational issues and the organisation and production structure that originated it, and
• an expected alliance with the societal forces that were intruding through the factory gate and would strengthen the social factor within corporate policy as a whole.

It meant that the future of the personnel profession drew heavily on the path that industrial relations would take.

\textbf{A receptive social climate}  

Certainly, the social climate was positively receptive at the time. In the meantime the employers had embraced the concept of social policy. It had, in their perspective, the dual aim of furthering the optimal cooperation in order to reach the company goal and to reduce social tensions. The latter addition may be seen as an assessment of the balance of social forces at the time. And the place where social policy should be made was in the boardroom; it “is a part of management.” The only objection made was about a professional code, that was considered within the NVP. “Expertise and insight [of the personnel manager] cannot be solely based on social techniques and skills, but should be embedded in sufficient knowledge of all other aspects of company policy.” Join the club, the message was, but in for a penny, you’re in for a pound.\textsuperscript{41}

And if this was still not enough, the government was waiting in the wings. “The realisation of a good social climate within the company is also a part of the societal aim.” Therefore, government should, if necessary, “enforce the desired development by means of the law.”\textsuperscript{42}

It nearly came to it, in the most far-fetched appearance of the engineered society. It concerned the position of job applicants, which, according to a government-instituted commission, needed protection. The rights of the “vulnerable applicant” should include: a fair chance of assignment, sufficient job information, privacy, confidentiality, an effective procedure and the possibility of complaint. A law to enforce these rights was seriously considered, but in the end the idea was rejected because “lawmaking would only make sense if the norms it would express would widely be accepted. About such an acceptance little is known momentarily.”\textsuperscript{43} In hindsight one could say that this marked the outer limits of the engineered society.

\textsuperscript{40} Haveman (1973)  
\textsuperscript{41} Personeelbeleid, 1977, (11), 556  
\textsuperscript{42} ibid, 575  
\textsuperscript{43} Ligteringen (1978a)
The commission did however recommend a professional code on recruitment and selection. The NVP seized the opportunity and within a year it realised such a code. It still functions today. It could go no further than stating norms for decent behaviour and complaints could have no further effect than filing the record. Nevertheless the association had reacted quickly and adequately in the field that was undisputedly its expertise and responsibility and the impression is that the code has indeed contributed to the formation of normative behaviour.

Control today, decide tomorrow
In the field of socio-economic relations a bright summer had passed into an overcast autumn. The economic turning point was 1974, the year of the first oil shock. The volume of world growth slowed down from 9.4% (1964-1973) to 4.3% (1974-1978). For an open economy like the Dutch one this immediately affected export growth (which dropped from 11.9 to 2.2%), industrial production (down from 6 to 2.5%) and investments (from 6.5 to 2.1%). From the mid-1970s employers repeatedly voiced their concerns about the deteriorating business climate. This did however not affect the nominal wage increase which was kept more or less at the same level: 12.3% in the period up to 1974, still 11% thereafter. Besides the effect on consumer prices, this did the labour income quote rise from 81.5 to 91%.

What sprang most to the eye was the creeping unemployment, upwards from 1.8% (1964-1973) to 4.8% (1974-1978), 6% (1980), 8.6% (1981). This was primarily due to the fact that the Netherlands and Western Europe as a whole went through a profound economic transformation. The widening-up of world trade had a heavy impact on the traditional industries, where employment was either rationalised away or flowed to low-wage countries. Between 1972 and 1978 the Netherlands lost 35% of its jobs in the textile industry; the production volume of Dutch shipbuilding dropped by 12%, to mention only a few examples. This trend was aggravated by the sudden impact of the two oil shocks of 1974 and 1979 that did raise the price of a barrel of crude oil from $1.80 in 1970 to $32.50 in 1981. This resulted in a major deterioration of the terms of trade for the energy intensive Dutch economy, in which chemicals and transport are important industries. All this was perceived by many at the time as a down-turn in the business cycle. There was in fact a structural trend at work that would render Keynesian demand stimulation and income policies obsolete. This was not however as it was seen at the time.

While the productivity engine slowed down, the aspirations of the working population were undimmed. From reading between the lines of the documents at the time one gets the feeling that, as far as the unions and their membership were concerned, there was still an old score to be settled from the days of the guided wage policy. Income levelling
was one of the major issues, accounted for by the widespread feeling of ‘injustice’ of the actual division of income. Therefore the unions had to turn to politics which realised the minimum wage (1968) and minimum youth wage (1973). Most controversial was the proposed equity addition sharing (1976). It would give workers a claim on the company’s capital accumulation and was hotly contested by employers who, understandably, saw it as violation of the existing economic order. It only made it into a draft bill.

Wage determination had been liberated in 1970 which redefined the rules of the game of industrial relations. The arbiter had been pushed aside, but the law still authorised government to intervene in emergences. It did so repeatedly: in 1971, 1974, 1976, 1980 and 1981. Thereby wage formation, which had been so technocratic and was thereby put beyond public debate, was turned into the subject of political contest. When overall purchasing power was concerned government played an even more important role: controlled housing rents, costs of health care, social security contributions, and statistical adaptations of the index of consumer prices, all had a major impact on spendable consumer income, often more than the gross wage rise the unions bargained for. This made them focus more on macro-economic targets which drew them further into the orbit of politics.

Direct wage bargaining beyond the spoils of politics offered little prospects any more. The major part of the wage fund was covered by wage indexing, an ‘acquired right’ won in the 1960s\(^\text{47}\) that the unions would uphold at any cost. So the actual bargaining was about surplus wage rounds which were, given the deteriorating economic outlook, in practice more about wage restraint. Unions even derived their bargaining power from the seal of legitimacy they had to offer by their cooperation in this respect.

It made them turn to immaterial, ‘emancipative’ aims that could inspire their rank and file. Thereby they transformed industrial relations into an ideological battle ground where the economic order was put at stake.

In 1972, amidst an unprecedented labour unrest, it came to an open controversy within the largest union confederation NVV. From the leadership of the confederation it was “clearly stated” that “the union movement accepts the private property-based production as reference point for the advocacy of workers’ interests.” To the opposite, the position of the leader of the Industrial Union, the largest one in the country, was that “when the union movement participates in the existing societal structure, it is only because it marks a transitional phase into a more ideal, other society.”\(^\text{48}\) The slogan became: ‘control today in order to decide tomorrow.’ Although this didn’t speak for the union movement as a whole, the antagonistic tone had been set that would dominate the 1970s.

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\(^{47}\) Later to be expanded to social allowances during the reign of the most leftist government in Dutch political history (1974-1976).

\(^{48}\) Winkler Prins Jaarboek (1973), 35
Box 8
“We must have done something wrong”

A long career in a leading company in the automotive industry. Commerce first; a switch to personnel management at the end of the 1970s. A former president of the Association for Personnel Policy and at the time of the interview Head of Personnel at the same company.

“One thing that I in hindsight still don’t understand is the mixture of social work and personnel affairs, as if you’re speaking of a client system in which one should by definition have a problem. My daughter studies psychology and does intake interviews with homeless people. Yeah, than you need some social workers’ skills. But in the context of a company I thought it rather far-fetched.

The mixture of the personnel discipline with labour union goals was another one. Does ‘personnel’ have the task to advocate employee’s interests? In my opinion responsibilities were messed up. Employees have their unions and the works council. I am in the employer’s service and have to see to it that this employer treats his workers in a way that is societal acceptable.

Not that we had much to fight for in this company. Company health care, job consultation, attention to job stress: a social responsible personnel policy was quite normal in Sweden where our headquarters is located. And it still is. From this perspective I intellectually could comprehend these discussions about the ‘real function’ of personnel management, but I considered it a bit of bullshit.

But some academies where very politicised. Their alumni weren’t taken very seriously. Other ones were very methodical. All aspects of work life had to be pressed into one model. This was reflected in much of the debate within the Association which arose from frustration: my managing director doesn’t understand me… Oh. But do you understand your managing director, or have you ever tried?

Later on we had discussions on quality circles. Before, we had struggled to lay down everything in job descriptions. We were rather advanced in job performances reviews. But managing directors considered it far too bureaucratic. It was an eye-opener when those quality boys came in. Everything had to be documented, files on a row to get an ISO certification. And top management applauded it. I sometimes wondered why these quality guys did make it while we didn’t. When they considered adaptations necessary in work processes, time and means were released. So we must have done something wrong, isn’t it?

One of the reproaches made to personnel managers is that they cannot calculate. And they’re poor negotiators too. The discipline lacks political influence as well. When government directs labour relations by means of law, the Association has tried to force itself into an advisory role. But its expertise was not of a kind that impressed the politicians.

Over time not so much has changed substantially. The personnel toolkit is more or less the same, but the wrenches are of better quality. And that’s necessary, because questions have become more complex. So things are done in a more structured way. A major temp agency has a location here in the factory where they do the whole of recruitment and selection. That would have been impossible fifteen years ago. Payroll administration has been outsourced. What is the essence that rests for the personnel function? Its value added is in consulting line-management as a co-manager.”
From wage bargaining to job bargaining

At central level industrial relations became highly politicized. Concurrently the unions tried to strengthen their position at company level. Shop floor activism became the union catchword where the British plant bargaining was often mentioned as an example. There were valid reasons for a more active role of the unions at the inside of the factory gate. One was to get a grip on wage formation at shop floor level. Once tariff statutes were agreed, there was hardly control on adherence. ‘Incidentals’ due to performance assessments, promotions and the like were often more substantial than the negotiated nominal wage round but were largely at the employer’s exemption. Secondary labour conditions and an issue like safety and health at work could only be regulated at company level. These issues, supplemented by job strain, self realisation and autonomy, would be broadened into the Humanization of Labour Movement that became a spearhead of union strategy. It meant the ultimate intrusion into the management of business by which the historic compromise of 1945 was definitively terminated.

Considerations of power unmistakably played a role. The works council, even after the new co-determination law was enacted in 1979, was still primarily a platform of consultation, partially or mainly outside union control. A survey around 1980 found that 33% of the works councils had a majority of representatives from the largest union confederation FNV; 34% consisted mainly from non-union representatives and 25% had a mixed union-aligned majority. Works councils that were dominated by the more radical FNV in general sought more often a confrontational approach towards management. Suspension of consultation and a ‘strong statement’ on the bulletin board were among the most used instruments of power, in extreme cases support of strikes.

Nevertheless the works council was only partially under union control. So power was sought beyond what co-determination could offer and shop floor activism was a suitable means to gain influence on company policy. And, maybe most important, unions had to rally their rank and file around visible goals that directly affected their lives. The submissiveness of the consensus years was over.

This is definitively marked by the shift from wage bargaining to job bargaining. In 1978 the unions were willing to abstain from a surplus wage round (above the wage index) but put a number of ‘immaterial’ demands in place. A labour place agreement (APO by its Dutch acronym) would first include a minimal number of jobs in the company, as a guarantee against creeping job losses that had become common at a time of constant organisational reconstructions. Soon however the perceptive of a whole array of new regulative measures opened up: specifications on job content, safety demands, training...

49 Teulings et al. (1981), 115-126
50 A merger of the socialist and catholic union movements in 1976 Teulings et al. (1981), 208-209
51 Teulings et al. (1981), 208-209
and development facilitations, on reserved job slots for the long-term jobless, the partially incapacitated, the women, the elderly, the youth, etc.\footnote{ibid., 229-233}

“In short, the APO is the aggregate of agreements on quantity, division and quality of employment,” stated a union representative in a round-table talk that my magazine organized on the subject.\footnote{Ligtering (1978b)} Under the chairmanship of a professor of economics all parties concerned were gathered: the unions, the employers’ confederation and association of Young Entrepreneurs, politics, in the person of a Member of Parliament and former minister of Economic Affairs, and a personnel manager who had won an opinion-leading role among his colleagues. The debate went on for hours and offers an intriguing insight into the mode of thinking at the time.

Was job bargaining meant at branch level or company level, the employer wanted to know. “To bargain at branch level on employment-related procedures seems useful to us.”

The union representative countered: “Job bargaining at branch level could only lead to a framework agreement. In the end one has to come to a tangible understanding at company level.”

The ‘young entrepreneur:’ “But the problem I have with job bargaining at company level is that the responsibility that I, as an entrepreneur, feel towards the employee is quite different than towards employment. I have no personal relationship with jobs that aren’t filled.”

The union representative: “That’s why we want to make the macro-economic problem of a shortage of jobs into something tangible at company level.”

The personnel manager tabled a practical objection: “Corporate personnel planning is still in its infant stage. In practice it is already highly complex to look only one year ahead.”

The politician: “It would require a major effort to survey the consequences of employing special target groups such as the disabled or the employment consequences of intended investments. In my opinion the employers’ resistances comes out of fear for impossible demands.”

The economist: “When one determines by engagement the wage level as well as the volume of employment relatively independently of each other, one determines the level of technology application. Then a choice of principle has been made concerning the proportion of labour to capital. When, to the contrary, I understand that the unions don’t want to influence the technological development as such, a certain exchange would be necessary between material labour conditions and the volume of employment.”

This brought the discussion to the nucleus of the economic order. The union representative: “Agreements can contain not only the aims, but also the means. And when our point of departure in the negotiation is that forced dismissals are not allowed any more, it is because these are socially not acceptable any more.”

The employer: “This means that you no longer accept the basic principle of the enterprise.”
The debate progressed it became clear that, for the unions, job bargaining would cover the whole of social policy. “When in a company, due to technological developments, productivity rises while output does not, we think that one should try to cushion the consequences of the technological process by way of experiments in the division of labour. When technological change leads to changes in the working environment and job content, in rising job stress and absenteeism, we would negotiate humanization of labour. And when at the labour market we observe an increase of long-term unemployed among the youth, married women and the elderly, we will negotiate with the employer a policy to employ especially these categories.”

And that would have far-reaching consequences for the position of the personnel discipline. The personnel manager: “The consequence of job bargaining would be that in the long term it loosens the relation between the personnel department and the company. As a neutral institution it would contribute its expertise to all parties concerned. This
of them are female nowadays. That tells you something of the intrinsic weight of the profession. In the past, even if one chose for the employers’ interests in the first place, one tried to realise something for the workforce. You work with vulnerable people who have to be assured that they will be treated fairly. That commitment is gone. Nowadays there is no conscious choice for the profession any more. It’s a job like any else and people go for their own career.

So, one could conclude that the process towards professionalism has failed. One reason is that the Association has never been able to generate collective power. There were too many visions and too many people in lone positions in smaller companies, who had to survive in a non-supportive environment. Timidity played a role too. People did things they shouldn’t do from a professional perspective out of fear for the consequences of doing otherwise. That was surely the case in the early 1980s. Finally, when outsourcing set in, the best people went outside, to training institutions, bureaus for safety ad health care, recruitment services and the like. The external consultants are mostly the better craftsmen.

Progress has been made in the tools. In the 1970s personnel management covered a wide area but had little profundity. Since then laws and regulations have become far more complicated, which requires more specialization. A tool like competency management is more complex than the job classification of the old days. And ICT has made things easier. But nowadays I see personnel managers more behind a terminal than talking to people. It’s more about control than problem solving.

At present the external activities in the field of personnel are much larger than the internal ones. What rests are only a few things one should do internally under any circumstances. The last thing to abandon is the purchase expertise. When you don’t understand the tricks of the trade in the field of personnel, you buy the wrong things. Strategic consultancy in the field of HRM cannot be outsourced and management development has to be done internally. One can’t outsource the responsibility for appointments in future core positions. Outsiders tend to siphon away the best people.

What the personnel discipline stands for at present is an unanswerable question. There has grown an enormous diversity in tasks and functions, inside and mostly outside the organisation. More often people have to ask themselves: what do I myself stand for? Because collectively we stand for nothing.

1978 should have been the ‘Year of the APO.’ It was postponed and not heard of thereafter. The pendulum was swinging back.

**No less than four visions**

It was clear that the deep political antagonisms of industrial relations could have a forceful impact on the personnel discipline. Not surprisingly, many a personnel manager felt obliged to take a position within this field of societal tension. So the subsequent phase in the ‘professionalism process’ focused on no less than four ‘visions’ from which one could practice the personnel discipline.\footnote{Personeelbeleid (1979), nr. 5, 263ff}

The first (‘vision’ A) strongly attached to the emancipation trends of the 1960s.
reasoned from ‘the human perspective,’ which stressed man’s responsibility and self-determination. That is, it focused on “the human being and the perception of his environment”. As a consequence it perceived social policy as welfare policy. Vision B (from the perspective of the human being and the organisation) equally acknowledged that labour allows for the fulfilment of human needs and determines human self-determination. However, “the individual has to focus equally on the demands of the organisation and when its continuity would be at stake he can even be required to make his individual aims subordinate to those of the organisation.” Personnel managers “should be motivated to approach the organisational requirements from a position of equivalence towards ego-centred power and interest groups and individuals.” Then there were the visions C from the personnel profession itself – which conceived “personnel work as the methodological well-considered approach of phenomena and problems in the sphere of personnel” – and D from the perspective of the organisation, period. The latter stated that social policy should contribute to the corporate aim of maximising the return on investment, not falling prey to “the fiction of the equivalence or superordination of social policy.” That was about were the employers stood in he early 1950s.

These four visions covered the width of possible thinking on the personnel discipline at the time, from the utopian to utterly plain realism. Together they demonstrated how the plurality of the personnel discipline prevented the conception of common role attitudes and performances, as some had foretold. More important, what no one seemed to have recognised at the time was that the ‘professionalism debate’ had swung from an ascribed to self-ascribed role attribution.

The rest is easily told. In 1979 and 1980 the ‘visions report’ was debated within the regional chapters of the Association, leading to the conclusion that no stance attained unilateral support, be it that the general opinion tended to draw to the centre (visions B and C). The Associations’ committee could only ascertain to recognise each of the positions in its future policy. A follow-up report on professionalism was promised, a professional code would be discussed…

It didn’t matter any more. The pendulum was swinging back.

55 Bertels (1990)
1.4 High Hopes... and Doubts

A New Realism

In hindsight one could see that during the 1970s the first signs became visible indicating that the social arrangements which were designed to function in a stable, confined environment became untenable in a globalising economy that requires constant adaptation to a hardly predictable environment. As we saw before, the hope of a broader, ‘motivational’ agenda for the personnel discipline had been placed on the intervention of societal forces. The profound recession of the early 1980s shattered that hope. The welfare state and the institutionalisation of workers’ rights had reached their limits; at corporate level the production bureaucracy was losing its functionality. Both institutions made personnel management emerge in the first place and offered it its growth perspective later. Now it came associated with their drawbacks. This resulted in a ‘conceptual vacuum,’ which is disastrous for a conceptual profession like personnel management; the reason why it ended in a deep crisis of legitimacy.

The major recession in Europe resulted in a series of mass lay-offs and did arouse, for the first time after the war, serious doubts about full employment. In the period 1973-1985 employment shrank by 160 thousand full-time labour years. There was however a sharp divide between the periods before and after 1979. Between 1973 and 1979 the labour volume grew by 80 thousand; in the second period there was a decline of 230 thousand. Private business was the prime source of loss of employment: no less than 545 thousand jobs disappeared between 1970 and 1983. For some time this bleeding dry was compensated by the net growth in the non-profit sector: a job growth of 35 thousand on average in the years 1975-80. Then it abruptly stopped due to sharply deteriorating public finances.

It was like the labour market had been hit by meteoric stone. The sudden and deep impact made many fear for a lost generation and indeed there were signs of societal disintegration, as the ‘no future’ slogan of the squatter and punk scene demonstrated. No one could foresee that the capitalist system would spring up again in a surprisingly short period of time.

The crisis had a sobering effect on personnel managers. Not much was heard of self-actualisation of the workers any more; theirs was the dirty job to fire them. A New Realism made its appearance in the early 1980s. Back to basics: personnel management has to serve the interests of the organisation in the first place. As such, this approach can be seen as a revival of the Scientific Management era. Realistic personnel management is strongly determined by line management and organisational goals, less by worker interests. Social investment proposals have to be motivated by convincing cost-benefit analyses - which stressed personnel managers to quantify the effects of their actions. In 1983 a pioneer
The question arises whether the practice of social policy execution is doomed to find its way by means of improvable qualitative reasoning, or whether the social practitioner should draw from the way his colleagues in other sectors make use of quantitative methods to formulate and monitor their policies. The acceptance of straggling in the use of quantitative data may lead to a subordination vis-à-vis other sectors and would render the emancipation towards a mature social policy rather utopian.\(^{56}\)

The point was taken and would result in Human Resource Accounting (HRA), balanced scoreboard methods and the like that emerged towards the end of the 1990s.

On the short term the practice of personnel management changed drastically. A student research project sponsored by my magazine\(^{57}\) sheds a light on the momentary shifts in the personnel manager’s job content. The survey among general managers and heads of personnel showed that:

- Not surprisingly, general management considered recruitment of far less importance than before, while it had been the personnel department’s top priority before the recession.
- Human resource planning suddenly became in strong demand, as organizations shifted their focus from the external to the internal labour market. Many a personnel department found it difficult to carry out this new assignment however for it happened to be an activity that had been rather neglected and under-developed before. A missed chance.
- Opinion on training and development was mixed. On task-related training both heads of personnel and general management agreed that it still belonged within the realm of ‘personnel.’ Management development however was considered by the latter not to be a responsibility of the personnel department any more, due to disappointing outcomes in the past – a view contested by heads of personnel.
- In the field of compensation policy general management strongly pressed for performance-based remuneration.
- Also on employee relations views differed. General management still saw it as a ‘personnel task’ while most of the heads of personnel considered it as a line manager’s responsibility.
- Working conditions drew more attention in the non-profit sector primarily, arguably because of the effects of the recession on work and employee relations.

The overall impression was that the domain of the personnel discipline was gnawed at from all sides. Said one of the student-researchers: “One can observe that for the first

\(^{56}\) Jansen et al. (1983), 12

\(^{57}\) Ligteringen, (1983a)
time management confronts the personnel department with content-based requirements, supposing certain competencies. Personnel workers have to admit that they do not have these competencies at their disposal.”

♦

The tombstone on the professionalism debate

Below the surface, the personnel discipline began to pay for the confused image of what it really was and stood for. Personnel policy, social policy – it meant different things to different people. It can be perceived from a normative perspective. It that case it is strongly related to a distinguishable corporate culture, rooted in an entirety of values guiding behaviour in labour relations and towards the production factor labour. In contrast, the perception of personnel policy as an entirety of methods and techniques ties it to the tools that the personnel manager can bring to bear: the job classification systems, human resource planning systems, labour market analyses and the like. Thirdly, one could see personnel policy as a form of organisational differentiation which determines the domain, the authority and the responsibilities of the personnel discipline. To the latter perspective – the determinant of the ascribed role – had been paid scant attention during the 1970s. In this context it may be reminded that tool development, as we have seen before, often was in its infant stage. So personnel management had underpinned its position as a profession mainly from the normative perspective which could easily lead to a self-ascribed role perception. That went as long as it could go in the slipstream of the Zeitgeist.

As time progressed, the environment in which organisations operate changed with increasing speed. Not only the global players, also companies that function in a national or local context often got to cope with processes of change on a scale that was unthinkable ten or twenty years before. There are three basic forces at work that create the present patterns of work and competition. The first of these is the exponential growing volume of knowledge and information in our society, as well as its availability all over the world. Information is as fluid as financial capital. It has become one of the central assets of a company and control of the information process - the gathering and the distribution - has developed into a major focus of management attention. The same is true (or should be true) for the development of the learning capacities of the organisation. A second force is the increasing complexity of processes in our society, due to continuing specialisation and an increasing diversity of activities. Controlling the growing number of mutual relations in the network has become another major task of today’s managers. New technology is the most basic force. We see its influence in the rapid change of production processes, the shortening of the product life cycle and the arising of market niches that create today’s turbulent and unpredictable markets.

58 Buitendam (1979), 23-25
As a result decision making has to take place more often; it is more complex, puts higher demands on effectiveness while its implementation has to take place in shortening time intervals. In short: uncertainty is the rule. This is especially true for the long run. Long-term business plans cover a period of three years nowadays; what will happen thereafter lies behind the time horizon. This has far-reaching consequences for employment.

Employment, once solidified in jobs and careers, becomes fluid, so to speak. Under these circumstances the individual employee should be the ‘manager’ of his own career - inside, or at some time outside the company. Employment and career development become

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**Box 10**

“Higher educated personnel made all the difference”

In the 1980s he was the first university professor in personnel management. Retired at the time of the interview.

“From a rather non-systemic personnel management in the 1950s and 1960s, the 1970s brought many new techniques in a wide variety of activities. Suddenly, there was for instance a growing interest in issues concerning selection and potential assessment of managers. It had manifested itself ten years earlier in the United States. Question is why a certain set of tools suddenly became so important.

When companies showed a stable growth pattern, academics started in specialised functions and mostly stayed there. Careers were rather well manageable in this way. But when major industrial corporations went through a phase of uproarious growth and a rapid expansion in the volume of research and development, career planning grew more complex and there was a greater need for managers. In major Dutch companies there was a sudden need to assess in a rather early career phase the potential of university graduates who might grow into management level. Theory came from America; there were good practices from companies like AT&T and Esso, all in the field of tool orientated, applied psychology. Techniques in the field of Management Development made rapid progress, not unlike competency management today. Most major companies introduced MD, but organisationally outside the personnel department and at a higher level, to underline how different it was. The 1970s were the heydays for MD as well as potential assessment.

Those were the years when the size of higher personnel, above the level of collective wage agreements, grew substantially. Mass education made high educated employees often number 30 to 50%. This put a strain on central values concerning the labour relation. Around 1970 Philips Corp. was the first to do an employee survey among the category of higher personnel, about 10,000 in size. It caused quite some uproar. The story goes that Mr. Philips himself had tried to stop the survey results from being published. But there was no running against the tide. That survey has considerably contributed to the consciousness-raising about the new middle class.

The effect originally was not recognised as such. Formerly the category with tailor-made employment contracts didn’t organise themselves. Now, when they were employed en masse; they massively became members of the newly emerging ‘gentleman unions’ for middle management. And they started to ask questions: please explain about wage differentiation, about career paths. This has made a great impact on personnel policy and led to a wide range of techniques out of need of...
How Personnel Management Changed in the Netherlands

legitimating, not always out of management need. A job classification system doesn’t come in handy when the company plans a major restructuring – it’s the company’s freezing compartment.

The ideological rift – on whose side are you? – is not what I have experienced. It did force a cleavage within the professional association NVP but has it resulted in any yield? Those who were involved in that discussion were in most cases not the ones who contributed by means of projects or research to innovate the personnel discipline.

And remarkably, in present textbooks the word ‘strike’ doesn’t appear any more. There is a great avoidance of the subject of labour conflicts. In the US, management is supposed to be uninfluenced by the socio-political environment. Apparently it is a strategic choice whether or not to relate to unions. We accept the American line of reasoning far too easily. ‘Industrial relations’ is at best an auxiliary function locally, for its content varies by country. That’s why top management abstracts from it.

This results in a one-sided HR approach. Strategic issues are leading nowadays in determining the objectives of the personnel department. But what is so strategic about HRM when it only contains technical and commercial variables and not a socio-political scan of the country in which you want to operate? We are taken by surprise when a negotiated tariff agreement in our branch demands policy measures concerning the elderly employees or training. That could have been foreseen. If not, it is bad strategic thinking, by lack of a socio-political scan. One has to know what new laws are in progress, which European regulations are on the way. I don’t see it happen under the present circumstances.

Nowadays long-term thinking is at a poor level. In the 1990s companies did things that made sense. Business units made more decisions at lower level, like independently steering ships in a convoy. Now the reigns are pulled stiffer and suddenly there is less leeway for HRM. Top management drops out lists over the company: this is how you should do performance assessment. That will contribute to instability.

In major companies there is a need for a multiform HRM. Decentralisation has taken the form of diffusion in industrial relations. During the 1990s the number of tariff agreements has doubled. It could have gone the other way round: starting from a general negotiated framework to arrange details with the works council about work force needs and technicalities of HRM. Decentralisation has resulted in a thick layer of forms and prescriptions that middle management can hardly see as tools of management.

And now one sees the trend backwards, a reduction in the number of systems and procedures by half. Internal deregulation is reflected in the emergence of the shared service centres. The main issue now is: is this activity still operational, is this technique still a tool of management? Nowadays there is more HRM than social policy.”

dependent on the ups and downs the company experiences. To the personnel managers fell the task to get the workforce to adapt itself to the age of uncertainty.

About ten years after the start of the ‘professionalism debate’ it was carried to its grave, sealed by a tombstone in the form of a series of articles that neatly recorded for history what had gone wrong in the preceding decade.59 The criticism was harsh.

In comparison with the surrounding countries the position of the personnel discipline in the Netherlands was “certainly unique.” It couldn’t see itself as a specialisation of management, to be taught at business schools but it persisted in its ‘social work approach’ taught at the social academy. From this particularly Dutch “therapeutic conception

59 Van Beers, de Wolf (1982)
of personnel work” sprang its many shortcomings: much focus on social policy and organisation development to the detriment of governance and tools development, focus on the external, to the neglect of internal industrial relations, limited problem-solving capabilities and not to the least “feelings of moral superiority towards line management by the speech-making community.”

In scientific research it was found that less than half of personnel workers identified themselves with management; in the lower ranks slightly above one-third. To the contrary, 80% of the workforce perceived those ‘in personnel’ as being part of management. This role diffusion was a conscious choice:

“In general, one prefers a non-managerial role because of the supposed benefit that, by acting in an independent role, role diffusion adds to one's power and influence. The role conflict that goes with it is taken into the bargain because the importance of breaking fresh ground should prevail.”

It was precisely this off-hands approach towards the daily realities of managerial work that was the source of the 'bogged-down professionalism.' “In professionalism,” Mok stated, “the central value is to service the well-being of the client, be it employees or employers. In managerialism, the efficiency of the organisation comes first, be it ideologically cloaked in a cover of societal responsibility.” In practice, “the majority of personnel managers embrace the managerial model, because they, in their turn, are embraced by the managerial approach of personnel problems.” He concluded that “the personnel manager is confronted with these two models, which he can impossibly reconcile. (...) Professionalism, in terms of a strategy of legitimating in favour of the quality of labour, is an illusion.”

Here we enter the field of politics within the organisation: the ‘power structure.’ It consists of its internal authority structure and its external relations with stakeholders. One thesis of this study is that power relations are, in the end, an explaining factor in the historical development of the personnel discipline.

**A Dutch disease**

During the 1970s the Dutch economy went through a structural transformation – primarily in the form of a rapid de-industrialisation - the effects of which came blatantly in the open in the beginning of the next decade. The suddenness of this change had resulted in a mismatch in the labour system. Between 1971 and 1981 industrial employment dropped by 319 thousand (around 7% of total employment). Correspondingly the demand for low-skilled workers dropped from 48.3% to 37.2% of total labour demand. Behind these

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60 Bolweg (1982)
61 Organisatietress en de Personeelfunctionaris, Nijmegen University (1977-1981)
63 Mok (1982)
64 Fortuyn (1983), 243, 247; tables 177, 180
figures looms the image of a cohort of manual workers, first cast out from agriculture to industry (where they did decisively contributed to the productivity growth of the 1950s and ‘60s); now however been declared obsolete prematurely. The reaction to this phenomenon had been a typical example of Dutch evasiveness. Being a nation of minorities which have to live on with each other the next day, our culture tends to avoid harsh confrontations if we can. So when, due to the changing of qualification levels in labour demand, the employability of a part of the working population became problematic, we didn’t consider them as unemployed (which in the end would have meant sending the durable unemployable on the road to poverty) but we wrote them off by declaring them unfit for work.

In 1968 the creation of Dutch social security system had been completed with a new Labour Disability Law that contained a serious flaw. The preceding Indemnity Law had contained the principle of *risque professionnel* that tied the indemnities to industrial hazards and occupational illness. Now this principle was deliberately abolished, so that under the new system it didn’t matter any more whether or not a disability was caused by work and working conditions or not. This created a huge loophole to dump those economically hard-employable into a medically certified life-long entitlement on the tax-payers’ account. Immediately the number of labour disability allowances began to rise: from 162 thousand in 1968 to 237 thousand in the short period to 1971, ending at 526 thousand ten years later. The difference of 289 thousand is strikingly in the same category as the 319 thousand in loss of industrial employment, which strengthens the feelings many had at the time that the one was used as a reservoir for the other. This folly – designated in the press as the ‘Dutch disease’- can in hindsight only be explained by the discovery of a huge natural gas field a few years before which made the country oil-rich overnight. In hindsight it turned out to be a curse in disguise. In the end the number of ‘disabled’ would near the one million which made the prime minister at the time to declare the nation to be sick.

This strange phenomenon of medicalization of a structural economic transformation had an impact on personnel management too. Absenteeism rose proportional to labour disability, reaching an all time high of 12% nation-wide in 1979. Progressively it constituted a problem that got out of control. In an in-depth interview in my magazine personnel managers mentioned absenteeism levels of 10 to 15% in their Dutch factories, while only half at subsidiaries their companies had only a few kilometres away across the Belgian border. Asked for an explanation they could only offer possibilities: “maybe it is caused by differences in the social security systems between the countries. Or maybe it’s in the local culture. Anyway, we don’t know.” Recently a drop had observed by a quarter to about 7.5% and equivalently 3.6% in Belgium. “We suppose it could have to do with recent restructuring of the company.” At that occasion much of the elderly had been

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65 An unintended effect was that statistics on safety and health at work stopped to be made as the reason to gather these data had lapsed. As a result, twenty years later the Netherlands lacked the most basic scientific knowledge in this field.

66 Ibid, 159, 257; tables 128, 197
discharged at the cost of pensioning them off at preliminary age. But again the effect of a younger and fitter work force on absenteeism could not be demonstrated. Neither could the effect of preventive policies.

During an hours-long discussion the absenteeism problem was contemplated from all sides but it remained slippery; out of direct intervention anyway. Said one of the personnel managers at the table: “When absenteeism in a department starts to rise is seems to be an irreversible process. It shoots up to 12 or 15 percent. The opposite is also true. When decline sets in it looks like everybody stimulates each other to limit absenteeism as far as possible.” 67 This made the sickness level to something in the elusive sphere of group dynamics.

It can be conceived as the lowest point in the identity crisis. The well-being of the workforce had been the raison d’être, its health and consequently the level of absenteeism the core activity of the personnel discipline from the very start. Confronted with serious problems in this field however, it stood empty-handed in terms of tools and policies, leave alone of a vision.

In hindsight it is surprising how quickly the Dutch disease could be cured. The costs of absenteeism and labour disability had been financed collectively. The bill was at the state’s expense. This explains the low priority rendered to preventive policies. New legislation shifted the burden to the individual employer: it introduced the duty of prolonged wage

**Box 11**

“We are unable to engage in the right debate and we cannot admit it”

An international career in consultancy. At the time of the interview a senior consultant, director of one of the larger consultancy firms in the Netherlands and university professor in HRM.

“Over the last ten or fifteen years corporate balance sheets show less and less reserves for worse times. The pressure of the stock exchange is to blame. Formerly, a strong balance position was a sign of a company’s strength. At present all should be spent on bonuses or at shareholders.

This has created a wheezy atmosphere in personnel management. It wholly depends on the business climate and short-term results. When labour supply is scarce, we talk about finding and binding people. In a booming market a huge pressure on employee benefits exists. In a downwards trend the doctrine is to use downtime to invest counter-cyclically in the education of your people. As a professor I know the theory. As a director I cannot materialise it in this consultancy firm. So I can hardly blame my clients who don’t proceed according to theory.

On the other hand, I cannot allow myself to say to my employees: look, our HR policy is a bit opportunistic. We cannot formulate consistent social goals and float with the tide of the business cycle. So we do fine presentations for employees and unions, but the one major dimension lacking in all that’s said and done on HR policy is its legitimacy.

Take some random HR-memoranda, in the public sector especially: it isn’t true what you read.

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67 Ligteringen, Boonman (1983)
payment of one year in case of sickness and five years in case of a labour disability. This sealed off the dumping ground for discarded workers and invoked a rapid development of preventive policies. It also marked a new era in the labour order.

**A new-found consensus**

1982 is an important year in the history of Dutch industrial relations. Unions as well as employers were confronted with alarming perspectives. On the one hand profitability deteriorated dramatically. The labour income quote shot up to 91%. While almost all revenue was spent on wages, this did the workers not much good. Their incomes were drifting on the current of consumer prices, to which they were indexed. By the accelerating pace of inflation this made them outpace productivity growth. The end result was a fast rise of unemployment - it would reach the level of 14% in 1984 - especially at the low end of the wage scale, more specifically among the youth. This made unions and employers join hands. In the renowned *Wassenaar Agreement* (named after a village near the Hague) they traded long-term wage restraint for shorting of working times. It offered an immediate solution for the problem at hand.

Wage restraint not only had a direct effect on profitability; it also contributed to sanitation of public finances. Due to the strict index mechanisms that were in place, wage rises in the private sector – which in theory should have been covered by productivity
growth - were automatically transformed into higher unproductive social allowances. These had to be covered by rising tax incomes, which would be compensated by the same indexing in higher wages for the working population … The fly wheel moved in a uniform acceleration.

Under these circumstances the unions bargained a shortening of working hours (to 38 and later to 36 hours) and pre-pension schemes. The first spread the remaining work over more people; the latter introduced the principle ‘old turns in its job for the young.’ In the short term it turned out to be a golden formula, in terms of employment as well as sustainable public finances. And not least as important: it set the tone for a new labour-capital cooperation in what came to be known as the ‘Dutch polder model.’ So the Dutch system of industrial relations re-found the consensus and reciprocal trust it was known for. In the most striking way this was shown by the simplicity by which the main principles of the 1982 agreement were negotiated: by two men, the presidents of the main unions’ and employers’ confederations at the latter’s kitchen table.

Since then one of the main trends has been towards decentralisation of collective wage agreements in combination with more flexible labour relations. One could observe a waning of the old, massive wage determination in favour of a far wider differentiation in labour conditions, at the level of individual companies as well as workers. As time went by this would give rise to the question to what extent a balance could be found between individual and collective wage bargaining. Anyway it stimulated new thinking within the personnel discipline. One of the early things it came up with was the introduction of experiments with ‘cafeteria systems,’ which allowed employees a choice from a smorgasbord of various compensation benefits. In branches that lacked a strong union tradition, the task to negotiate the details of these kinds of regulations often fell to the works council. Rather than expanding an independent position in competition towards the unions, the councils more often sought the unions’ support which allowed the latter to further the quality of industrial relations outside their original sphere of interest. And this was certainly an answer to the progressive individualization in society. On the other hand, the former massive articulation of interests that was based on sizeable collectives had been spread thin over a great number of partial interests. This would hamper the union movement more and more to make one big fist.

A second basic trend was towards more flexible labour relations. Temporary work had since long lost its position as an ‘exemption in labour supply,’ only to be used in case of peak work loads and replacement of the sick. The more unpredictable the business environment was perceived, the louder grew the demand for slackening the ties that binds the employer to the employee in the labour contract. This became be formalized in the Law on Flexibility and Security of 1999. This enlarged the possibility to renew temporary labour contracts while limiting the total length of these contracts in time. In the end, the flexibility aim of the law won out to the security principle. It set in motion a slow but steady
erosion of the system of industrial relations. Thereby, the conception of the company as a social system (from which the concept of social policy had emerged) gave way to a transaction platform were atomized parties meet to satisfy their individual and immediate needs. Over time this did arise the question – and the main theme of this study – what role (if any) there remains for a personnel discipline in a context diametrically opposed to that of its origin.

A new legitimacy

When we place the emergence of Human Resources Management as the dominant concept of the 1990s, there is a historical simultaneousness we can hardly ignore: in the early 1980s the era of guided capitalism comes to an end and with it the casualness of its socio-economic structure. Summarised in short, HRM signifies the trend from seeing employees as a subject of care to the outlook that it are their actual and potential productive capacities that have to be cared for as they are an important asset of the company: its ‘human capital.’ The new doctrine fitted well into the new spirit of concerted action in industrial relations. The reason why such high hopes were pinned on the HRM concept was that it created a new legitimacy for the personnel discipline precisely at the time it was most needed.

After more than two decades however one can observe that HRM has been an illusive concept from the start, due to the fact that its substance means different things to different people. Its perceptions run from ‘a distinctive approach to labour management’ to ‘just another term for personnel management.’ One body of literature describes it as ‘strategic interventions to elicit commitment and to develop resourceful humans.’ Empowerment, the continuous development of the productive capacities of the work force and of its ability to cope with change, would result in a higher commitment from employees that would enhance their performance.68 The other approach to be found in literature is to see HRM as a set of ‘strategic interventions to secure full utilisation of labour resources.’ The instrument of result-based performance appraisal fits in here. One could conceive the ‘empowerment approach’ as the ‘soft variety’ of HRM and the ‘full utilisation approach’ as the ‘hard’ one.69 However, ‘hard’ or ‘soft,’ HRM is a development oriented concept which explains the enthusiasm it aroused. More specifically, the concept is based on the principle that

- horizontal integration of HR instruments into one consistent system, and
- vertical integration of HR policy into strategic corporate policy
- will lead to a demonstrable contribution to corporate performance.

Internal, or horizontal integration would forge the instruments that personnel managers have at their disposal into a coherent set of tools which would, in a synergistic way, contribute to corporate performance. More important, the external, vertical integration would secure that HR policy would become a coherent part of corporate strategy. As such

68 See chapter 6.5 for a further elaboration of the empowerment concept.
69 Kluytmans, (2004), 70; Tissen (1991), 15-31
Box 12
The end of the personnel function

A former director of Social Affairs at one of the major industrial conglomerates in the Netherlands; at the time of the interview a consultant and a professor of HRM at a Dutch business university.

"Professional attention to the human factor in the organisation only started with the emergence of the vocational education in labour and organisation during the early 1960s. In this period much brain-work has been applied to the function that people fulfil in organisations and the role professionals could play in this respect. The personnel specialist learned to think in terms of personnel policy, which soon evolved to social policy, in accordance to legislation at that time.

At that same time however, the personnel function began to remove itself from the orbit of the company and management and rambled on about labour relations and social policy. It has been a murderous discussion: do we stand for a policy of personnel or for a policy of the company on behalf of personnel? It ended up by conceiving personnel management as a normal specialism within the organisation. To promote the interests of employees there are unions and works councils. As a turning point one can mark both the oil crises and the unfolding of globalisation.

In the meantime we are in the age of HRM. But the practice of personnel management still is 70-20-10. Seventy percent of a personnel manager’s time goes into administration, which is mostly done slowly and inaccurately. Twenty percent is in coaching people: career consultancy, conflict regulation etc. But that is not what you’re hired for; there are all kinds of specialist bureaus doing that tasks better. The remaining ten percent is for strategic consultancy but few personnel managers reach this level. They are to little involved in corporate thinking; their value added is too low.

Globalisation is a threat to the personnel function. Look at the effect of making the employment relation into a legal issue. From the moment someone enters the company, you keep a dossier, just in case. The personnel function as a profession has always operated from a positive image of mankind and from a perspective of personnel care. But reality has become different.

What we call ‘decentralising towards your own responsibility’ is semantic deceit: care for yourself. From pensions to employment, all security has been carried to its grave. And now we demolish the last part of human dignity in work: we go on Taylorising processes, but companies don’t care any more. They talk about talent management. What talent? Personnel satisfaction surveys? We could better stop it; they will only show discontent.

When one extrapolates this development, one is tempted to conclude that this is the end of the personnel function. The professional association doesn’t set any substantial development in motion any more and the professional press runs previous discussions to the ground. I agree that the period after 1983 started hopefully. And in companies there has been made progress in the field of personnel; a lot has been implemented. But the separate personnel function offers too little value added in this respect to be recognisable and to create a critical mass."
it would in the end legitimise the place in the boardroom that personnel management had lacked for so long.

The notion is widely endorsed that HR policy on the one hand sets pre-limiting conditions to long-term corporate policy, while on the other hand it opens strategic opportunities. HRM, being a development oriented concept, offers the insight that people are not costs but assets. While costs have to be curbed and controlled; assets have to be nurtured and raised. The Human Capital Thesis, that states that human beings are the only production factor that is really scarce in the end, and therefore creates a high return on investment, can be conceived as the most important new ‘conceptual perspective.’

The focus on the ‘demonstrable contribution’ may be signified the most definite farewell to the old-style personnel work. Where the tasks that workers had to fulfil formerly had been solidified in detailed job descriptions, these rapidly lost their relevance in the new world where work patterns became fluent. In the field of assessment methodology the personnel discipline has probably shown its most innovative power. HRM monitors output in stead of input. Targets flow through the organisation like a cascade. Corporate planning determines the goals to be reached for the business units which again set targets for the departments till in the end they reach the shop floor in a concrete and measurable form. The SMART Method, which specifies targets to be specific, measurable, achievable, relevant and time-based, has been an innovative aid. Thereby the assessment and compensation policy has been tightly connected to the outcome of business processes. This required from personnel managers a profound insight in corporate planning and budgeting systems.

Assuring flexibility was another challenge personnel managers had to meet. Driven by rapid change in turbulent markets the focus became directed on limiting the size of the ‘core workforce’ by out-sourcing of non-essential tasks on the one hand and flexible deployment of personnel on the other. Personnel managers had to possess the competence to analyse the legal and financial consequences of make-buy decisions and flexible labour contracts.

The complement was the focus on employability which evolved into a core concept of HRM during the 1990s. Where insecurity has become the rule the static job becomes the exception and the job-for-life a phenomenon of the past. Under these circumstances, an individual employee is expected to be the ‘manager’ of his own career. A career plan, like a business plan, should show the investments in containment and enlargement of one’s future productive capabilities. The best (and only) thing ‘Personnel’ has on offer is advice.

The notion of vertical integration is closely connected with the principle of line responsibility for personnel policy. In today’s organisations the personnel manager is no longer the busybody who throws the book of regulations at you. It is the line manager’s responsibility to decide over appraisals, salary rises, career development, training and all other aspects that concern the relation between men and work. And his role changes too: today’s bosses have to learn to be less of a boss and more of a coach. In the meantime, the
personnel manager has taken the back seat as a consultant. And like any external business consultant he will have to convince his (internal) client of the value added of his advice.

These innovations which HRM brought will come across as common knowledge to the present-day practitioner of personnel management. Their obviousness could make it hard to imagine what a renewed vigour they brought in the personnel discipline at the time.

Failed promises
One of the grounds for the optimism roused for HRM as a developmental concept was based on the observation that the mechanistic-bureaucratic organisations of the past are increasingly dysfunctional in the new knowledge economy, as a solid body of organisation literature demonstrated. From this, literature foretold us, the organic, humane organisation would disseminate as the model of the future. Organisations as self-organising systems that would unleash man’s creative powers would follow naturally along this path.

Machine-bureaucracies stand for top-down control of the production factor labour, labelled as ‘personnel management.’ In contrast, from Human Resources Management was expected an “active, future oriented, innovative and consistent way in which managers handle the management of the human function as an instrument of organisation development.” This interpretation of the line managers’ role presupposes “an active engagement in the people management aspect of corporate governance.”

To the opposite, a survey among top managers showed as “the most striking aspect of the way successful managers spend their time, their scant attention for HRM issues.” ‘Personnel’ is “usually viewed as a supporting staff department, without clearly described tasks and authority, oriented more on operational than on strategic issues, which yields rather a limiting than a supportive influence.” In contrast to the high-minded ideas cherished by personnel managers, “among line managers a preference can be ascertained for the behavioural view on people,” the major conclusion ran. In this approach stimulus and response, the carrot and the stick, determine human behaviour. “This view seems to be dominant in a production oriented, mechanical environment, in which we find a people independent way of managing and organising. (…) The scant interest that line managers time and again show for issues like individual performance appraisal and rewarding can be interpreted from this portrayal of mankind.” One could even speak of a “programmable people's approach.”

A conclusive summary puts the question “to what extent managers are influenced in their orientation on managing of people by social strategies and policy, procedures, methods and techniques of people management. Present practice shows that this is not the case.” Present practice by 1990 that is.

So, literature had it wrong. We do not observe a wide dissemination of the organic, human organisation and the question is: why? One tentative hypothesis might be that in the end it is not the efficacy of organisation concepts that count but their consequences for

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70 Tissen (1991) 15-31
71 ibid, p 131-132
the division of power within the organisation. The Tayloristic management theory not only created the basis for the efficiency of mass production, but also a high concentration of power at the top of organisations. A more organic and humane way of organising would undoubtedly spread authority far more equable. If we assume for a moment the existence of a ‘law of the retention of power,’ this might explain why we still see so much of the old-fashioned command-and-control type of organisations around us today.

HRM has still failed to realise much of what it promised. There are no indications of a fundamental change in the position of this area of expertise within organisations. A worldwide survey among HR-professionals showed little progress on the way to a fully recognised management specialism. Only four in ten interviewees subscribed to the statement that “In general HR-professionals are highly appreciated in their organisations” or that “HR-professionals are considered by senior management as partners in business.” Remarkably, six in ten agreed that “Line management acknowledges that HR-professionals possess specific knowledge and skills that add to the value of the organisation.” This indicates that HRM hasn’t been very successful in lifting itself from the operational level into the orbit of strategic decision making. “The greatest bottleneck concerning recognition lies in the appreciation of HR-professionals as partners in business.”

Theory as well as its practice may explain this sorry state of affairs. In practice, to calculate the presumed contribution of excellent HR policy in financial terms has turned out to be a cumbersome job, resulting in an indefinite outcome. By consequence there exists little trust in HR expenditure as an investment in the human capital of the organisation. Companies who tried such an investment soon retraced on their steps, disappointed by the lack of instant returns. Theoretically, science has not, up till now, delivered the ultimate proof of the relation between HRM and corporate performance (the HR-P link). This is partly due to the problem of reversible causality. That ‘good’ HR policy results in higher (financial) performance is just as plausible a statement as the one that states that organisations which do well financially have the means at their disposal to offer better HR policy. Secondly, there seem to be methodological shortcomings in the research that is aimed at demonstrating correlation between HRM and corporate performance. Finally, some argue that neither proof in this case is possible to deliver, nor would it be relevant.

A new ‘conceptual vacuum’ looms at the horizon.

**Competing concepts**

A historical description of personnel management (at least in the Netherlands) demonstrates that conceptual constructs concerning man and work have strongly

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72 Kluytmans, 2004
73 Claus, Vloeberghs, (2005)
74 Sels et al., (2006)
75 Wright et al, (2005)
76 Hesketh and Fleetwood, (2006)
influenced the content of personnel management and subsequently its practice. It lacks however a theory that might explain why a certain concept was in centre stage at a certain point in time, to fade away later on. This question becomes the more relevant now literature indicates that Human Resources Management may be nearing the end of its concept life cycle.

There are two approaches possible to tackle this question. An economic-historical approach fits into the connection that Barley and Kunda have found between the content of the dominant management concepts at certain periods and the long term business cycle, the Kondratiev-cycle. They have demonstrated (at least for the US) that during the upward slope of the cycle ‘rational rhetorics of control’ dominated. These management concepts consider employees as calculating human beings, to be treated in a behaviouristic way, by means of the carrot and the stick. The explanation is that during a booming economy “profitability seems most tightly linked to the management of capital.” Conversely, normative rhetorics surged during the bust periods, “when profitability seems to depend more on the management of labour.” Normative concepts pretend to reach the same aim – a rise in productivity – by stimulating motivation which is assumed to be inherent to each human being.

This hypothesis concerning the connection between slump and boom and the ‘indoctrines of management’ should be further researched. It might explain why in the 1990’s, during the hype of the ‘new economy,’ we observe the rise of Business Process Redesign (BPR) - a purely ‘rational’ management concept. Besides, this approach might offer us an insight into the power base of personnel management. During the 1970s theories on ‘corporate social responsibility’ found considerable support among personnel managers. The reason might be that application of such a ‘normative rhetoric of control,’ for which the declining economy created the space, required their professional expertise and thereby enhanced their influence. During the 1990s, that influence seemed to decline for contrary reasons.

A cultural-historical approach is more in line with our intuition. Intuitively we sense that a concept like ‘corporate social responsibility’ belongs to the Zeitgeist of the 1970’s and BPR has to be placed in the business-like climate of the 1990s. The reason is that constructions of thought arise from the central problems that a society has to cope with at a certain point in time – problems to which the ideas try to forge a solution. When social problems change over time, so do the ideas of the era. From this perspective our analysis of the rise of Human Resources Management as the concept of the 1980s should start from the question: to what problem did the concept of HRM offer a solution at the time it emerged? Reformulated in a future-oriented way the question runs:

- what constitutes the central problem for the personnel discipline that is created by

77 De Leeuw (1985), Schafrat, Stierhout (1993), 39 ff
78 Tissen, Lekanne Deprez (2006)
79 Barley, Kunda (1992)
80 See chapter 7.1
the present societal-economic context, and
• what concept of thought is available that could offer a solution for this problem in this context?

So we have to keep in mind that the conditions that can explain the rise of the concept at a certain point in time may equally explain its decline later on.

Anyhow, the odds are against the HRM concept, whether of the ‘hard’ or the ‘soft’ variety. HRM hauls its origin from a bureaucratic past. Its inherent focus on development – whether individual or organisational - seems to be of secondary importance under present circumstances. As we will see in chapter 6, one of its basic tenets, the Human Capital Thesis, turns out to be a fallacy: return on investment in human capital is insecure and needs a wider time horizon than today’s impatient capitalism allows. At the same time the HRM concept has made the legitimacy of a separate personnel function within the organisation dependent on delivering proof of its contribution in quantifiable terms – a quest that failed.
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"Wir sitzen auf dem Sekundenzeiger, der die Vergangenheit von der Zukunft trennt, und der Zeiger bewegt sich so schnell, daß wir seine Bewegung kaum erkennen – so wie wir die Bewegung der Erde nicht spüren, obwohl sie stattfindet; die Zeit ist ein Karussell, das sich so geschwind dreht, daß wir seine Bewegung nicht mehr erkennen und zu ruhen scheinen, zu ruhen in der Gegenwart.¹

Heinrich Böll (1917-1985)²

¹ We are sitting on the seconds hand that divides the past from the future, and this needle moves so fast that we hardly notice its movement, just like we don’t experience the movement of the earth, although it takes place. Time is a merry-go-round that turns at such a speed that we don’t recognise its movement any more and seem to stay put, being at rest in the present.

² Der Zeitgenosse und die Wirklichkeit, in: Das Heinrich Böll Lesebuch, DTV, München, 2002, 72-77
On history and sociology

The present study is an example of historical-sociological research which means that first the two-sidedness of this scientific approach has to be examined. It reflects the two-sidedness of society in which “in time, actions become institutions and institutions are in turn changed by action.” Certainly, contemporary, a-historical social research may tell us a lot about the way in which a certain social system functions. But it creates the illusion of ‘being at rest in the present,’ while “whatever reality society has is an historical reality, a reality in time.” As soon as we get the image of how a social system works “further questions arise if we try to pursue a sociological explanation of why the system works as it does. And as we move from what questions to why questions our sociology has to become historical.” In fact, history is the essence of sociology, as it tries to understand the social processes that are the link between action and structure.

Social science can neither ignore its own past, as Zetterberg points out.

“In spite of some extravagant claims to the contrary, one cannot at present adequately learn sociology by reading the latest textbooks. The sociology student must also read the classical works of this field. In this sense he resembles the student of literature, philosophy and other humanistic subjects. The classics represent turning points, occasions when past formulations were superseded in giant steps by more far-reaching and inclusive formulations. In this way the classics highlight the history of the field. Furthermore, they were written by men of foresight, men with a sense for the essentials, men who had a rare gift of feeling the crucial problems of their topic.”

As the history of the phenomena under scrutiny may offer us answers to the ‘why question’ of their functioning, reflection on the scientific history of the social sciences may offer insight in the ‘why’ of their theoretic reasoning.

Let’s first look somewhat deeper into history as an academic discipline. It is based on the ontological axiom: the shared belief among historians that the sequence of historical events shows some all-encompassing pattern that moves in some discernible direction, rather than to repeat itself in an endless cyclical movement. In this way Fukuyama could write about ‘the end of history:’ mission completed; mankind’s mission to build civilisation, that is. One could call it History with a capital H.

Axioms are more common than it may look like. They reflect scepticism about science’s ability to tell us the ultimate truth about the social reality around us. When fundamental questions about social phenomena are at stake, in more often the issue is not ‘is this true?’ but ‘can we agree this is true?’

In the particular case of the ontological axiom one could hardly endorse the opposite stance, if only because that would conflict with the basic demand for system and order.

3 Abrams (1982), 2, 10; italics by this author
4 Zetterberg (1965), 3
that underlies and governs all rational enquiry, all meaningful thought about the world. It would also destroy the basis of the narrative tradition in history, the art of storytelling which is the most common perception of the historian’s work. Just like a novel, an historical treatise needs a plot and a storyline. This comes close to journalism: in collecting and sorting out ‘events’ a storyline emerges, which constitutes the framework for the story to be told. But there is one major difference. The journalist writes in the present and the future is unknown to him. The historian however writes, while knowing the future of the past. Yet, as Huizinga prescribes in his timeless essay *The Idea of History*, he “must always maintain towards his subject an indeterminist point of view” – that is he has to write his story as if Napoleon could still win the battle of Waterloo. “Only by continually recognising that possibilities are unlimited can the historian do justness to the fullness of life.”

So history is by character unsystematic, as human life is unsystematic - the historian always needs to see his “object in action,” which makes that object hard to grip. The social sciences have their methods to categorise their subjects of research. But in the historical world, as Huizinga formulates it, “where the simplest thing is always endlessly complex, what are the units, the self-contained wholes? Are they individual men? (…) Man as such, in his individuality, becomes an historical unit only in his involvement in life, by his relation to his environment and his time. (…) And his environment is limitless and indeterminable.”

In order to tell our story, we need a broader context. That is, besides *story telling*, history also should be *qualitative analysis*, interpreting events by means of a conceptual framework. But how do we discern between the crucial factors in our analysis and the marginal ones? There are no *general guidelines*. “Every historical fact opens immediately into eternity,” which might lead to a history of its own. To sail a straight course in the endless sea of interrelated events the historian “must organise historical phenomena according to the categories with which his Weltanschauung, his intellect, his culture provide him.”

Here lies the connection between the historical discipline and the social sciences. “To make the picture intelligible, the historian must make repeated use of the terms and methods of the systematic social sciences.” One has however always to keep the boundaries between the disciplines in mind; otherwise history would end up being “subjected to the demands of a normative discipline;” as such it would be “sentenced to reduce and to limit its material to mere schemes and formulas after all.” Huizinga rejects this view:

“The particular quality of history that gives it its real worth, that places it more than any other discipline at the centre of life, shall always lie just in this fact: that history conceives of and treats its materials as events, not as organisms. The sociologist and the psychologist are concerned mainly that the facts of a case conform to a system of ideas; for the historian this conformity has little or no importance – indeed the term ‘case’ does not belong in history at all. (…) For the historian the facts will always be ‘a series of events that happened at a certain time.’”

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5 Huizinga (1934)
That’s why history doesn’t deliver us a crystal ball. For all their knowledge about the past, historians are unable to make statements about the future – in fact, they abstain of it by principle.

Is history a science?

If historians – unlike sociologists or economists – don’t build general theories and cannot make predictions, is history then a science? It is a singularity of the English language that the answer to this question has to be negative, as the word ‘science’ has such a clear connotation of ‘natural science’ - an ideal type the social ‘sciences’ strive to. History then belongs to ‘the arts.’ In German however, as in other European languages, history would undeniably be part of *Wissenschaft*, as a body of learned knowledge that is treated in an objective and logical way.

But history doesn’t allow for grand theories about evolutionary processes from past to present - especially not for predictions. No History with a capital H therefore. In fact there has been; Karl Marx’s theory of class for instance. In *Das Kapital* he states as “the ultimate purpose of this work to reveal the economic laws of development of modern society.” Laws, empirically to be tested, that is. Dahrendorf however, in his sociological critique of Marxist class theory, separates between ‘sociological’ attributes in it - “categories, hypotheses and theories which permit empirical test, i.e., which either can be falsified themselves by empirical observations, or allow derivations that can be so falsified” - and ‘philosophical’ ones. The latter are “propositions that cannot be disputed by the tools of science” because “it is impossible to imagine empirical data that would falsify these postulations or their derivations. (…) The attributes ‘sociological’ and ‘philosophical’ signify in this context a difference in the logical status of propositions.”

Where Marx made a heroic effort to, in his own words, unravel the ‘laws of motion’ in the modern history of mankind, underpinning his argument with numerous historical examples, in the end he produced an impressive work of philosophy, not an empirical general theory. And that in no way belittles the man and his work. Philosophy belongs to the highest intellectual achievements of mankind. Durkheim, describing overspecialisation in science as a negative – anomic or normless – tendency, attributes to philosophy the function of “the collective consciousness of science and here, as elsewhere, the role of the collective consciousness diminishes as labour comes more divided up.”

Does it follow then that history, as it deals with events that are unique and non-recurrent, is unable, because of the uniqueness of its subject, to ‘prove’ anything? Indeed, the narrative tradition is locked up in a mould that dictates a sequential and cumulative structuring of ‘the facts as they happened’ that leaves little room for analytical theorising. But an event is more than a historical ‘fact;’ it is “a moment of becoming at which action and structure meet.” Events signal structural change which makes them relevant to sociology. “Insofar, then, as sociology is concerned with the process of structuring as its

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6 Dahrendorf (1959), 28
7 Durkheim (1893), 300
primary problematic the (detailed, concrete, unique) nature of events makes them both available and necessary objects of sociological investigation.” 8 In other words, if the sociologist would leave aside history, he would be unable to say anything meaningful about social structures, as these are shaped by human action in the past.

The historical sociologist cannot however limit his attention to historical events like the Fall of the Berlin Wall alone. Those “transparent moments of structuring” (Abrams) only mark the final outcome of tendencies; that are fundamental social forces at work over longer periods of time. These forces, unique and non-recurrent as they are, require a qualitative-interpretive approach because the historical ‘why question’ is built into them. There is more at stake here than a mere difference in methodology between the empirical and qualitative approach: there is a fundamental difference in perspective between them. Where the empirical researcher believes that all human beings are basically similar and looks for general categories to summarize their behaviours and feelings, the interpretive investigator believes that human beings are fundamentally unique and that their behaviour cannot be pigeonholed - certainly not over a longer period of time. What the qualitative approach loses in width however – in striving for general laws of behaviour to explain many things across many settings – it may gain in depth of explanation. And historical research is qualitative research as such.

A major limitation of historical sociology is that, unlike empirical social science, it hardly can predict the outcome of the tendencies it analyses, because processes of change are considered to be open-ended and structures to be dynamic. This doesn’t dissolve the historical-sociological researcher from his duty to underpin his argument with as much empirical evidence as he can lay his hands on. He has to demonstrate – which is something else than to ‘prove’ in the empirical sense – why the tendencies he analyses emerged in the first place, why they emerged at a certain point in time and what impact they may have had on social structures. The best that historical-sociological research can offer is a scenario approach. It may show the direction in which the tendencies under scrutiny work by consistently reasoning to their logical end – ceteris paribus, on condition that all other intervening variables remain constant. Therefore there is a limit that the historical sociologist constantly has to observe: that his argument doesn’t transgress the border line with philosophy where, in Dahrendorf’s words, “propositions cannot be disputed by the tools of science” any more.

However, to explain the present from the past is in itself no less ‘scientific’ than empirical (experimental) science. It is only that ‘historical’ hypotheses are of a special character. In the classical laboratory experiment, cause and effect, the independent and dependent variable, occur at the same time. To the opposite, in historical research – which historical sociology shares with disciplines like palaeontology, archaeology and geology among others – “the complexity of the causal conditions and the length of the causal chain (connecting the cause to its current changes) bury the regularities in a welter of contingences.”

8 Abrams (1982), 192-200
9 Cleland (2002)
Because of this “time asymmetry of causation” the historical approach follows a line of evidential reasoning different from experimental research. Hypotheses are formulated, not to determine a (quantifiable) relationship between A and B, but to explain “puzzling traces (effects) of long-past events.” So these hypotheses have the tentative character of a ‘best explanation’ of what the past has left us – explanations that can always be superseded by future observations.

From this it follows that the concept of validity as employed in this study differs in meaning from that in the experimental social science. In the context of experimental research validity means the degree to which a measurement instrument indeed measures what it pretends to measure: the measurement of the IQ pretends to measure how intelligent people are. In the historical approach it would mean that a hypothesis indeed convincingly explains tendencies and the effects of these forces in the way it pretends to explain. (The twin concept of reliability can play no role in this context, as there exists no reproducibility of causes and effects). In this sense the theory to be developed in this study can be conceived as a hypothesis to explain the body of information that is available about the way the personnel discipline has developed over time. It is ‘tested’ to the extent that it really offers a convincing explanation. One could call this the ‘validity test’.

Besides, if we are really to understand how the personnel discipline functions in general from an insight in how it functioned under various historical circumstances, the ‘relevance test’ has to be met. Our predecessors acted within their own historical societal context and that societal environment changes at an increasing speed. So, one could argue that knowledge of the past could be hardly of any use for the present situation. Organisations and their societal environment in previous times simply differ too much from organisations and society today. For this study to be relevant, a twofold condition has to be met. It has first to demonstrate the relevance of any societal environment for the content and practice of personnel management; secondly the relevance of that historical environment for the present substance and practice of the personnel discipline.

**What kind of sociology?**

When we come to the second constituent part of our research approach (sociology) we have first to ask ourselves: what kind of sociology? Various perspectives offer different explanations and insights. Therefore we have to locate this study within the broad area of sociological research, which consists of various traditions; Burrell and Morgan call them, ‘research paradigms.’ They offer four of them - each “founded upon mutually exclusive views of the social world,” leading to different approaches in social research in general, and in organisational analysis in particular. Their thesis is that social theory is “based on four different sets of meta-theoretical assumptions about the nature of social science and the nature of society. (...) A vast proportion of theory and research is located within the bounds of just one of the four paradigms to be considered here. Indeed, the bulk of it is
located within the context of a narrow range of theoretical possibilities which define that one paradigm." 10

These paradigms, each containing various related research traditions, are based on two dividing lines, ‘dimensions,’ as the authors call them. The first, the subjective-objective dimension, concerns the nature of social science; the second, the order-conflict dimension, is about the nature of society.

The subjective-objective dimension covers a number of scientific-philosophical antitheses among social scientists.

Realism versus nominalism concerns ontology, the theory of the essence of existing of the phenomena under investigation. This is about the question “whether reality is ‘out there’ in the world, or a product of one’s mind.” The nominalist position being that there is no ‘real’ world to be known and that the concepts we use to describe it are pure artificial creations. Whereas realists postulate that the world consists of tangible structures, to be analysed as empirical entities.

Positivism versus anti-positivism is about the essence of our knowledge (epistemology): “whether knowledge is something that can be acquired on the one hand, or is something that has to be personally experienced on the other.” The positivist’s stance “in essence reflects the attempt to apply models and methods derived from the natural sciences to the study of human affairs.” The epistemology of anti-positivism however “is firmly set against the utility of a search for laws or underlying regularities in the world of social affairs. For the anti-positivist, the social world is essentially relativistic and can only be understood from the point of view of the individuals who are directly involved in the activities which are studied.”

Determinism versus voluntarism relates to human nature itself: to either seeing human beings and their experiences “as products of the environment; one in which humans are conditioned by their external circumstances,” or “one which attributes to human beings a more creative role: with a perspective where ‘free will’ occupies the centre of stage, where man is regarded as the creator of his environment.”

The objective dimension therefore is realistic, positivistic and deterministic, as opposed to nominalism, anti-positivism and voluntarism.

The second dimension reflects the debate among sociologists on the nature of society, along the lines of social order versus conflict. The ‘order vision,’ known as functionalism and shared by Parsons and Merton among others, is connected with concepts such as stability, integration, functional co-ordination and consensus. The ‘conflict view’ stresses change, conflict, disintegration and force.

Substituting the pair of concepts ‘order versus conflict’ by ‘regulation versus radical change,’ to suit their model to organisational analysis, Burrell and Morgan arrive at a quadrant in which each research tradition can be positioned:

- objective sociology of regulation: functionalist sociology;

10 Burrell and Morgan (1979). x
• objective sociology of radical change: radical structuralism;
• subjective sociology of regulation, interpretative sociology;
• subjective sociology of radical change: radical humanism.

“It is our contention that all social theorists can be located within the context of these four paradigms according to the meta-theoretical assumptions in their work,” Burrell and Morgan state. “The four paradigms are mutually exclusive (...) A synthesis is not possible, since in their pure forms they are contradictory, being based on at least one set of opposing meta-theoretical assumptions.”

Social theorists may develop intellectually over time and move from one approach to the other; in most cases however within the area of one and the same paradigm. Border crossings from one paradigm area to the other are rare, comparable with religious conversions.

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Functionalism versus structuralism

The starting point of this study is to explain our subject of research starting from the perspective of managerial power. Consequently, it has to be placed within the radical structuralist paradigm, more specifically within the tradition of conflict theory.

Power and structure are its main categories. One cannot sensibly say anything about power without presupposing structure: “configurations of social relationships that characterise different totalities and which exist independently of men’s consciousness of them.”

‘Power’ is a relational concept. It contains sub-concepts such as a power base - the means by which the powerful can realise his goals, notwithstanding opposition from the powerless – and a power domain that defines its borders. Means and domain, whether material or immaterial in nature, are real entities – certainly not products of one’s mind. In this respect the radical structuralist approach differs from the radical humanist paradigm, which sees man as dominated by the ideological superstructure with which he interacts, forcing on him a ‘false consciousness.’ Matter comes first, ideas come afterwards.

Radical structuralism shares realism, positivism and determinism with the functionalist approach. The difference is the second dimension: order versus conflict. Here “the ‘order theorists’ greatly outnumber the conflict theorists,” to a point where the whole debate looked more or less superseded. “Functionalism, explaining social conflict itself from its social function, lead to a near consensus: sociology is about explaining social order.”

A problem with functionalism is however that it wants to explain too much. It assumes that every characteristic of a given society has its ‘function;’ that it must have some good reason to exist, in contributing to one vital need or the other of that society. In this line of reasoning, phenomena such as structural conflict, modes of domination, alienation, contradiction and deprivation are left out of consideration, or are attributed a ‘function’ themselves. If every social phenomenon, social strife included, is ‘functional,’ contributing
to the ‘steady state’ of society, there is no way of explaining radical change in society at all. In fact, ‘functionalist’ textbooks often give the impression that the final chapter on ‘social change’ was added as an afterthought.

In contrast, radical structuralists see the world as essentially incongruous. Seeing it otherwise would make us believe that we live in the Panglossian ‘meilleur des mondes possibles,’ in the best of all possible worlds. Whereas we are confronted with a world in permanent crisis, politically as well as economically, of gross inequalities and a progressively skewing division of power; a world in which everyone is forced to compete with everyone else in a rapidly globalising economy - thus diminishing social security as well as societal cohesion – governed by the overreaching rule of shareholder value, to be conceived as the mathematical pure formula of capitalism. By an abstraction that is, where human nature is as ill suited to pure abstractions as the human body is to pure alcohol.

A radical organisation theory

There is no such thing as a ready made theory explaining the historical development of personnel management to be found in sociological textbooks. Therefore, we have to construct a theory ourselves by bits and pieces. The position in one paradigm limits it to “a narrow range of theoretical possibilities.” That position constrains our look on the organisation as a social phenomenon. Burrell and Morgan have sketched the outlines of a ‘radical organisation theory.’ We mention only a few elements from their twelve point critique on conventional organisation theory.\(^{14}\) It is ‘static,’ just as functionalist sociology is static, where it “assumes a tendency to equilibrium, a social consensus and organic unity.” In coherence, it looks to the organisation in isolation, “basically unaware of the crucial importance of macro-societal factors ‘external’ to the organisation.” From which more or less follows that conventional organisation theory is a-historical. Whereas a radical organisation theory “should be dynamic – it should conceive of society as a process which develops through the interplay of contradictory forces, which can result in major upheavals and irregular patterns of change. (…) Organisations cannot be understood without an a priori analysis of the social processes in which they are thought to exist” and without “to comprehend them as they have been in the past, and indeed, to understand how and why they developed in the first place.”

Furthermore, conventional organisation theory is “locked into an acceptance of managerially defined problems” and playing “an active and concrete role in man’s degradation within the work place.” In contrast, radical social theorists “should study the structure of social oppression” and “carry out action research, having discontinuous change as its objective.”

All these four elements derived from Burrell’s and Morgan’s outline of a radical organisation theory mentioned above

\(^{14}\) ibid, p 366-367
• the dynamic perspective,
• the inclusion of societal influences into organisational theory,
• the historical dimension, and
• the open eye for oppression and social strife,

should be highly relevant for the design of this study, as personnel management operates more than any other business discipline, except maybe general management itself - on the interface between society and organisation. So the tensions and contradictions inherent of the labour system, which are mostly overlooked by conventional organisation theory, will often crop up in the personnel manager's office.

♦

The meaning of Zeitgeist

From the critique outlined above it follows that personnel management too is “locked into an acceptance of managerially defined problems.” But how do managers define their problems? One approach is to start from the sets of ideas managers employ to interpret the environment their organisation finds itself in, as well as the way it functions within that environment, in order to design and execute corporate policy. Theories on management float over time and what was the management gospel at one time, is often discarded to the waste-bin of history later-on. Why? The discipline of business administration can help us little in this respect, as in most literature on management theory the historical context is absent. That shouldn’t surprise us, for in the end business administration is about assets and liabilities, costs and yields; that is about exchange relations and markets. Any market-orientated theory almost by definition cannot contain an historical dimension, as markets don’t know a past or a future, only a present. As Burrell and Morgan remind us, conventional organisation theory is a-historical.

Are these so-called management concepts then mere managerial fads or is there more to it? We will further elaborate this question in chapter 7.1. At this point it is sufficient to say that, to judge the content of management concepts at a certain point in time, one has to have the historical dimension in mind. The 1950s for instance, leave in hindsight an impression quite different from that of the 1970s or the 1990s. And intuitively we sense that a certain management concept belongs to a certain period. Do we then have to ascribe the content of managerial theories to a Zeitgeist? It’s the most illusive term in the dictionary of sociology, meaning a ‘spirit’ (Geist) of a certain ‘age’ (Zeit) in the history of a society, to be characterised by a distinct set of beliefs and practices which gives that era a certain ‘flavour’ or ‘tone,’ that will be reflected in art, politics and virtually every aspect of social life.

The concept entered the sociological vocabulary via the historical specialisation of cultural history, Kulturgeschichte originally, a product of the historical-philosophical tradition of German Idealism. It considers ‘ideas’ as historical agents in itself which give a certain
era in hindsight an impression of a certain unity in the way people thought and behaved, in their feelings and social experiences. But ‘ideas’ are rather intangible, compared with facts such as that Napoleon lost the battle of Waterloo on June 18th, 1815. This made ‘real’ historians initially rather suspicious of this approach. They “feared that a dangerous kind of philosophy lurked behind,” as Barzun described this feeling. “History, having painfully achieved the status of science, should not fall back into the incertitude of ideas.” The gap is not that wide however. “The historian in general can only show, not prove; persuade, not convince; and the cultural historian more than any other occupies that characteristic position.”

Cultural history may seem a far shot from the subject and theory of this study. For a start, German Idealism is the antagonist of Positivism and belongs as such in quite a different paradigm in Burrell’s and Morgan’s nomenclature. We have however to behave a bit eclectic in this case, as we have to deal here with ideas, with management concepts of which we may assume that they influence managerial behaviour.

So, can the cultural-historical approach give us any insight into how and why ideas shift over time and tie them to a certain period, attributing to those periods the image of more or less clear-cut units? Barzun offers “as an explanation of the internal unity of cultural periods that it came not from the ideas and forms itself, but from the problems to which these ideas offered answers.” The intellectuals, formulating the ideas of their time “radiate from one centre, which is to them no matter of choice but of time’s compulsion.” We have therefore to trace “an idea to its source,” in the context of the central problems of society at a certain period in time to which it tries to formulate a solution. “We then see it at work, meeting a problem or paradox, misunderstood, struggling for life like a new-born infant – not as we shall see it later, washed and dressed up for the photographer,” in Barzun’s evocative language.

Translating this argument to our subject, starting from the ‘central problems of a time,’ we arrive at the following chain of thought:

• major developments in the overreaching macro-economic system, increasingly global in character, shaping markets and dictating conditions of competition,
• have effects on the societal and political framework, setting preconditions to managerial policies and actions, broadening or diminishing them,
• changing management’s perception of the environment in which their organisation functions,
• which will have effect on the organisational structure and business processes, on corporate goals and policies,
• that in the end will influence the content of personnel management and determine its leeway to design and execute personnel policy.

What has to be demonstrated first is a relation between the socio-economic structure at certain points in time and the dominant management concepts in those periods. From the
fundamental changes in society and the economy it’s still a long haul to the substance and daily practice of personnel management.

From the outside inwards From this perspective, it might not surprise the reader that this study differs in perspective from the conventional theorising in the field: Strategic Human Resources Management (S-HRM). This theory is based on the assumption that certain activities in the field of HRM lead to certain HRM outcomes which again lead to better (financial) results of the company. In other words, its design and theory works from the inside outwards. We will scrutinise the tenets of S-HRM in chapter 6.5.

Contrary to this approach, the historical-sociological approach follows a line of reasoning that goes from the environment of the economy and society, to managers’ perceptions of that environment, to their strategies and actions, in order to understand the content and practice of personnel management in the context thus given. That is, it works from the outside inwards. It doesn’t focus so much on the effects of certain HR practices, as well as asks why personnel managers do what they do in the first place, given a certain context at a certain point in time.

There is little common ground between these two approaches. For not only is conventional organisation theory a-historical, but also contributions from sociological theory are often met with suspicion by the theorists of business administration, especially when they are from ‘radical’ origin. “Views of sociology’s role have in the past had the unfortunate tendency to polarise – one camp in effect saying that the discipline should be separated from business and management studies, and the other stressing that sociology should deploy only theories from the body of the discipline which are sympathetic with a business ethic.” For the latter stance read: acceptance of functionalist sociology only.

This is enough to conclude that this study is in quite another league than conventional research on business administration, and on HRM as part of it. It adds an approach that, in my view, may shed another light on the functioning of HRM from the perspective of its development over time.

To give an example of the difference in scope. We can distinguish a major rift in the development of the world economic structure from the 1980s on. In the preceding period, Schumpeter’s ‘creative destruction’ had been mitigated under the rules of guided capitalism, only to be fully unleashed as the second wave of globalisation took form. Post-war guided capitalism was a huge success after all; it brought us unprecedented wealth as well as full employment. The French remember the period of the 1950s through the 1970s with nostalgia as les trente glorieuses, the glorious thirty years. The 1980s brought a clear-cut break with this success model, with far-reaching social effects. Fukuyama links the “Great Disruption” in societal cohesion, that becomes evident in the “weakening of social bonds

16 Fincham, Rodes (1988), 10
17 Fukuyama (1999)
and common values in Western societies,” to a process of fast technological change, that not only “brought about ‘creative destruction’ in the marketplace,” but “caused similar disruption in the world of social relationships” – working relationships among them, one could add. It follows from the research paradigm on which this study is based, that such a rift in the development of society cannot be left out of consideration - if only, because personnel managers are the ones in their organisation who stand the heat at the societal coal front.

The case for a sociology of economics

Besides the contradiction in perspective between historical sociology and business administration, another demarcation line has to be drawn. Part of the theory developed in this study will focus on transformations in the economic structure which may lead us into a border skirmish between sociology and economics. There is a fundamental issue is at stake here. Leave the economy to the economists may look like a sound statement at first sight. At a closer look however, economics touch on three categories of phenomena that are relevant in order to understand economic life, but get different attention from various academic disciplines.

First there are data, like climate, location or the existence of mineral resources. They are certainly relevant economically, but are more in the field of geography. Technology could be added to this category. Recently, during the hype of the ‘new economy,’ it attracted the attention of economists, but only a minority among them.

At the other side of the spectrum there is the economic process. With supply and demand curves, price elasticity or in-elasticity economists feel at home. In between we find the economic structure – the material as well as immaterial apparatus that man has created in his pursuit of wealth. We may think of the quantity, quality and composition of the means of production, the way in which their application takes shape in organisations, horizontal and vertical relations between enterprises, patterns of cooperation and competition and the system of rules that governs the economy: from commercial law to labour law. In general, the economic structure is a blind spot to economists.18

“The fact that economists have neglected the area of the economic structure is not surprising, given the character of the economic discipline. Economics has been in fact an abstracting and generalizing science, which has strongly limited its ability to study economic structures because each economic structure is a unique phenomenon that only allows itself to a limited extend to a generalizing approach.” 19

Economic processes repeat themselves endlessly and are therefore suitable to an abstracting and quantifiable kind of analysis – however within the limits of certain basic assumptions. The most important is that man acting economically indeed acts as a homo economicus. But human behaviour in pursuit of wealth never is solely determined by the

18 We have of course to mention the notable exception of John Kenneth Galbraith and few of his col-leagues who saw that there is more to economic life than supply and demand and prices in between.

19 Hofste (1958)
economic motive. Because the economic structure has much to do with social interaction and institutions, the body of knowledge that sociologists can bring to bear seems more adequate to analyse the structural aspect of economic life.

But it is not only a question of sociology filling a gap that economists leave behind. Fundamentally, the approaches from economics and sociology reflect two basic positions—indeed two Weltanschauungen. The individualistic-economic approach is based on the assumption that inter-human cooperation emerges from enlightened self-interest. “Utility theoreticians try to comprehend the emergence of social structures from separate acts by individuals. The prototype of this perspective on social structures is the market concept on which neo-classical economics base their analysis.” The opposite perspective “understands the social world as a universe of objective regularities which determine the acts of individuals. (...) The portrayal of mankind that belongs to this theoretical approach distinguishes itself fundamentally from the individualistic tradition. [It assumes that] in mankind one cannot identify an irreducible, autonomous nucleus – no self-consciousness – that would allow it to act voluntarily. Even when one assumes an original, natural individuality, this characteristic will lose itself in the adaptation of man to society. (...) Now the classical as well as the neo-classical behavioural theory of economics is convinced of the fact that, by having placed the self-conscious individual at the centre of its theory, thereby has saved it from the totalitarianism of normative systems (and from sociology).” This leads to the paradoxical result that “although market conditions are constructed by individual-rational behaviour, the individual stands opposite these conditions rather atomically.”

The supposed self-consciousness turns into helplessness. Then indeed there is, as Margaret Thatcher once put it, “no such thing as society” – and no societal cohesion, no solidarity between men either.

20 Grassl (2000), 41-43
References for chapter 2

PART II. THE HEART OF THE MATTER
AN ESSAY ON THE DIVISION OF LABOUR
AND MANAGERIAL POWER

3. The Origins of Managerial Control

The principle object of management should be to secure the maximum prosperity for the employer, coupled with the maximum prosperity for each employee. 1

Frederick Winslow Taylor (1856-1915)

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1 The Principles of Scientific Management (1911)
Productivity comes at a price

The subject of our study is closely related to the way work is organised in our society. The history of the division of labour will therefore play a part in it. Its main position is that human labour is more than a mere economic force of production – it is related to human nature as well as to social cohesion. Cohesion refers to the degree to which those who participate in a social system identify with it and with their co-participants in it, accept its structure and feel bound to support it, especially its norms, values and beliefs. When we transplant this concept to ‘the social system labour organisation’ its relevance for our inquiry into the substance of personnel management should be obvious, as it is closely related to phenomena like motivation and commitment.

During the entire Industrial Revolution there have been critics who pointed to the dark side of the modern organisation of work. Adam Smith is known for his observation of the enormous rise in productivity that the splitting up of work in a pin manufacture realised. Far more less attention is given to his plea for the need for state education: “Some attention of the government is necessary to prevent the almost entire corruption and degeneracy of the great body of the people,” resulting from an extreme division of labour. 2

Karl Marx too had a keen eye for the inside of work:

“An artificer, who performs one after another the various fractional operations in the production of a finished article, must in one time change his place, at another his tools. The transition from one operation to another interrupts the flow of his labour and creates, so to say, gaps in the working day. These gaps close up as soon as he is tied to one and the same operation all day long; they vanish in the proportion as the changes in the work diminish.

“The resulting increased productive power is owing either to an increased expenditure of labour-power in a given time - i.e., to increased intensity of labour - or to a decrease in the amount of labour power unproductively consumed. The extra expenditure of power, demanded by every transaction from rest to motion, is made up for by prolonging the duration of the normal velocity when once acquired. On the other hand, constant labour of one uniform kind disturbs the intensity and flow of a man’s animal spirits, which find recreation and delight in mere change of activity.”

By far not all Marx’s words turned out to be prophetic, but these were. All the elements that would dictate the quality of work life in the sweatshops of the modernising industry are there. So there are the two ways productivity can be squeezed out of human beings: either by increasing the intensity of labour - that is by wet backs - or by decreasing unproductive activities, the preventing of muda (waste) that is at the heart of lean production today. The process in which “the artificer, being exclusively occupied in one

2 Adam Smith (1776), Vol II, 263- 264
3 Karl Marx (1867), .329- 332.
type of work, gradually loses the ability to carry on, to the full extent, his old handicraft” predicted the mass de-skilling to come of craftsmanship that had been acquired throughout human history. The “gaps in the working day” were to be systematically cut out in the next decades, until they were brought back to zero at the time of Taylor and Ford, with whom we will deal later on. Finally, the socio-psychological effects of monotonous and repetitious work – “the disturbance of the intensity and flow of a man’s animal spirits” - were to become a major problem for business when the system of mass production was forced to its ultimate consequence in the 1960s and ‘70s.

This is something different from the division of labour within society, what Braverman, following Marx’s terminology, calls the social division of labour. It concerns a division within the work itself and with it a struggle for the control of the content of that work. Braverman: “As against this general or social division of labour, there stands the division of labour in detail, the manufacturing division of labour. (…) The division of labour in society is characteristic of all known societies; the division of labour in the workshop is a special product of capitalist society.”

A major step ahead in the emergence of industrial capitalism was made by a technological breakthrough by the mid-19th century in the United States. It had to do with the change from fitting to assembling and was first applied in small arms production. The technical puzzle at that time was to narrow the tolerances of the various parts that went into a rifle so that they no longer needed fitting by a skilled mechanic. Better machines and new and harder varieties of steel enable to the production of interchangeable parts of the exact same dimension. The economic effects of the 'American system of manufacture' were immense: first in efficiency as the cumbersome fitting could be avoided, secondly by de-skilling, as the skilled fitter work was replaced by the unskilled assembler. But most important was that the interchangeability of parts made it possible to disconnect tasks and processes from each other and from the same worker, who before had been inseparable from his work, in the same way as this author is inseparable from this book. Those tasks and processes, as well as the men who performed them, became cogs in the machine, so to speak, that could be regrouped at will. And to the extent that not only parts, but also men became interchangeable, this led to a major shift in terms of power and independence of people in their work.

The prophet of efficiency
The man who was first saw the opportunities of the disconnection between man and work was Frederic Winslow Taylor. His basic tenet, based on first-hand experience on the shop floor, was that for each type of work there is ‘one best way’ of producing:

“Among the various methods and implements used in each element of each trade there is always one method and best implement which is quicker and better than
3. The origins of managerial control

The origins of managerial control can only be discovered or developed through a scientific study and analysis of all the methods and implements in use, together with accurate, minute, motion and time study. (...) This involves the gradual substitution of science for rule of thumb throughout the mechanic arts.

To determine this ‘one best way’ the shop floor had to be drained from its know-how. “The science which underlies each act of each workman is so great and amounts to so much that the workman who is best suited to actually doing the work is incapable of fully understanding this science, without the guidance and help of those who are working with him or over him.” Therefore, “to work according to scientific laws, the management must take over and perform much of the work which is now left to the men; almost every act of the workman should be preceded by one or more preparatory acts of the management.” But, as Taylor observed, “the managers recognise frankly the fact that the 500 or 1000 workmen, included in the twenty or thirty trades, who work under them, possess this mass of traditional knowledge, a large part of which is not in the possession of the management.”

Coercion was never far away in his approach, as Taylor was not shy to admit. “It is only through enforced standardization of methods, enforced adoption of the best implements and working conditions and enforced cooperation that this faster work can be assured. And the duty of enforcing the adoption of standards and of enforcing this cooperation rests with the management alone.” To penetrate into the black box of craftsmanship, to make it countable and thereby knowable, the whole production process had to be split up in its smallest separate tasks, in which each operation and the time needed to fulfil it should carefully be measured. Here the stopwatch makes its entry in the labour process to eliminate, in Marx’s terms, the “gaps in the working day.”

In Taylor’s time, the human body still was the predominant ‘tool of production.’ On the one hand manual production brings with it pain and exhaustion, and makes workers to find ways “to limit their efforts and so to preserve their bodies.” But, as Shoshana Zuboff points out, on the other hand, “it was also through the body’s exertions that learning occurred, and for those who were to become skilled workers, long years of physically demanding experience were an unavoidable requirement. This was the reward of physical involvement, since there was virtually no access to the craftperson’s skills short of an investment in years of physical effort.” Skilled labourers were indignant to the idea of deliberate slacking, Zuboff notes. It was this return on investment that Taylorism tried to abolish by expropriating the workers’ know-how and transferring it to the domain of management.

The content of white-collar work however developed in the exact opposite direction, as Zuboff observes. “Manufacturing has its roots in the work of skilled craft (...) that was

5 Taylor (1911)
6 Italics by this author
7 Italics in the original
successively gutted of the elements that made it skilful - leaving behind jobs that were simplified and routinized. (…) Elements of managerial work most easily subjected to rationalization were ‘carved out’ of the manager’s activities (…) preserving intact the skills that comprise executive craft. It was the carving out of such elements that created the array of functions we now associate with middle management.” 9 Zuboff makes a distinction between work as acting-on and acting-with. The first is found in manufacturing and in the lower strata of the white-collar hierarchy, where the ‘carved out’ elements of the original work of management are handled. Acting with - the handling of interpersonal communications and relations - is left to the levels from middle management upwards. It is the basis for authority and power.

This ‘carving out’ of non-essential management tasks did gave rise to huge ‘administration factories.’ According to Braverman, in 1899, at the eve of the introduction of Taylorism, the number of administrative functions amounted 7.7% of production employment. In 1947 this figure had risen to 21.6%. 10

Taylor assumed that workers wanted to have their work efficiently organised, putting into it the least effort possible, and have their wages risen. These aims could be realised by standardising not only the products, but also the production itself. Standardisation had just come into reach technically. The resulting rise in productivity would benefit the employers, through lower costs, as well as the workers through less effort and higher wages, thus overcoming both the widespread poverty at the turn of the twentieth century and the Marxist class struggle. For Taylor higher productivity and higher wages were two sides of the same coin. In this respect he was indeed a social reformer.

In the long run he turned out to be quite right. Management was to disown the workers from their tradecraft but could create jobs that required less human effort as well. And it was of course only a matter of time before the workers got their share of the greater pie of wealth, due to the rise in productivity that rationalisation brought. One way to assess the value of the system that Taylor built is, in Barzun’s words, to “trace the idea” behind Taylorism (and indeed behind all rational management concepts) “to their source.” They radiate from the central problem of society at the turn of the 20th century - the ‘Social Question,’ with its exploitation and wide-spread poverty - to which it offered efficiency as a solution.

This did make the initial resistance fade away. Organised relations of command and obedience within the organisation became settled for good.

“ It is a common observation that neither workers nor unions are centrally concerned with the organization of enterprise and workplace. To the extent that this observation is accurate, and it seems to fit the facts for most times in the history of capitalism, it must be explained first and foremost by a simple power consideration:

9 ibid, 98.
10 Braverman (1974), 240
pay and employment security take precedence over issues of the organization and quality of work because they are issues of economic survival.\footnote{11}

These more urgent economic interests made that employers could solidify their sole authority over the arrangement of the production system.

The struggle over work content being definitely settled by management, it could happen that, when in the 1970s a sociologist tried to explain to automobile workers in Detroit certain innovations in worker participation at the assembly line that Volvo had pioneered with in Sweden, he got as a reaction: “That’s ridiculous. I mean, the company knows more about this stuff than we do, and if this was a good way of doing things, wouldn’t they do it that way? . . . If there is a better way of running a plant, the company knows how to do it.”\footnote{12}

Finally, Taylor had made his point at the shop floor.

\textit{The effects of alienated labour}

The observation that the industrial division of labour runs counter human nature dates back to the earliest thinkers and writers on the theme of men and work. Braverman makes a clear distinction between the effects of both divisions of labour. “While the social division of labour subdivides society, the detailed division of labour subdivides humans, and while the subdivision of society may enhance the individual and the species, the subdivision of the individual, when carried on without regard to human capabilities and needs, is a crime against the person and against humanity.”\footnote{13}

Marx introduced for this ‘crime’ the concept of ‘alienated labour.’ Alienation refers not so much to the worker who is alienated, but to the work that alienates. It does so because the relation between the work and its outcome had been broken. Where ‘work’ consists of a combination of thinking and doing, people who function in alienating systems have lost control over the outcome of it. In one of his earlier works\footnote{14} Marx described the effects:

\begin{quote}
Labour for the worker is an externality, something improper, that is to say something that doesn’t belong to his nature; that thus he doesn’t confirm but denies himself in his labour. (…) Therefore, the worker only after his labour has the feeling being himself, while during his work he is placed outside himself. (…) His work therefore is not the satisfaction of a need, but only a means to satisfy other needs.

The improper character of labour is clearly shown by the fact that, as soon as there is no physical or other compulsion, one flees it like the plague.
\end{quote}

Behaviourists who adhere to rational management concepts couldn’t agree more with this last observation.

\footnotesize
\begin{itemize}
\item \textit{11} Rueschemeyer (1986) 77
\item \textit{12} Zuboff (1988), 239
\item \textit{13} Braverman (1974), 73
\item \textit{14} Karl Marx (1844)
\end{itemize}
Box 13
FRIGHTENING DISCONSOLATE STORIES

One example from an abundance of social research demonstrates how serious negative effects an alienating work environment has on the mental well-being of the individual worker.

It concerns a research project done in the 1970s by the University in Bremen, which shows that these effects go far beyond the work itself. It dominates one's life inside as well as outside the factory gate. The Bremen research concentrated on the ‘life histories’ of blue-collar workers in German industry. When I interviewed the project leader, he described these stories, obtained by in-depth interviews, as “frightening disconsolate.” He told me: “We have many of these descriptions: ‘I come home at four in the afternoon; first I have to sleep for an hour or so. When I wake up, the children are watching TV, so I join them. In fact, this goes on to nine PM. The next day I have to rise at five.’”

Originally, this research was focused on the concept of ‘spare time,’ based on the assumption that, when one walks out of the factory gate, one is really free. Wage supplements for unattractive (machine-paced, short-cycled, monotonous) work would compensate in one’s spare time for what the work itself cannot offer. That is, by the way, what the workers themselves thought too.

The main interest of the research shifted to the life histories that emerged from the interviews when it turned out that the aspect of spare time was only one element of a complex whole of experiences with industrial labour. Especially the question came to the foreground to what extent people see themselves as objects of a development that leaves them no choice, or as acting subjects who give, to a certain amount, a direction to their life.

Almost without exception the interviewees had been lured into the factory by the high wages of the 1960s. Most of them had learned a trade before, baker or locksmith for instance, of which they spoke with nostalgia. They went, so they thought, to work as unskilled labourers only for a while. Earn a lot of money, pay off the furniture and the car - then they would go and do ‘something else.’ But two years became three and four, after which the energy lacked to break away. What remained was a superficial satisfaction with their material situation: “I drive the same car as my boss.”

The interviews obtained in the Bremen research revealed a striking difference between the life situations of unskilled and semi-skilled workers, in contrast to those of skilled workers or foremen. The latter had more variation in their work; therefore they stayed fitter and where, outside the factory, more active in club work and among friends. But the worker at the assembly line who had just conducted his shift was not really free afterwards. They had been made apathetic by the work. Contrary to skilled workers they had few social contacts, the more so as they no longer lived in homogeneous working districts. They retreated totally on the family. And even at home the activities diminished. Most of their time they spent in front of the TV set, where they often fell asleep.

All those stories reflected a deep feeling of failure. I should do more with the children; I should read a book again… But it simply didn’t happen. The frustrations ran deep. “People cannot accept that this is all that life has in store for them. Their expectations about the future are solely fixated on their children and are often formulated negatively: they are not to go into the factory,” the project leader commented.

The Bremen research demonstrates two things. One is that the work itself is the cause of alienation, which is proven by the difference in lifestyle between skilled and unskilled workers. Secondly, the effect of alienating work seems to be purely individual which is why alienation is so seldom recognised as a social problem.

15 Osterland (1973)
16 Ligteringen (1980)
Man is a ‘producing animal,’ a fact which solidly ties him to his natural environment in two ways. “Nature is essential to human life, first directly, as a means for subsistence, secondly as matter; that is as object and tool of his life activity. (…) That physical and spiritual life of man interacts with nature, means nothing else than that nature interacts with itself, for man is part of nature.” Through alienated labour man becomes estranged from the result of his life activity, his product, which has “fixated itself in a physical, measurable object.” Thereby “labour itself becomes reduced to a thing.”

Alienated labour not only estranges man from the product of his labour, and by that from nature itself, but also from his species. To follow Marx’s description:

>

Alienated labour thus makes the human species, in relation to nature as well as to its spiritual, specific abilities, into a strange creature, into a means for his individual existence. It estranges man from his own body, as well as from nature around him, as well as too from his spiritual being, his being a human.

“A direct result from the fact that man is alienated from the product of his labour, from his life activity, from his species, is man’s alienation from his fellow humans. When man stands opposite himself, the other also stands opposite him. What is true for the relationship of man to his labour, to the product of his labour and to himself, is also true for his relationship to other people, to their labour and to the object of their labour.”

According to Marx, all labour under capitalist conditions is alienated labour, owing to the fact that for the worker it “is not his own labour, but that of someone else; that the labour doesn’t belong to him, that he, in his labour, doesn’t belong to himself, but to someone else.” Even separate from the issue of economic ownership, Marx’s theory still offers an insight into the psychological effects of the ‘alienation at the inside of work.’

A second observation dating back to Marx concerns the distinction between labour and labour power. As Rueschemeyer describes the difference:

>What the capitalist purchases on the job market is labour power, not labour - the capacity for work, not work done; what the capitalist needs, however, is labour, not labour power. It is the organization of the actual labour process that determines how much work is accomplished during the time for which labour power was purchased. On this depends the rationality of the labour process from the point of view of the capitalist. His interest in a rational work organization is more urgent, the larger the share of labour costs in the total costs of the product (and by today’s standards most industrial product in early capitalism was labour-intensive). Given a competitive product market, the capitalist has little choice but to seek work arrangements which
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insure the fastest pace of work and the harshest labour discipline compatible with continued employment of the required workforce." 17

Early efforts by employers to establish their domination over the production process represented only a transitional form. “Capitalists were groping toward a theory and practice of management.” Their dilemma was that “having created new social relations of production, and having begun to transform the mode of production,” the same rules of the capitalist game presupposed “a labour process on a voluntary contractual basis.” And voluntarily, workers “flee labour like the plague,” as Marx had observed. What failed was their grip on the process that transforms matter into product, as the know-how still belonged to the workers. Industry, for a long time during the Industrial Revolution, was organised as a combination of crafts in which the craftsman acted as an intermediate subcontractor, not as hired labourer. 18 To change this situation, employers had to establish their domination, not over their workers alone, but over the labour process.

“Workers who are controlled only by general orders and discipline are not adequately controlled, because they retain their grip on the actual processes of labour. So long as they control the labour process itself, they will thwart efforts to realize to the full the potential inherent in their labour power. To change this situation, control over the labour process must pass into the hands of management, not only in a formal sense, but by control and dictation of each step of the process, including its mode of performance.”

In the end, “the pivot upon which all modern management turns [is] the control over work through the control over the decisions that are made in the course of work.” 19

Management comes to power

With the rise of mass production that was built on Taylor’s concepts, managerial capitalism became solidly established. It has been commonly characterised as a separation between ownership and control. Burnham, describing the ‘managerial revolution’ of his time, reinterpreted this dichotomy as a separation of control over access (to means of production) from control over preferential treatment in distribution (of the gains of the means of production).

“Of the two decisive elements in actual ownership, control over preferential treatment in distribution is subordinate to control over access. With respect to the latter, though it is by no means yet out of the hands of the big bourgeoisie, though it can still be exercised by them on crucial occasions, it has on the whole been

17 Rueschemeyer (1986), 73
18 Braverman (1974), 62-67
19 Ibid, 100, 107
3. The origins of managerial control

diminishing during the past generation. (…)  
“The instruments of production are the seat of social domination; who controls them, in fact not in name, controls society, for they are the means whereby society lives. The fact today is that control of big capitalists, the control based upon capitalist private property rights, over instruments of production and their operation is, though still real, growingly tenuous, indirect, intermittent.”

By securing their grip on the production process managers intensified their use of the means of production, and thereby established their dominant position in society.

Inside the company, the system of mass production gave management total control over the production process “through the control over the decisions that are made in the course of work” (Braverman). Soon there were no decisions left to be made on the shop floor. All regulating power, that is the authority to intervene in the production process, shifted to the manager’s office. When managers have to do all the pre-operational planning needed, as well as the entire problem solving during the process itself, we may expect their relative number to rise. That is exactly what happened. At least in the United States, the management ratio (number of managers relative to non-managerial employees; MR), shows a steady rise over a very long time. Figure 2 shows this ratio over the period from 1880 (that is before in the introduction of Taylorism) till 1980.

The assumption that we can conceive this ratio as an indicator of the spread of Taylorism is sustained by the three sudden upswings that we can logically explain in this context. One twist in the curve occurred around 1910, at the time when Taylor’s ideas of Scientific Management found wider acceptance. Subsequently, we observe a strong rise in the relative number of managers from 1940 onwards, when the principles of mass production were fully applied in American war production. The steepest rise however, occurred from 1970 onwards. Industry was already over the hill, both in size and in levels of productivity growth. But there are indications to solidify the assumption that, by the beginning of the 1970s, Taylorism had reached the service sector.

20 Burnham (1941), 94, 100, 102-103
21 Calculated from Morgan (1997), 311, table 9.2
22 There is for instance an article in Harvard Business Review (Levitt, (1972) that advocated a ‘production-line approach to service,’ formulating the basic problem about services to be a “primitive and inefficient” activity, compared to manufacturing industries. It was awarded as one of the two most influential contributions to the magazine in the year 1972.
When indeed the rising ratio of managers to workers shown in figure 2 can be conceived as an indicator of the extent to which Taylorism was applied in daily American business practice and management acquired control over the production process, this should have had an effect on the kind of work that emerges. Besides more managers, we could expect more low-skilled workers. Data from the Netherlands confirm this assumption.

A longitudinal study on the composition of the employment structure showed that the number of white-collar workers in the commercial service sector, working in unskilled or semi-skilled jobs rose from 1.5% in 1960 to 24% in 1970 and again to 33.6% in 1977. Since then, the rise of low-skilled work has stabilised. This supports the supposition of an ‘industrialisation of the service sector’ in the 1970s. On the other hand, the numerical rise of management jobs has progressed from 1.5% of total employment in 1987 to 2.6% in 2000. Relatively, management was the fastest growing job category.

We will discuss the management ratio and the quality of employment in chapter 6.5. More managers and a high share of low-skilled work in total employment are to be seen as indicators of a prolongation of Taylorism as the dominant management model that aims at preserving the powers that be.

Two faces of power

Power has played a decisive role in the historical process in which the division of labour and social differentiation took form. “Once organized, domination is to some extent removed and freed from the wishes of the
3. The origins of managerial control
governed; (...) division of labour can now be arranged more single-mindedly and with new ruthlessness, because those who are the driving force and main beneficiaries of the new organization of work are no longer identical to those whose work is given a new shape.”

Domination – or Herrschaft in the meaning of Max Weber’s theory of power - refers to the efficacy of power: the probability that commands from the powerful will be actually obeyed, regardless what powerless think of it. Coercion is an extreme variety of domination in which obedience is realised by application of force, which in the extreme case ends up in Mao Zedong’s infamous phrase: ‘power is what comes out of the barrel of a gun.’ When naked force is applied, the morality of power is nil.

Throughout history domination has been the ‘natural state’ of power so to speak. Coercion was the earliest means to discipline workers and to bring them into the alienating environment of the factory in the first place. In the early phase of the Industrial Revolution, “There were few areas of the country in which modern industry, particularly the textiles, were not associated with prisons, workhouses and orphanages.” And once they were in, it gave pioneers of the Industrial Revolution like Josiah Wedgwood, the greatest trouble to discipline their work force to the newly emerging labour environment in order to realise the fastest pace of work.

“It was a constant test of Wedgwood’s ingenuity to enforce six hours’ punctual and constant attendance upon his workers, to get them to avoid waste and to keep them from drinking on the job and taking unauthorised ‘holidays.’ Because he was a busy man, involved in all the tasks of running an enterprise and could not stand over his workers and control their movements, he had to develop a hierarchy of supervisors and managers.”

Here we meet management for the first time in modern history in its role of taking command over the labour process, in order to force an alienating working environment onto a recalcitrant work force. The history of early industrial capitalism has been, to a large extent, the story of fine-tuning the enforcement of discipline. “The content of discipline is nothing but the consistently rationalized, methodically trained and exact execution of the received order, in which all personal criticism is unconditionally suspended and the actor is unwaveringly and exclusively set for carrying out the command,” according to Max Weber’s definition. Mind the elements of rationalisation and methodological training in it. Discipline is closely related to rationality.

It is common to see Taylor as the founding father of efficiency and thereby of industrial

25 Rueschemeyer (1986), 6-9
26 Braverman (1974), 66
27 Josiah Wedgwood (1730-1795), British manufacturer, founded a pottery manufacture which bore his name in 1769 near Stoke on Trent. He pioneered with new production techniques in pottery that made the Wedgwood brand to stand for top quality china ware until today
28 Kranzberg (2003)
29 Weber (2004), 253
capitalism. His real contribution however lies in the rationalisation of managerial power. “What Taylor did was to routinize power. Management intervention, in terms of an explicit exercise of power, was designed to handle situations where routines were not working. The less that management had to exercise power, the better power was embedded in the routines.” To the extent that actual exercise of managerial power is the exception rather than the rule, the higher is the efficiency of power. Its outcome has than become self-evident.

Around 1900 this rational efficiency of managerial power made a leap ahead, due to a major innovation in production technology. That was when Henry Ford’s assembly line made its entrance. Ford revolutionised automobile manufacturing (and in due course manufacturing in general), which was still at an experimental stage at the turn of the century. Cars were made just like ships today: the object lies still while the workers walk around it, building it step by step. Ford’s introduction of the assembly line and the conveyor belt, where the worker stays in place and the object to be worked on moves by, was surely a revolution. He had an example in the Chicago slaughterhouses, where cow carcasses were transported mechanically down a line at which they were stripped and hacked into pieces. Even than, it takes a flash of genial insight to realise that the same process could be turned the other way around, that is building a whole from small parts.

Creating the system of mass production, Ford could build on Taylor’s Scientific Management. In a way, Taylor can be seen as John the Baptist, paving the way for the real man. This is certainly the way it was seen at that time. Ford applied Taylor’s ideas of setting rigid norms for precise measurement and exact replication of operations to the design of human labour itself. But while Taylor fought all his life to bash out the numerous ways workers found to sabotage his ‘scientifically determined’ one best way to produce, in Ford’s system deviations to the production norm were mechanised away. The speed and content of the work could no longer be controlled by the worker, but were totally dictated by the machine.

However, “behind the assembly lines of modern times, there was another more complex and subtle moral machinery of power at work.” Soon, Ford had to realise that he had to adapt his system of labour relations. Now that the ‘discipline problem’ had been solved - that is, had been in-built into the production system - a huge ‘alienation problem’ manifested itself in its place. Yearly turnover rates in assembly line production ran at 400%; daily absenteeism rates at 10 to 20%. Individual incentives – in the form of the piece rate, that Taylor had envisioned - were no longer appropriate in a situation where any control the worker had on the pace of work had been rationalised away. This made Ford introduce his ‘5 dollar day’ for eight hours work. His fellow employers cried shame over it. Soon however there was an important follow-up. Ford decreed that only ‘deserving

30 Clegg et al. (2006), 54
31 In his utopian novel ‘Brave New World,’ first published in 1932, Aldous Huxley lets the era start in the year F. 1913, when Ford launched his famous Model-T; the years ‘BF’ being described as a dark age, just like the Middle Ages have been seen for a long time.
32 Clegg et al. (2006), 56-57
3. The origins of managerial control

workers’ could apply for this lavish labour condition. ‘Deserving’ meant in short leading a sober, clean, industrious and thrifty life and in 1914 the Sociological Department was established in order to control the Ford workers’ moral standards. Apparently, the Ford Motor Company saw it as its assignment to spread and enforce the principles of middle-class morality among its workers.

Now why was that? Apart from Mr. Ford’s personal moral convictions - which undoubtedly were conservative, to put it mildly – there is the underlying reason of efficiency of managerial power. The formula of mass production contains three elements: the volume/cost-per-unit relation, the throughput time and the size of the work force employed. Efficiency means that a better relation between production volume and price has to be realised by a relative decline of the size of the work force. Consequently, throughput time is of the essence. This means that the system’s vulnerability to disturbances increases exponentially – the more so since mass production requires ever larger economies of scale. The old mode of disciplining was known as the ‘drive system,’ in which the foremen were made responsible for all ‘personnel affairs,’ a task they mostly acquitted themselves of in the roughest way. It became counterproductive because the friction it caused was too much for the new fine-tuned production system to handle. The new paradigm of efficiency demanded a frictionless production process that requires frictionless execution of managerial power. Or, stated otherwise, the efficiency of production became dependent on the efficiency of managerial power.

As rationality took over as the guiding principle on which designing and governing the production process was based, domination as a means to gain workers’ obedience had to fade away to the background for reasons of efficiency. This however created an inherent contradiction built into the system of mass production. On the one hand, the employer still wanted to conceive labour as a commodity, to be used in the process of accumulation of capital, just like one makes a profit out of a shipload of potatoes. At the same time however, he became highly dependent on the worker’s willing co-operation, which implies, from the latter’s side, a moral involvement in the company. Labour as a commodity and labour as a moral entity do not go well together.

In order to solve this contradiction, there had to be found a common ground for the smooth, rationalised execution of managerial power. This presupposes a belief among the controlled in their moral duty to obey their superiors. What Ford wanted to buy at a price of $5 a day, and made sure to get through controlling his workers’ moral behaviour, was a dependable and unquestionably subordinated workforce. Middle-class morality offers just that. It is ingrained with acceptance of superior and subordinate positions; that’s what a middle-class is for. Thereto managerial dominance had to be transformed into authority which requires a moral foundation. It has to be based on the belief that there is no basic antithesis between what is good for the worker and what is good for management and the company. The extent to which in practice the good of the worker is indeed congruent with

33 Kaufman (2004), 136
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the good of the company we could call the quality of managerial power.

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The foundation of morality

Power can be forced by the powerful upon the powerless; a process which always comes at a price. It is coupled with frictions and frustrations, resulting in resentment, which either will lead to conflict or has to be bought off at a later stage. Moreover, domination runs counter to the notion of equality of partners and the involuntariness with which they enter into contractual relations, on which the whole concept of capitalism is based. Capitalism presupposes markets, and markets can only exist to the extent that partners are free to act according to their own interests, not those of a mightier one.

Authority, or legitimised power, acquires obedience so much smoother. But legitimised by what? It has to be based on a shared belief by the leader and his subordinates – the first in his right to command and the latter in their moral obligation to obey their superiors. “Legitimate authority need not to depend on either violence or reasoned argument to elicit the desired action.” In other words, authority transforms power based on material resources into legitimate power and the subordinate’s behaviour into loyalty. Zuboff therefore calls it ‘the spiritual dimension of power.’ Which means that authority comes at a price too; it has to be based on morality. And it lasts only as long as its moral base stays intact. From the moment the moral base of authority erodes, it will tend to regress into domination – one can’t have it both ways.

Originally, the moral base of authority was found in religion. Philosophers like John Locke and Adam Smith deducted from the concept of private ownership a hierarchical division of labour, which they considered as part of God’s natural order. It’s like functionalist sociology avant la lettre; an existing social structure - the division of wealth - has to exist, because it functions within a system of a higher order. Thus, the prerogative to command was in the end legitimised by God’s blessing, with private property as its outward sign.

Legitimating power became a problem when, by the end of the 19th century, the division of labour underwent a major transformation that did emerge the ‘managerial class’ and changed relations of domination and cooperation with it over time. It replaced the earlier generation of entrepreneurs, ‘capitalists without function,’ by professional managers, ‘functionaries without capital.’ For that reason, authority could no longer be based on property rights. The new moral foundation of the right to command was offered by Taylor’s Scientific Management, based on “the notion that only a special class of men - formally educated, specially trained, able to reason scientifically - was fit to control knowledge and administer the organization on the basis of the insight it made possible.” The new authority was accepted when “enough people believed that those who had made
it to the managerial ranks were smarter, a ‘superior class of people,’ for whom it was most natural to deal in the coin of knowledge.”

Science-based knowledge thus became the new moral base of authority, which made managers well aware to keep this treasure to themselves. “One explanation for managers’ tendency to maintain more or less exclusive access to the knowledge base concerns their feelings of ‘difference’ - the underlying conviction that subordinates could not understand the kind of information that managers administer. (…) These values have operated to intensify the demands for in-group loyalty among managers and, as a consequence, to exclude workers from information and decisions.” The main qualification of a manager being loyal to the owners of the company, “for many managers, sharing information and maximizing opportunities for all members to become more knowledgeable, is felt to be a kind of treason.” 34

So, we find the old faith in the divine blessing of authority in a new, secularised shape; this time with mastering scientific knowledge as its outward sign. It is nevertheless a ‘spiritual form of power,’ based on a form of morality. Taylor prescribed a clear moral code for management which I choose as epigraph for this chapter.

34 Zuboff (1988), 238
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4. The division of labour and social cohesion

Work: daily occupation to which man is condemned by his need and to which at the same time he owes his health, his substance, his peace of mind, his good sense and perhaps his virtue.¹

Denis Diderot (1713-1784) and Jean le Rond d’Alembert (1717-1783)

4.1 SOCIAL COHESION AND DISINTEGRATION
4.2 CORPORATE ANOMIE: THE SOCIAL DISINTEGRATION OF THE COMPANY
4.3 INDICATORS OF CORPORATE PATHOLOGY

¹ Encyclopédie ou Dictionnaire raisonné des sciences, des arts et des métiers (1751-1780)
4.1 Social Cohesion and Disintegration

_The mortar that holds society together_

“When man stands opposite himself, the other also stands opposite him.” In Marx’s philosophy, the division of labour under capitalist conditions is what breaks down the cohesion in society. To the contrary, argues Bernard Perret in an enlightening essay, it is the mortar that holds the building of society together. “It is not just one activity that is valued socially, but one that relates, more than anything else, the individual to reality. (...) Politics, arts, communal activities or sport cannot offer a comparable solid base to accommodate one’s self-image.” Self-images are related to each other through work, which “while it is synonymous with social effort and constraint, allows one to relate to reality as well as to other people.”

Economic relations are of a two-fold character: through work and through monetary exchange. Perret bases his argumentation on a comparison of the works of the German and French sociologists Georg Simmel and Emile Durkheim to demonstrate the connection between both. Money, Simmel taught, is the abstract formula that makes sense of things in comparison to each other and by that it liberates men. “The secret of this liberation is that it makes us independent to the multitude of people, as it reduces the practical importance of the ties that attach us to a person or a group. By way of money we can have at our disposal the services of individuals we are indifferent to and to whom we owe nothing, once the transaction is paid for. It creates relations, _but it leaves the human beings out of them._” That makes the transaction the most ephemeral of all forms of social interaction.

“On the other hand, the social ties created by work, bind persons far more deeply. The complex forms of co-operation implicate constant agreements on the right way of living and acting together.” According to Durkheim, the division of labour is the foundation of solidarity between men. “It creates between people a system of rights and duties that binds them to each other in a durable way.”

But why do we attach such a high value to work that we conceive it as the foundation of our self-image? Thereto, we have to compare the meaning of work today with that in pre-modern, including Western feudal societies: “The division of labour between individuals was not aimed at effectiveness, but at reaffirming their place in a social structure that, first and foremost, should assure permanence.” The process of modernisation, that took form in Europe from the 14th century on, meant a definitive break with those static societal structures. “Modern society is characterised by the fact that the social identity, at least in principle, precedes the action: no longer ‘I produce what I am,’ but ‘I am what I produce.’” Rationality in the way man makes his living came first, and because economic effectiveness

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2 Perret (1997)
3 Georg Simmel, Philosophie des Geldes (1900).
4 Italics by this author
can only be produced by free and equal men, all the basic tenets of our social order – in short: _liberté, égalité, fraternité_ - followed in the course of history.

So man liberated himself by his work. That is why long-term exclusion from the labour system has such a social impact. “The link with society is severed and replaced by a relation of dependency.” An unemployment allowance is such a meagre compensation for the work that is lost, because people’s self-image - ‘I am what I produce’ - is destroyed. “Money realises people’s social autonomy, but only work can found it.” The same is true for society as a whole. “Socialisation by consumption is not sufficient to make a society,” Perret concludes.

### Kinds of solidarity

Durkheim’s work on the division of labour, on which Perret bases his argument, was about the most basic question of sociology: how can we understand society as a social system, which is something that has a unity in itself, in stead of being an aggregate of mere individuals? For Durkheim sociology consisted of the scientific study of social facts, social phenomena which are external to the individual and which exercise a social or moral constraint over his behaviour. Those facts can be recognised in an objective way because sanctions are attached to them.

“We have therefore succeeded in delineating for ourselves the exact field of sociology. It embraces one single, well defined group of phenomena. A social fact is identifiable through the power of external coercion which it exerts or is capable of exerting upon individuals. The presence of this power is in turn recognisable because of the existence of some pre-determined sanction, or through the resistance that the fact opposes to any individual action that may threaten it.”

This objective criterion – no sanction, no social fact, no object of research for sociology - makes them as real and researchable to him as sedimentary layers are to a geologist.

They form the primary elements of Durkheim’s theory on social cohesion: “It is not possible for a social function to exist without moral discipline. Otherwise, nothing remains but individual appetites, and since they are by nature boundless and insatiable, if there is nothing to control them they will not be able to control themselves.” In the end, Durkheim’s sociology was an inquiry into morality which holds society together.

Durkheim too allotted a central role to the division of labour; the production relations, in Marx’s words. But unlike Marx, he saw it not as forced upon men, but as emerging from human cooperation that creates solidarity or societal cohesion.

“In short, whilst the division of labour is a law of nature, it is also a moral rule for human conduct and one of the fundamental bases for social order.” In fact, “the

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5 Durkheim (1895), 56-57
6 Durkheim (1950), 10-11
economic services that it can render are insignificant compared with the moral effect that it produces, and its true function is to create between two or more people a feeling of solidarity.”

Essential in his approach is the kind of cohesion, or solidarity. Durkheim discerns two kinds: mechanical solidarity, based on similarities between individuals, which is characteristic for pre-modern societies, and organic solidarity, arising from the complex division of labour in modern society.

“In fact, the measure of the relative strength of two social ties is the different ease with which they may be broken. The less resistant is plainly the one that snaps under the slightest pressure. Now it is in lower societies, where solidarity through similarities is the only, or almost the only one, where these breaks are the most frequent and the easiest. (…)

“Society, for its part, certainly requires from each of its members, so long as they remain part of it, a uniformity of beliefs and practices. Yet, it can lose a certain number of those subjected to it without its internal functioning being disturbed, because labour in society is not greatly divided up. (…)

“Things are entirely different as labour becomes divided up. The different parts of the aggregate, since they fulfil different functions, cannot be easily separated. (…)

“Where society constitutes a system of differentiated parts complementary to one another, new elements cannot be grafted on to the old ones without disturbing their harmony and changing these cannot occur without upsetting its balance.”

From the complexity of modern society spring numerous mutual interdependences which necessitate people to adapt to each other’s behaviour, a process from which social norms emerge. “Men cannot live together without agreeing, and consequently without making mutual sacrifices, joining themselves to one another in a strong and enduring fashion.” The paradox of the rising complexity of the modern division of labour is however that those myriad different working spheres each have to create their own system of professional norms if societal cohesion as a whole will be upheld. Society itself however cannot contribute to them as professional ethics are too specific to have any foundation in public opinion. To establish moral standards and preserve them has to be the task of the group to which those standards concern.

This brings to the foreground the question under what conditions we observe professional morality to emerge and be preserved. Generally this is the more the case the better the professional groups concerned are organised – the most so in professions

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7 Durkheim (1893), 3, 17
8 ibid, p 102-105
9 ibid, 173
10 Durkheim (1950), 6, 31
that are directly or indirectly connected to the State. There are codes of conduct for civil servants and the military, directly in state service; for doctors, lawyers and public notaries, because they fulfil functions that are of such societal importance that the State controls the entrance into these professions and prescribes systems of disciplinary jurisdiction. At the opposite end of the spectrum there is a category where it is unlikely to find any moral standards at all. Durkheim observed a separation of the economy from society whereby the first was subjugating the latter and consequently an absence of any effective regulation of the modern economy. “There exists to-day a whole range of collective activity outside the sphere of morals and which is almost entirely removed from the moderating effect of obligations.” This made him a staunch opponent to classical economic theory “according to which the free play of economic agreements should adjust itself and reach stability automatically, without its being necessary or even possible to submit it to any restraining forces.” This would raise “a de facto state of affairs which is unhealthy, to the level of a de jure state of affairs.”

Consequently, he equally opposed the theory that, as society is perceived as an aggregate of individuals, the only function of the State should be to facilitate the unhindered development of individuals. This contradicts the historical facts. If the true function of the nation would be to guard the undisturbed exercise of the individual’s natural rights, we could not on the one hand see these individual rights expand over time and on the other the functions of the nation state tend to multiply in number as well as in importance. The only explanation that the two coincide is, according to Durkheim, that organising society necessitates the making of a reality of these rights – which is therefore the true task of the State as the only countervailing power left. In chapter 5 we will come back to the function of the nation state in the economic process.

With his analysis on the cohesion in society, Durkheim earned his honoured place in history as the founding father of the functionalist approach in sociology. “To ask what is the function of the division of labour is to investigate the need to which it corresponds.” It is a place well deserved, which however often leaves out of consideration the radical part of his sociology which has often been neglected.

‘Social pathologies’

This radical part concerns the ‘abnormal forms’ of that same division of labour. These are not ‘functional,’ in the way that they contribute to societal cohesion, but are to be considered as ‘social pathologies’ that undermine it. Durkheim made a considerable effort to distinguish the ‘normal’ from the ‘pathological’ social phenomena. However, where medical science has its methods to discriminate between sickness and health, sociologists lack methods to detect conditions of ill health in society as a whole.

“Lacking this factual proof, there is no alternative to deductive reasoning, whose
conclusions can have no value except as subjective presumptions. We will be able to demonstrate, not that a particular occurrence does in fact weaken the social organism, but that it should have that effect. To do this it will be shown that the occurrence cannot fail to entail a special consequence esteemed to be harmful to society, and on these grounds it will be declared pathological. But, granted that it does bring about this consequence, it can happen that its deleterious effects are compensated, even over-compensated, by advantages that are not perceived. Moreover, only one reason will justify our deeming it to be socially injurious: it must disturb the normal operation of the social functions.

Durkheim lived through the first era of globalisation that manifested itself around 1870 and broke down in the turmoil of 1914. *Laissez faire* policies of governments at that time created tremendous social tensions, the impact of which we can still trace in Durkheim’s work. The discrepancy between the functionalist approach, on which the whole structure and outline of his work on the division of labour is built, and the blemishes of the social scene that he observed in the industrial world at the fin de siècle was simply too great to ignore. This made him introduce in his theory the ‘abnormal forms,’ not in contradiction to his main thesis pointed out before, but as the reverse side of it. “If the division of labour does not produce solidarity, it is because the relationships between the organs are not regulated; it is because they are in a state of anomie.”

Anomie is a social condition in which lack of cohesion threatens order in society. Both cultural and structural characteristics of a social system can contribute to its state of anomie. Structurally, a system can be organised in such a way that it promotes individual isolation to an extent that people identify more with their own interests than with those of the group or community as a whole. As regards to culture, lack of consensus on norms and values among individuals, or between majorities and minorities in society, can contribute considerably to a state of anomie. Durkheim applied suicide rates as an indicator for the level of anomie in European societies at his time.

Anomie in its sense of ‘social unhealthiness’ manifests itself in three ‘social pathologies’ of the division of labour. First there are the industrial or commercial crises and hostility between labour and capital, “which are so many partial breaks in organic solidarity.” Classical economists may have boasted that rationalisation advocated by their theories has

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13 Durkheim (1895), 90
14 Unfortunately, there is another meaning of the term ‘anomie.’ Merton, quite confusingly, defined it as “the contradiction between the culturally defined goal of success and the individual’s lack of access to legitimate means of achieving this goal.” (Merton, 1938) To resolve this contradiction, the individual may engage in deviant behaviour, one form of which is using illegitimate means. Merton called this mode of adaptation ‘innovation.’ It is deplorable that Merton used for this phenomenon the concept of anomie, to which Durkheim already had given a clear content, derived from the original meaning of the word: normlessness. “Durkheim’s anomie is about the lack of restriction on goals whereas Merton’s ‘anomie’ refers to restriction on means. In Merton’s approach, goals are given, defined, even prescribed by the cultural system, whereas for Durkheim the central feature of anomie is indeterminacy of goals. Durkheim’s anomie individual is uncertain of what he should do because the horizon of possibilities is so open, whereas for Merton that individual, with the clearest of ideas of the objective to be reached, finds the possibilities for success closed down.” (Besnard, 2001)
put an end to former scarcities, recurrent agricultural crises and famines in particular, but we got economic crises instead, “no less scandalous in the disturbance they cause.”

Secondly, a ‘forced division of labour,’ based on an inequality of power outside the exchange itself, has to be considered as an anomic force. The reason is that the division of labour “only produces solidarity if it is spontaneous, and to the degree that it is spontaneous.” Spontaneous cooperation presupposes equality between the partners involved. Contractual freedom is based on this premise. When however, one partner has “additional power from some other source” at his disposal, and can thereby force the conditions of the contract upon the other, this disturbs “the hierarchy of social functions.”

Thirdly, there may be negative social effects from the division of labour itself. These “have sometimes been seen to be a necessary consequence of the division of labour, as soon as it has passed a certain stage in its development. In that case, it has been said, the individual, bent low over his task will isolate himself in his own special activity. He will no longer be aware of the collaborators who work at his side on the same task; he has even no longer any idea at all of what that common task consists. The division of labour cannot therefore be pushed too far without being a source of disintegration.” 15 This phenomenon of ‘pushing too far’ concerns, in Braverman’s terms, the transformation from the social to the industrial division of labour.

Durkheim’s anomie has far wider implications than Karl Marx’s alienation that we examined in chapter 3. Alienation seems to have negative effects mainly at the individual level. Therefore, it will not often come to the surface as a ‘business problem.’ This will only occur in particular circumstances, as was the case in the 1970s, when Tayloristic efficiency was carried through to its extreme. Only when businesses experienced serious problems in manning the slots at the conveyor belt, was the attention of managers and social scientists drawn to the underlying problem of alienation. Anomie, on the other hand, refers to the way in which people work and live together.

Since Durkheim’s days, the concept of anomie seems to be largely forgotten by sociologists. It is however equally applicable to the ‘multicultural,’ and thereby fragmented, societies of today. At present, one could easily think of child abuse, crime rates, drug abuse and, recently, terrorism as indicators for societal anomie.

15 Durkheim (1893), p 292-294
4.2 Corporate Anomie: the Social Disintegration of the Company

‘Social pathologies’

A company is, just like the society that surrounds it, a social system. It contains a structure as well as a set of cultural elements that makes it recognisable as a separate ‘social unit.’ Structure and culture, acting interdependently, create more or less stable relationships that allow for interaction and communication between individuals and groups. In other words, the constituent elements, that make that we can conceive society as a finite social unit, distinguishable from other ones, are also to be found in the ‘social system business enterprise.’ And its continuity is safeguarded by the functions of classical personnel management – recruitment, welfare, assignment, punishing and rewarding – each of which have its counterpart in society as a whole.

If this is so, we can ask the same question Durkheim asked about society: how to explain its cohesion? First we find some similarities. The concept of mechanical solidarity, based on similarity between the members of the social system, may be as well applicable to the enterprise in the early days of industrial capitalism. It could easily “lose a certain number of those subjected to it without is internal functioning being disturbed.” The reason they were so easily dispensable was the workers’ similarity in lack of skill. It was reflected in the system of ‘industrial relations’ at the time that mostly consisted of hiring by the day. (In the US, production workers often are still referred to as ‘hourly workers.’)

Like in society as a whole, the internal division of labour within the company became far more complex over time. There emerged “a system of differentiated parts complementary to one another” and consequently a system of reciprocal rights and duties, known as the present day system of industrial relations, the function of which is to prevent the upsetting of the system’s balance.

As Durkheim’s pair of concepts of cohesion in society looks to be applicable to the corporation as well, is the same true for his concept of anomie? If that is so, we could, based on Durkheim’s theory, construct a set of indicators for a state of lack of internal cohesion that one could call ‘anomie at corporate level,’ or corporate anomie for short.

Following this line of thought, we may expect ‘corporate anomie’ to show the same kind of ‘social pathologies’ at corporate level. Of course the term ‘pathology’ used in this context is a metaphor, derived from medical science. There it concerns the structure of cells and tissues – especially of cases in which cells develop in such a parasitical way that they threaten to destroy the tissue. Metaphors are to be handled with care however, as Morgan warns us. On the one hand, “all theories of organisation and management are based on implicit images or metaphors.” However, those images are always partial ones. “Any given metaphor can be incredibly persuasive, but it can also be blinding and block our ability to gain an overall view.” Therefore, “we tend to find and realise what we are
looking for. This does not mean that there is no real basis in what we find. Rather, it is just that reality has a tendency to reveal itself in accordance with the perspective through which it is engaged.”

A clash of logics

One of Durkheim’s ‘social pathologies’ arises from a division of labour pushed too far. This not only concerns production work. Managerial work too has been progressively differentiated during the 20th century. We can discern four different management functions, which over time have been differentiated into separate management levels.

At the lowest level, operational management controls the production function. It directs and coordinates the actions carried out in the production process. Taylor’s Scientific Management – in fact production management – was ‘management’ in general before the differentiation process took place. When problems arise, they are in most cases first recognised at the operational level - in the form of a decrease in sales, for instance, a loss of market share or a rise in customer complaints – and are dealt with by actions within the operational process. These may contain introducing a discount action, cutting costs or introducing a quality program.

Only when these interventions turn out to be ineffective, the problem will be lifted to the higher level of structuring management. It is responsible for the innovation function within the organisation. Solutions may be product renewal, developing new marketing techniques or redesign of production processes. If the problem hardens to a crisis, the third level of strategic management intervenes. It handles the function of goal setting and allocation of investment resources. This can for instance lead to starting a new product line, withdrawal from certain markets or opening up new ones. At the highest level, institutional management creates and maintains the system of legitimizations, especially where it concerns the ownership function. It is the domain in which mergers and acquisitions are decided.

The rationalisation of the management process resulted in a diversification of the various management functions into various independent management layers. This enhances the problem of internal coordination. Besides the common model of decision making – hierarchical, top down – there is a second route along which problems, unsolved at a lower echelon, ‘bubble up,’ so to speak. This ‘bubbling up’ explains the time lag in the organisations’ adaptation process: it takes time to recognise the non-routine character of problems and to transfer them from one managerial level to the other. It equally explains frictions between management layers. Each of these management levels has its own logic, aimed at the means it can control. The logic of decision making and problem solving at say the level of production management doesn’t correspond to that of strategic management. Each of them reasons within his own frame of mind, and principles and solutions that

16 Morgan (1997), p 347-350
17 Teulings (1982)
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are successful within one’s own domain suddenly lose their relevance when the problem at hand is lifted to a higher level. This may cause estrangement among lower and middle managers – let alone at the shop floor. What ‘they above’ do makes no sense to them.

This ‘clash of logics’ between management levels and between management and shop floor has to be considered as a potential anomic force in organisations. Its effects should be analysed in terms of intra-organisational communication patterns: what do managers communicate under what circumstances and how do they argue their message? Communication may contain a hidden force: the force of ideology. Ideology contains two elements: a theory to explain the world around us as well as the practical means to change it. He who controls the theory, controls the hearts and minds; adaptation to the means will follow.

An example from the world of politics may be illustrative. Furedi observes an “exhaustion of the political imagination,” based on “an assumption that society is no longer capable of making much progress towards improving the human condition.” Exemplary for this wide-spread attitude he considers Margaret Thatcher’s campaign slogan from the 1980s: ‘There Is No Alternative.’ “For if indeed there is no alternative, politics can have little meaning.” In the same way top managers communicate the message that ‘There Is No Alternative’ to the next merger, the next reorganisation, the next deterioration of labour conditions. They command the theory that explains the world – the world financial markets are to blame, it’s global competition, otherwise we will have to offshore your jobs – so they command the hearts and minds. And indeed it is hard to see the alternative to the consequences of the global economy that in the end no state, company or individual can duck out of, on penalty of “becoming irrelevant from the perspective of the system’s logic” (Castells).

Conflicting logics ‘politis’ the decision making process and contribute to the polarisation between management levels and between management and the shop floor. In this way, the progressive rationalisation of the management process functions as an anomic force in organisations. The more so when top level logic, concerning the ownership function, is imposed as the overriding principle for all from top to bottom.

A formula runs our lives

During the 1990s the principle of shareholder value made its entrance as the ultimate yardstick to assess all managerial performance. As we aim to demonstrate in chapter 5, this is the outcome of a long evolutionary process in which capitalism now seems to have reached its ultimate phase. The social sciences know a long tradition of theorizing on the historical development of the set of economic and legal institutions that are aimed at organising economic activity in the most efficient and profitable way, which we mention capitalism. In this way the distinction between commercial and industrial capitalism is common knowledge. The supposition of an ontological end-phase of this

18 Furedi (2005), 14-15
4. The Division of Labour and Social Cohesion

Box 14
The pure mathematical expression of capitalism

The American consultancy firm Marakon is one of the most ardent advocates of the shareholder value principle. It is therefore a suitable witness for the prosecution on the way it functions and its effects.

In a commentary19 this bureau analyses what should be the governing principles of a company, the compass that directs the course of its policy. Some managers are of the opinion that their task is to find a just balance between conflicting interests of various stakeholders. However, says Marakon, there are no conflicting interests.

Take customers, for instance. They are the primary stakeholder group for the company. Without satisfied customers there can be no healthy enterprise and no shareholder value. Is that to say that customer satisfaction is a company goal in itself? No. Customers have expectations about the use of a product or service. As long as management determines a price that exactly meets those expectations, customers will be content. Many companies however want to invest more in customer satisfaction than their competitors. They deliver too much value for money and so doing, they overshoot their target: to create value for their shareholders, whose task is not to subsidise customers.

The same is true for employees. “Maximising value for shareholders demands enlightened Human Resources Management, since the company’s workforce is a potential source of significant competitive advantage, which can be directly translated into superior value creation. (…) Clearly then, there is no inherent conflict between shareholders and employees of companies that are performing reasonably well.” But what if the company runs into trouble? “Some advocates of balancing stakeholder interests accuse specifically US management of being too eager to lay-off employees, particularly when compared with the widespread Japanese policy of lifetime employment. The implicit suggestion made is that, when times are tough, the shareholders should transfer some of their wealth to employees in order to avoid reductions in the workforce.” Again, it is not the shareholders’ task to subsidise employees.

“When the downturn in business is structural, managers will indeed face a shareholder-employee conflict.” But the competition-of-all-against-all will do its work. “Those unlikely to be let go would, of course, feel sympathy for their colleagues, but would also want the company to downsize and return to financial health as soon as possible, since this would enhance their own job security.”

The argument for balancing stakeholder interests is based on two fallacies. One is that there are conflicting interests, where there are none. Even in the case of downsizing, a mass lay-off is the lesser evil, and thus in the interest of all parties concerned. The employees just fired should be able to comprehend that logic. Secondly, balancing interests is not a practical principle to base company policy on. In every large corporation there are hundreds of decisions made weekly, if not thousands. Lower echelon managers are entitled to a clear yardstick to which the outcomes of their decisions will be judged. Well, shareholder value is such a yardstick and all other assessment criteria added can only add ambiguity to the decision making process.

The governing objective to maximise the value of the company for shareholders “not only serves the interests of the company’s owners but also serves the economic interests of all stakeholders over time,” Marakon concludes.

19 Marakon (1993)
process however has been rather dubious. So it should be with utter reluctance when one would offer a perspective to provide insight into this multifaceted historical process, leave alone to designate its final destination. Nevertheless, what strikes the eye is the present tendency towards a domination of the virtual economy over the real one. One way of looking at this issue of the evolution of capitalism is to recognize the progression in the level of abstraction, both of the processes and the relations between the actors within the system. Abstraction distorts reality in its endless complexity, in order to transform it to a knowledgeable and tangible entity. In the same way the virtual economy distorts the reality of material production and relations between human beings of flesh and blood. It is like our lives are run by a formula – the pure mathematical expression of capitalism. As we will try to demonstrate in chapter 5 this abstraction – of which the shareholder value principle is an expression – consequently leads to a one-sided articulation of interests.

The share holder value principle is not the next management fad. This is capitalism pure and simple, thought to its logical end. The fact that it declares all conflicting stakeholder interests nil by definition, makes it fit smoothly into the context of the second era of globalisation in which we live. For what has a division of labour at a global scale to offer on cohesion in Durkheim’s terms of solidarity between men? What do I have in common with the worker in one of China’s sweatshops? Very little, besides the fact that we both appreciate material wealth, expressed in monetary value. Money relates to transactions, the most ephemeral social interaction that leaves human beings out of it (Perret).

Thus, human relations are reduced to their smallest common denominator that can be laid down in a formula: the pure mathematical expression of capitalism in its final stage. It moulds every aspect of working life. From the large company to its sub-contractors to the individual freelancer, it sets the model for working conditions. In the end it makes everyone’s value creation transparent, and does so in real time.

The effects show that one can really speak of a ‘social pathology.’ For a start, the formula that reduces the top manager’s role to that of the operator of a money-making machine makes him responsible for something he cannot really control. Shareholder value is not primarily based on company profits which he can, but on the rise in stock prices which the top manager cannot influence. If he could, he would be accused of trading with insider knowledge. Responsibility for something outside one’s control leads to a high failure rate in the boardroom and subsequently to a rising rate of rotation of top managers. In the Netherlands, 70% of them quit earlier than was originally planned.20

As a way out of this deadlock, top managers often take decisions that are irrational from

20 Lucier et al. (2006)
the perspective of long term continuity of the company. Mergers and acquisitions are an example. On the short term, only the rumour of a merger drives stock prices upwards. In the long run however, they turn out to be disastrous. The American business magazine Business Week has calculated that in 61% of all large-scale mergers from 1995 to 2001 value was lost. Not in the last place because top management sometimes loses interest in the most difficult part of the merger process, the integration of the merged units, once the deal is done.

All this leads to a state of ‘permanent emergency’ in which many organisations find themselves today. Each new top manager will start – to finish off his predecessor, to establish his own power position – with a major reorganisation. Not at least, because its mere announcement has the same effect as a rumour about a merger: it will be favourably received at the stock market. In this way, the corporation and its top management is rewarded, not for realising value through the business process, but for creating value by creating expectations. In fact, blown-up expectations have become the managerial survival kit.

Frequent reorganisations, together with the digesting of integration problems in the wake of frequent mergers, create an organisational climate in which emergency is the rule, no longer the exception. This coincides with a sphere of immediacy, at the base of which lies a fundamental transformation in the division of labour, for which Castells formulated the ‘paradigm of informationalism.’ It contains a shift from industrial to ‘informational’ work as the prime creator of value, originating from the current information technological revolution. Mass production was based on the principle that the interchangeability of parts made it possible to disconnect tasks and processes from each other and from the same worker – however in one and the same place. ‘Informationalism’ implicates that organisational structures and processes can be reconfigured worldwide and almost in real time, “because the material basis of the organization can be reprogrammed and retooled.” 21 The ‘individualisation of labour in the labour process’ is exactly what breaks down all “social bonds created by labour,” all “complex forms of co-operation that implicate constant agreements on the right way of living and acting together” (Perret). It replaces them with a system that “is at the same time highly dynamic, highly exclusionary and highly unstable in its boundaries” (Castells). It leaves behind ‘black holes of marginality,’ parts of the population and the areas they inhabit – large parts of the African continent, the banlieus of any major French city - that have ‘lost their relevance for the system.’ Loss of relevance is the end game of the competition-of-all-against-all. All this results in a major shift in power relations around the world. “Articulation of elites, segmentation and disorganization of the masses seem to be the twin mechanisms of social domination in our societies,” Castells concludes. 22

21 Castells (1996), 62
22 ibid., 102, 415
In a state in which all constituting components of social structures are in permanent flux, the anomic effects of industrial or commercial crises and hostility between labour and capital that Durkheim recognised as isolated “partial breaks in organic solidarity” have become permanent facts of life in Castell’s ‘network society.’ Continuous emergency and immediacy may lead to ‘organisational exhaustion,’ the effects of which should be analysed in terms of organisational mental health, like the mental effects which permanent stress has on humans. They tend to raise the underlying anxiety levels in the organisation that set in motion social defence mechanisms, subconscious processes that often are irrational as well as destructive. In the end, these may contribute to organisational neurosis. Neurotic organisations may be dramatic – ‘somewhere between bold and impulsive’- suspicious, compulsive, detached or depressive.23

The notion underlying this ‘clinical approach’ to organisational dynamics stands in a long tradition of scholars, basing their analyses on the work of Freud and Jung among others, which have explored the ‘psychic prisons’ that individuals as well as organisations build for themselves.24 They picture the struggle between Weber’s ‘iron cage’ of rationality and the wholeness of the human psyche that cannot be eliminated, only suppressed and submerged, thereby originating the pathologies and alienations we observe in organisational contexts.

Power and morality
The third anomic force in society is a ‘forced division of labour,’ based on “an inequality of power outside the exchange itself. “Additional power from some other source” enables one party to force the conditions of the contract upon the other, thereby disturbing “the hierarchy of social functions” (Durkheim).

‘The formula,’ an absolute truth, is based on an absolute maxim: the absolute right of control because of ownership by shareholders. For a start, this should make the prudent social observer aware of a possible error in logic. No basic right is ever absolute, just like in physics Kelvin’s absolute temperature has never been reached. Freedom of expression for instance is one of the most basic human rights; yet it is limited by everyone’s responsibility before the law. Otherwise, libel suits would be impossible.

There are no compelling reasons that can be deducted from the working of the economic system as such which necessitate this ‘absolutism of shareholder ownership.’ In fact it is an ideological artefact that follows from the American business model, which decrees that shareholders are entitled, morally as well as legal, to the whole of the value that the company creates. Compare it with the ‘winner takes all’ principle on which the American political system is based.

The ‘absolutism’ is however a necessary ingredient to the formula. We live in a world were capital is available in abundance and – as the proponents of the Human Capital

23 Kets de Vries (2004)
4. The Division of Labour and Social Cohesion

Thesis state – productive capabilities of people are the decisive production function due to its scarcity in the long run. If finance was to be confined to its original function – to supply the cash flow to facilitate the primary process and resources for investments – it would be subject to the law of supply and demand and its dominance would be severely limited. The shareholder value principle however links financial power to strategic control over the company.

This is a turn around of historic proportion. In chapter 3 we met Burnham’s separation of control over access to the means of production from control over preferential treatment in distribution of the gains of the means of production. This placed the financiers in the back seat, as “the seat of social domination” is in the direct access. But now they fight back. The deregulation process, that was set in motion from the early 1990s onwards and was institutionalised in the regime of corporate governance, allows financiers to dissolve Burnham’s divide and claw their way back from the virtual power of the stock exchange to the top table in the real economy. In the end, the formula of shareholder value is not about monetary gain; it is about power.

The shockwave of this power struggle transplants itself inside the corporation and has serious consequences for everyone’s life at the shop floor. For a start, the reins of managerial control will be tightened. ‘The formula’ strengthens the model of hierarchical top-down decision-making by single-headed leadership, personalised in the supreme CEO, who is made accountable for total corporate performance. Earlier we saw that the capitalist buys labour power, not labour, while what the capitalist needs is labour, not labour power. With the rise of the managerial class, the same problem was pushed to a higher level, so to speak. What the capitalist, now the stock owner, buys is management; what he needs however is return on investment. How does he establish his grip on the process of value creation by management? The identical problem leads to the same solution: by intensifying control.

Management that serves the financial markets is under tremendous pressure. The financial markets need one person to praise and, more often, to blame. His, less often her, performance will continuously be set against the benchmark of all other CEOs’ performances. By the same logic Taylor choose the individual – the ‘one best man’ for a certain task – as the basic unit of measuring production performances.

Internally, management tends to strengthen the model of concentration of power at the top and strict lines of authority running downwards. However, the balance of power shifts to the edges of the corporation where institutional management is at stake or can be at any moment. That will for instance seriously degrade the influence of co-determination. In matters of institutional management the works council’s authority is limited to the right of advice. This presupposes a more or less stable relationship in which management and worker representatives know each other well and can assess the quality of the advice (from the side of management) or its possible effects (from the side of the works council).
This meaning gets lost when at any moment, as happens frequently in the present frantic business environment, the invisible hand of the financial markets can take the reins out of the visible hand of management. In the long run this will undermine co-determination — in fact puts its raison d’être at stake.

Therefore, the effects of the shareholder value principle have first and for all to be understood in terms of a shift in power in the economy and in a wider sense in society as a whole, with possible far-reaching consequences for the basis of managerial power. In chapter 3 we saw how, as in the course of industrial history rationality took over as the guiding principle for designing and governing the production process, domination as a means to gain workers’ obedience faded into the background in favour of managerial authority, based on a shared morality. At present we have to assess the effects, societal as well as at corporate level, of a wide-spread erosion of the moral basis of managerial power.

**A crisis in management**

The signs become clearer of what one might reasonably call a ‘crisis in management’ caused by moral decay. It often looks like good management is driven out by bad management, just like in Grasham’s Law bad money drives out good money. The underlying dilemma was, almost twenty years ago already, aptly formulated by Shoshana Zuboff:

> Will there be leaders who understand the crucial role that human beings from each organizational stratum can play in adding value to the production of goods and services? If not, we will be stranded in a new world with old solutions.  

Zuboff’s book is a classic on the impact of the emerging new information technology of that time on the organisation of work and its quality. “It was (…) ‘written with an underlying belief in the progressive corporation.’ But it was followed by what she calls ‘an intellectual mid-life crisis.’ The progressive corporation was a myth – or rather, might perfectly well turn out to be Enron.” 27 This insight made her quit her job as professor at Harvard because she became to regard its MBA curriculum more as part of the ailment than of the cure. 28

In the eye of the public at large it all started with a wide-spread erosion of business ethics around the turn of the millennium: ‘outrageous self-enrichment’ at the top, glorification of top managers that sometimes reached near-Stalinist levels, growth projections that were driven up to megalomaniac heights — all indicators that relate to fraud, as research on the twenty-five largest financial scandals that happened around the turn of the millennium demonstrated. 29 The rot went far deeper than the isolated cases of WorldCom and Enron,

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26 Zuboff (1988), 12
27 The Economist, May 10, 2003
28 Gabor (2005)
29 Cools (2005)
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Ahold and Parmalat that made the headlines in this scandal-ridden period. No less than 158 US companies listed at the NYSE had to adjust their financial statements over the preceding years. The Economist’s archive supplies us with a nice indicator of the scale of ‘corporate misbehaviour.’ It counted 83 articles under that heading over the year 2002 (on average more than one item in each weekly issue). Although the number did steadily drop since to 32 in 2007, fraud has far from disappeared from the business pages. Volkswagen, bribing workers’ reps with leisure trips and prostitutes; Siemens, displaying a culture of bribery in order to secure sales; Société Générale, nearly brought to its knees by a rogue trader; Deutsche Post, whose boss figured in a thousand-person tax fraud, were a few of the more recent business mud pools.

Neither did the storm of societal discontent about the outcomes of the dominant model of ‘managerialism’ calm down. Wide-spread criticism concentrated on the working of the global financial markets, visualised in the actions by hedge funds and private equity funds which in German politics have been described as a ‘plague of locusts’ that wreak havoc on the country’s businesses. Extravagant income differentials were another subject of concern. While the average wage in the United States grew less than half as fast as productivity, the total pay of the typical American top manager amounted 110 times the average wage, compared to 40 times only twenty years before. Surveys showed that 80% of the Americans think that managers are “dramatically overpaid;” even 90% of institutional investors think so. Never before “the standing of executives has fallen so low.”

A swelling infection in the body of global business begins to activate its own immune system. First, a large-scale recourse to criminal justice must assure that corporate life in general is separated from the exceptions, the mess created by some rogue entrepreneurs. “Trials of the century have become an annual event in the business world,” The Economist remarked. So, one can hardly speak of some deplorable exceptions any more.

Below the surface of public attention, there is the blame game that originates rising turnover rates of top management. In North America the index of CEO succession rates rose by almost 60% from 1995 to 2006. In Europe, starting from the far lower level, it rose almost fourfold - an indication of a rapid shift from the ‘Rhineland’ to the ‘Anglo-Saxon’ model of corporate governance. Nearly half of the top managers leaving their posts in 2005 did so prematurely and involuntarily, due to poor performance or to mergers, rather than to retire normally. The firing of underperformers quadrupled. It’s another way to ‘personalize’ the crisis. However, as Peter Drucker stated, “the recent failure rate of chief executives in big American companies (...) suggests not human failure but systems failure.”

Then there is a growing interest among world business leaders in subjects like ‘corporate governance,’ ‘business ethics’ and ‘corporate social responsibility’ as a way to demonstrate...
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‘good business.’ Corporate governance has been little more than an effort to regulate the institutional management function that creates and maintains the system of legitimisations, especially where it concerns the ownership function. In practice, the net effect has been to offer shareholders an instrument to claw back power over ‘the instruments of production’ (Burnham) they once lost to management.

Corporate social responsibility (CSR) is a way to show that corporations are ‘good citizens’ of this planet. It has become a business in its own right, consisting of its own MBA curricula and consultancy firms. The concept is based on the assumption that the corporation has to do something back to society for the wrongs the unadorned capitalism in which it operates does to the public interest. However, this is a “faulty analysis of how the capitalist system serves society,” as The Economist states. Public virtue is based on private vices, Adam Smith already taught. Therefore, a company that chases after value for its stockholders does good works enough. CRS means either, as in most cases, lip-service to the idea as a way of cheap window dressing. Or, when managers indeed authorise substantial donations to charities of their company’s money or time, it is ‘borrowed virtue,’ as they do good with other people’s money. The crucial point about business ethics

“is that managers of public companies do not own the businesses they run. They are employed by the firms’ owners to maximise the long-term value of the owners’ assets. Putting those assets to any other use is cheating the owners, and that is unethical. If a manager believes that the business he is working for is causing harm to society at large, the right thing to do is not to work for that business in the first place. Nothing obliges someone who believes that the tobacco industry is evil to work in that industry.”

This nicely brings the issue back to the level of individual consideration where it is harmless. Ethics however is not a matter of individual outstanding behaviour. If it was, it wouldn’t count for much, for it would depend on the whims of a person’s character; more so, on the conditions he finds himself in. It is because morality is a social phenomenon that is has a solid base of durability to count on.

So, the privatization of the crisis in management functions, more than a means to legitimise the management function, rather reigns in the scope of possible managerial behaviours. “The personalization of ethical problems leads to an emphasis on individual rationality within a ‘best fit’ form of decision-making. (…) Permission for doing unpleasant things in the name of a greater good is already built in.” Just like the dictum ‘better the world, start with yourself’ it is invented to rule out cases where betterment goes beyond individual solutions because the causes to be cured are collective in stead of individual. When business politics is replaced by the abstract calculus of personalised business ethics

34 The Economist (2005).
this rules out much of collective resistance. “Ethics becomes something to be fitted into the corporate strategy document.”

In this way, it too veils the typical questions a historical sociologist would ask: why and why now? Why, for a start, is there a crisis in management and why did it manifest itself at this point in time? In the following chapters we will aim to demonstrate that first the emergence of this crisis has to do with the way in which managerial power is executed, which in turn has to be explained from a major change in the economic-societal context that has manifested itself since the beginning of the 1980s. Secondly, we will take a look into the consequences for the execution of personnel management of these changes.

As a formula, the shareholder value principle abstracts from a complex reality, based on an assumption – in this case the assumption that we live indeed in a one-dimensional society. It eliminates all redundant factors – all social responsibility, political considerations and obligations to community and the nation state, all morality other than enforced by law. This condition fulfilled, it leaves no room for a division of labour that is “also a moral rule for human conduct and one of the fundamental bases for social order” (Durkheim). In fact, ‘the formula’ leaves no room for any morality – it is a-moral. Thus it forces its a-morality onto management. This is not to say that today’s management is immoral, although it sometimes is. It is to say that morality is becoming irrelevant to the functioning of the system.

An early prophesy Durkheim already predicted this lack of moral standards as a logical outcome of the way the economic system functions. Thereto he analysed how professional ethics relate to morality in general and under what conditions any professional ethics may be established and upheld.

Besides norms that are valid to society as a whole there are professional ethics that are specific to different occupations - as a professor or a doctor, as a merchant, a soldier or a priest – that are not backed by public opinion. “Professional ethics (...) cannot be of deep concern to the common consciousness precisely because they are not common to all members of the society.” Therefore the “fundamental condition without which no professional ethics can exist” is that “a system of morals is always the affair of a group and can operate only if this group protects them by its authority.” In this way the activities of doctors and lawyers are subject to codes of conduct, supervised by their professional associations that sanction offences if necessary. “In general, all things being equal, the greater the strength of the group structure, the more numerous are the moral rules appropriate to it and the greater the authority they have over their members.”

In the economic sphere however, this collective cohesion is absent. People active in the same branch of the economy meet each other, but do so in competition. “There is nothing steady about these connections.” Consequently, there do not emerge groups that are placed

35 Parker (2002), 93-97
above the individual in which a normative framework may evolve. “Now, this lack of organization in the business professions has one consequence of the greatest moment: that is, that in this whole sphere of social life, no professional ethics exist.”

This ‘moral vacuum,’ due to the anarchy of the market place, was of great concern to Durkheim.

“Two centuries economic life has taken on an expansion it never knew before. From being a secondary function, despised and left to inferior classes, it passed on to first rank. We see the military, governmental and religious functions falling back more and more in face of it. (...) Even science has hardly any prestige in the eyes of the present day, except in so far as it may serve what is materially useful; that is to say, serve for the most part the business professions.

“There has been talk, and not without reason, of societies becoming mainly industrial. A form of activity that promises to occupy such a place in society taken as a whole cannot be exempt from all precise moral regulation without a state of anarchy ensuing. The forces thus released can have no guidance for their normal development since there is nothing to point out where a halt should be called.”

This may explain the emergence of the one-dimensional society. It is precisely because one part of society is not restrained by moral moderation that it subjugates all other spheres of human life, eroding all values connected to them. This ends up in what Luttwak called the ‘turbo-capitalist reversal’ of our days: “societies serve economies, not the other way around.” In such a society all human activity will be valued along the measuring rod of the creation of material wealth. “When all capital is allocated efficiently to whatever entities earn the highest returns, there is none to spare for institutions that do unprofitable things because of felt moral obligations or moralistic pretensions, professional ethics or professional conceits, high ideals or mere habit.”37 This state of affairs Luttwak sees, as Durkheim before him, as the great dilemma of our times.

36 Durkheim (1950), 6-11
37 Luttwak (1999), 236
4.3 Indicators of Corporate Pathology

It’s about business morality

From Durkheim’s ‘social pathologies’ we can logically derive a set of suppositions that possibly demonstrate how the concept of corporate anomie may explain the crisis in management. In this paragraph I first want to show the logical consistency between corporate anomie and these suppositions as well as between these statements together. Subsequently I shall try to demonstrate that these suppositions are suitable for empirical research – that is that in theory they can be falsified in a Popperian way. Finally this approach could (again in theory) lead to the construction of a set of indicators to determine the extent of the moral rot in the management system. The actual testing of these indicators however is far beyond the scope of this study; it can only show how this theoretically could be done.

The entire use of the concept of corporate anomie hinges on the possibility of empirical testing of the suppositions formulated below. Otherwise, the transcription of the concept of anomie from societal to corporate level is nothing more than a construction of thought, whereby any relationship to the ‘reality out there’ isn’t proven in any way. Conceptual deduction is a valid way of practising science. One should keep in mind however that it may easily blind one to the fact that phenomena in social life are caused by many factors (over-determination) which in turn are affected by what they cause (reciprocal causation). Marxism, for instance, assumed that economic arrangements – the modes of production - determine social life in a direct, linear way. In fact we can observe various contradictions of capitalism that influence each other in complex and reciprocal ways.

With this in mind it is necessary to reduce the complexity of the social reality, in order to come to any theory at all - that is to say we have to make assumptions about the environment we are in. First we assume that ‘the formula’ of capitalism in its final stage, based on the shareholder value principle, is a major tendency in present society, which influences many aspects of work life. Subsequently we try to demonstrate the reasons why this particular tendency emerged in the first place and secondly why it emerged at a certain point in time. I will elaborate this argument in chapter 5. To capsulate the argument:

‘The formula’ reduces all human endeavours to monetary assessable market transactions here and now. Over time the real economy here and now will offer too modest opportunities in terms of return on investment. Thus the focus will shift to the virtual economy that realises ROIs by permanent manipulation of expectancies. In today’s deregulated financial markets these yields can by far outstrip those created by human effort, but these nevertheless set the benchmark in terms of rate of return. In the end however, the real economy will have to pay off these expectancies; in other words, it will have to deliver a yield in terms of real value that covers the virtual value created before.

Finally an assessment may be given of the magnitude of this social force in the form
of a scenario that reasons to a likely outcome in a logical-deductive way, on *ceteris paribus* condition.

The effects of ‘*corporate anomie*’ can be formulated in the following suppositions:

- **Supposition 1:**
  The absolute decisive power that the ‘mathematical formula of shareholder value’ grants to the right of ownership creates a disproportionate intra-organisational distribution of power, to the effect that an ‘inequality of power outside the exchange itself’ harms the social cohesion of the labour organization as a social system.

  A lop-sided distribution of ownership power results in one-sided articulation of interests. The adequate method to analyse the balance of power at the top is offered by an approach called Organisational Power Analysis: the application of the method of power indices that has been developed in political science to the field of economic power. Once we would have deduced from these indices a trend towards accumulation of power, one might assume that power pressure from the top will transmit downwards through the organisation and will end up in unequal labour relations at shop floor level.

- **Supposition 2** concerns ideological, contrary to material power:
  A lop-sided distribution of power within the organisation will result in a unitary business theory that will make existing power relations be taken for granted and legitimate opposing interests to be denied.

  He who commands the theory that explains the world around us commands the minds, but not necessarily the hearts. There exists a wide-spread incomprehension between various management levels and between management and shop floor. The effects of this ‘clash of logics’ will become manifest in patterns of intra-organisational communication and should therefore be analysed with the help of theory on sociolinguistics and organisational discourse analysis.

- **Supposition 3** is logically derived from the foregoing:
  To the extent that suppositions 1 and 2 are true we may expect a strengthening of vote over voice.

  When adequate articulation of interests at the base of the organisation is marginalised
or blocked, resignation and exit (voting with one’s feet) are the only remaining options. The extensive research that is done on perceived breach of the psychological contract might give us indications in this respect.

• **Supposition 4** concludes:
The one-sided articulation of interests by financial capital creates a climate of management by stress that works out in a detrimental way for organisational mental health, comparable with the mental health effects that permanent stress has on humans.

The strain to cope with virtual value targets in the real world creates the need for permanent organisational change aimed at squeezing the last drop of productive capacity out of the organisation. This has effects in terms of organisational mental health that are most adequately analysed from the perspective of organisational psycho-dynamics.

♦

**Eventual lines of research**
The rest of this sub-chapter will offer a brief sketch of each of these eventual lines of research. Subsequently I will examine whether indicators derived from these theoretical approaches – power indices, linguistic patterns uncovered by organisational discourse analysis, indicators for perceived breach of the psychological contract and syndromes within organisational psycho-dynamics – together might offer a tool of analysis of the appearance of corporate anomie; that is of the state of morality in today’s business world.

Morality, we might remind the reader, is, in the approach of this study, conceived as the core business of personnel management. So, in principle, indicators for corporate anomie might as well be useful as indicators for the substance of personnel management, now and in its possible future.

**The calculus of power**
Supposition 1 relates to the shift in corporate power relations.
The absolute decisive power that the ‘mathematical formula of shareholder value’ grants to the right of ownership creates a disproportionate intra-organisational distribution of power, to the effect that an “inequality of power outside the exchange itself” harms the social cohesion of the labour organization as a social system.

The adequate method to analyse power relations is to apply the power indices that have been developed in political science to the field of economic power. Empirical theory on

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38 More on this in chapter 6.
power relations still to a great extent falls back on Dahl’s definition of power as a relational concept, defined in terms of probabilities:

“A has power over B to the extent that he can make B to do something that B would not otherwise do.”

As a formula this reads as follows:

$$M_A = P(a,x|A,w) - P(a,x|A,\bar{w})$$

In words: the amount of A’s power over a (symbol M for the German word Macht) is defined as the probability of behaviour x due to action w minus the probability of behaviour x in absence of action w: These two possibilities can be noted as $p_1$ and $p_2$. In principle, one could think of the construction of a simple, ordinal scale:

when $M_A > M_B$ and $M_B > M_C$, then $M_A > M_C$.

However, one element is missing in the equation: $p_2$. In most cases we simply don’t know ‘what B would otherwise do’ when not impeded by A’s power over him. That’s why Harsanyi added opportunity costs to Dahl’s calculus of power: costs to A to influence B’s behaviour, which have to be set against the costs to B of refusing to do what A wants him to do. Both these costs can be defined in terms of expected, actuarial value ex ante. The balance between these two costs reflects the strength of B’s incentives for yielding to A’s influence – that is the strength of A’s power over B. The amount of A’s power over B is expressed by the increase of B’s willingness to yield to A’s wish:

$$\Delta p = p_2 - p_1$$

while the strength of power consists of the difference between utilities $u_1$ and $u_2$ in relation to disutility x related to B’s conforming to A. Now the amount of power is related to the strength in the following way:

$$\Delta p \geq 0 \text{ if } u_2 - p_2 x \geq u_1 - p_1 x$$

that is,

$$\Delta p = p_1 - p_2 \leq \frac{u_2 - u_1}{x} = \Delta \frac{u}{x}$$

This states that the amount of power is a function of the strength of power. The

39 Dahl, (1957)
40 Ailon (2006)
41 Harsanyi (1962a)
approach of power in terms of mathematical functions (schedules) is in contrast to the point sense in which power is described in terms of actual values of separate power variables. In this way Dahl’s original model is restated in terms of empirical frequencies that replace hypothetical probabilities. The utility function approach means that we no longer have to draw up assumptions on what “B would otherwise do.”

The value of the concept of strength of power is demonstrated when we try to apply it to the field of economics. Exertion of influence by vote is not free of cost. This cost has to be set against one’s interest in the outcome of the vote in relation to one’s perceived ability to influence or control that outcome. In the political system of one-man-one-vote this consideration favours mass participation (as voting turnouts at elections show). Under the rule of the one-share-one-vote principle however the outcome of a cost-benefit calculation of participation shows that it is rational for the majority of small stockholders to abstain anyhow, and for the few big ones to participate, irrespective of whether others participate or abstain.42

When researchers tried to measure the skewness of the intra-organisational distribution of power by separate indices, they came to inconclusive results which they could not explain.43 This may have to do with the difference between static and dynamic power concepts. The underlying assumption of the static approach is that the possession of \(1/n^{th}\) of votes (shares) corresponds to \(1/n^{th}\) of the total power within the corporation. Thus the Herfindahl index of concentration measures the sum of the squared proportions of all stockholders:

\[
H = \sum_{i=1}^{n} \left( \frac{S_i}{S} \right)^2
\]

This is however only the case in a straight voting system (one man, one vote and simple majority decision making) and when voters vote in random sequence. Only then each voter is allotted \(1/n^{th}\) of total power in the system, as he has a \(1/n^{th}\) chance to deliver the pivotal vote \(\frac{1}{2} n + 1\) to gain majority. All deviations from these rules however give different outcomes, depending on voting rules. Normally, the bigger stockholder is attributed to a disproportionate share of power (in terms of relative chance to deliver the pivotal vote) to his share in total stock.44

Game-theoretical power indices seem to be little applied to the field of economics. This approach might supply us with a tool to test the hypothesis of an intra-organisational accumulation of power under the rule of shareholder value. The strength of power concept as further elaborated by Harsanyi45 seems to deliver us a useful measuring rod for a start.

42 Westholm (1992)
43 Berg et al. (1993)
44 Shapley, Shubik (1954)
45 Harsanyi (1962b)
The language of power

Power manifests itself materially as well as ideologically. Supposition 2 reads:

The one-sided articulation of interests manifests itself materially as well as ideologically. A lop-sided distribution of power within the organisation will result in a unitary business theory that will make existing power relations be taken for granted and legitimate opposing interests to be denied.

The way to wilfully change social reality is to change the common understanding of the world around us. The contest of meanings is fought in language, in text exchanged in written, spoken or non-verbal form. These texts form patterns of intra-organisational communication, of discourses and discursive practices that shape organisations, the systematic study of which belongs to the field of sociolinguistics, more specifically Organisational Discourse Analysis (ODA). Its field of research encompasses the whole of semiotic elements in the communication process, verbal as well as non-verbal.

ODA contains two main approaches, the interpretive and the critical one. The first focuses on organisation development from the perspective of a supposed shared meaning. The critical approach perceives the organisation as an arena in which competing groups struggle to shape the social reality which is nothing less than a construction in our mind. Thus the premises of Critical Organizational Discourse Analysis (CODA) are that

• the surface level of discourse hides deep structures of power and inequality;
• texts are ideologically shaped by power relations (definitional power), and
• ideology is tied up in relations of power and control.

"Put simply, discourse reproduces, creates, and challenges existing power relations; ideology is the mediating factor in this relationship, providing an interpretive frame through which discursive practices are given meaning." 46

The discipline of discourse analysis gives the impression of a recently developed field of inter-disciplinary research, struggling to define a body of referential knowledge 47

The literature on Organisational Discourse Analysis is long on theoretical debate about scientific-philosophical approaches (‘What ODA really is’) and short on empirical research that shows the ‘methodological how-to’ of this approach (see Hormuth48 for an example of applied discourse analysis).

This present state is not to the least due to the fact that theorizing is dominated by the post-modernist- constructivist perspective. Its starting point is that social structures, such as the organisation, are socially constructed entities, concepts in people’s minds that emerge through ‘discourse.’ Carried to the extreme, the idea of ‘organisation as a construct’ leads to the position that there is noting more to know or study about ‘organisation’ than discourse. This is in line with post-modernist thinking that it is not possible to know any ‘true’ reality. To the contrary a ‘realist position’ takes the stance that “there is a real world,

46 Mumby, Clair, (1997), 182-184
47 Clegg et al, (2006), 316; Grant et al., (2004), 2
48 Hormuth (2009)
including a real social world, which exists independently of our knowledge about it". 49

This is more than an argument floating in the thin air of academic abstraction. From a post-modernist, relativist position Ford et al. 50 advise that, as a means to overcome resistance to change “it matters more that new things are given utterance than whether they are true, real or accurate in some objective sense. It is in the saying of something new that one is given the opportunity to challenge, engage, explore and create, thereby discovering underlying assumptions and opening new opportunities for action.”

We can analyse an objectively knowable ‘true reality’ when we take objectively perceivable interests as a starting point of analysis. The true focus of research should be how organisational discourse blurs antagonistic interests by what discursive techniques; in other words: who, in which position, says what, when, how and why? This being the entrance to the ultimate question which is: to determine to what extent is communication from the dominant layer in the organisation an expression of power, that is, aimed at curtailing the options for action by the dominated ones and (ideally) whether this is more the case at present than in earlier periods. This would deliver us an indicator for a supposed shift of substance in managerial power from authority back to dominance (contrary to the development in the greater part of the 20th century that can be interpreted as a change from blunt to softer means of execution of managerial power).

An essential precondition for any discourse whatsoever is comprehension of context, which can be defined “as the structure of those properties of the social situation that are systematically (that is, not incidentally) relevant for discourse” 51 Context has to precede discourse because meaning precedes content. In other words, he who controls the system of attribution of meaning, controls to a high extent the outcome of discourse. 52 This capsulizes the contest of ideology, the system of beliefs, values and attitudes that underlies social structure and as such either legitimises it or supplies the intellectual tools to change it (counter-ideology). Counter-ideology emerges when the contractions within the official ideology spring to the eye so blatantly that they are no longer to ignore.

This is the case in the ongoing discourse on ‘the new capitalism,’ that set in from the mid-1980s onwards. Recently, impetus has been given to subject the neo-liberal thesis of globalisation to the scrutiny of close reading. A primal question is: do we have to do with an ideology here? The test can be found in operational criteria for ideological content 53 - argumentative techniques such as stating sectional interests as universal ones and under-representation of internal contradictions and areas of conflict - which can be critically analysed on their factual validation. More often than not, such an analysis shows that universalistic claims are based on simple logical inference, supplemented with personal experiences (often in the role of a consultant), supported by a few case studies.

49 Fairclough, (2005)
50 Ford et al. (2002)
51 Van Dijk, (1997)
52 This is akin to the technique of ‘framing’ in politics.
The main characteristic of the neo-liberal ideology of totally globalised economic relations (and an equivalent erosion of national sovereignty) carries a promise of a golden future as well as a threat: to go with irresistible Progress and reap its fruits or to perish at the side of the road. This weakens the position of management, as there is only one way to choose, but on the other hand strengthens its power, as the pressure can be turned on to subordinate employees. The ultimate test for any ideology is the extent to which it succeeds to ‘re-contextualise’ reality.

This depends on the underlying belief systems that are prevalent in society. Chiapello and Fairclough built on the Weberian concept of ‘spirit of capitalism’ to determine the spirit of the ‘new capitalism’ which has as its nucleus the network firm, distinguished from the big managerial-industrial and family-owned firms in earlier evolutionary phases of capitalism. Such a ‘spirit’ (ideology) has to create legitimacy of the emerging existing order and does so along three dimensions: logic of stimulation, of fairness and security. On the basis of analysis of management studies (two bodies of text, 1990s compared with 1960s) it was possible indeed to show a shift in values consistent with today’s network economy. “A new and increasingly influential logic has emerged which emphasizes mobility, availability and the variety of one’s personal contacts.” At the same time the new spirit offers scant security in the form of self-help support that companies provide only to the mobile and the adaptable, the ones within the network.

As said before, the methodology of Organizational Discourse Analysis is only at its infant stage. For a start, it will have to overcome the academic distance that separates linguists and social scientists in order to develop as a research specialization in its own right. Nevertheless, the approach of Critical Discourse Analysis in particular seems to hold the clue to detect long-term changes in the language of power as an indicator for fundamental shifts in real power relations.

**In breach of contract**

Supposition 3 is logically derived from the foregoing:

To the extent that suppositions 1 and 2 are true we may expect a strengthening of vote over voice.

When adequate articulation of interests at the base of the organisation is marginalised or blocked, resignation and exit (voting with one’s feet) seems the only remaining options. The extensive research that is done on perceived breach of the psychological contract might give us indications in this respect.

One of the more recent approaches in this field concerns the assumed transition from an ‘old’ social contract that trades job security for loyalty, to a ‘new’ one that stresses employability and flexibility. In line with the ‘new spirit’ mentioned above, the core

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54 Fairclough, Thomas, (2004)
55 Chiapello and Fairclough (2002)
56 Kissler, (1994)
elements of this ‘new contract’ are supposed to be the worker’s ‘own responsibility for career development,’ ‘commitment to type of work’ and ‘expectation of job insecurity’. These characteristics do raise the question what is left of the idea of a contract, which conceptually presupposes a more or less equitable exchange. When the content of the ‘new contract’ would point in the direction of employer’s dominance by which new conditions are forced onto the workforce, this would indicate “an inequality of power outside the exchange itself” that disrupts social cohesion at corporate level. It would make manifest the hidden costs of power inequities in the new employment relationship.

Admittedly, the concept of psychological contract has its weaknesses. A main reason of confusion is that the whole concept is about perceptions—some speak of expectations or beliefs, others of promises or obligations—instead of ‘hard’ contractual terms that moreover develop during the employee’s tenure in the organization. One could add that most research is focused on one of the parties: the employees. Surveys on both employers and employees are rare. Remarkably, this survey (carried out in the UK) showed a strong perception of reciprocal obligations in terms of the ‘old’ contract. As there exists no such thing as an ‘exception that confirms the rule’ we should conclude that the issue of ‘old’ versus ‘new’ contract is not as clear-cut as much of (American-based) research might make us believe.

Although there is much to argue about the methodological soundness of the concept of the psychological contract, research shows some persistent results. Surveys in the 1980s and 1990s revealed many elements of the ‘new contract’ in the expectations of what one might expect to be the early adapters: MBA students at the brink of their entrance to the labour market. Their ‘new contract’ contained transactional (contrary to relational) obligations that focus on exchanges which are convertible into money on the short term. Transactional relations are more to be found in ‘buy-oriented,’ relational ones in ‘make-oriented’ firms. So, the trend towards a ‘core business orientation’ that characterised the 1990s had as a side-effect a more businesslike employee-employer relationship. The perceived employer’s obligation under the terms of the ‘new contract’ is merit pay. One could interpret this as the point of origin of a bonus system that spiralled out of control in the following decade. Thought to its logical end, the ‘new contract’ will, in the words of the Communist Manifesto, leave “no other nexus between people than naked self-interest, than callous ‘cash payment’.”

57 Cavanaugh, Noe, (1999)
58 Guest, (1998)
60 Not to speak of the wide-spread use of ill-conceived concepts like ‘organisational citizen behaviour’ (OCB) which means the willingness by the employee to ‘go the extra mile’ beyond the formal obligations of the labour contract. Commitment is a useful concept in this context where ‘citizenship’ is not: neither can employees, working under managerial control ever be citizens, nor can a business enterprise be a democracy.
61 Herriot et al., (1997)
63 Rousseau, (1990)
64 Robinson, Kraatz, Rousseau, (1994); Robinson, (1996)
65 Marx, Engels, (1848)
Furthermore there is quite some evidence that substantial numbers of employees did perceive breach or violation of their psychological contract - e.g. more than half of Robinson and Rousseau’s MBA alumni. Ten out of twelve surveys that were carried out during the 1990s reported that, from the employees’ perspective, the terms of the psychological contract have not been met. Managers as well as employees acknowledged this. Experiences of contract violation covariate with a decline of job satisfaction and trust in the organisation and with a rise in turnover. Employees often denote that, over time, they feel that they owe less to their employers as they see their employers owing less to them. There also exists a relation with downsizings, reorganizations and mergers and acquisitions. In organizations where these had happened recently, psychological contract violation was significantly more likely. This links the phenomenon to the ‘state of permanent emergency,’ which we identified as an anomic force in today’s business climate.

Thus there is a methodological base to build on. At least there exists a substantial number of measurement instruments to detect the extent of fulfilment or violation of the psychological contract. Certainly, the outcome is not sufficient to conclude to a new kind of over-all exploitation in the old-fashioned leftist outlook. Research makes clear that a part of the labour population - the careerist, job-hopper type of employee – actually has a positive attitude towards the conditions of the new, transactional relationship.

An over-all impression one gets however from the growing research on the psychological contract is one of a progressive imbalance in the employer-employee relationship. That is what one might expect from a one-sided articulation of interests, due to a lop-sided balance of power at the top of today’s corporations. Or should one rephrase this in terms of the survival of the fittest, as the outcome of an irresistible tendency in the present world economy to maximize the organisation’s flexibility and correspondingly minimize its obligations towards its workforce; a social force to which the most adaptable parts of the global work force happily conform, while the stragglers cling to the conditions of yesterday’s world?

Tsui et al. rightly state that the employment relationship – which they divide in balanced and unbalanced employee-organization relationships – have to be analysed from the employer’s perspective because he has a decisive influence on the terms of the labour contract. Interestingly, balanced and unbalanced does not coincide with fair and unfair. There is an indication that the ideal type of new, transactional relationship, which they call a ‘quasi-spot contract,’ is not perceived to contain a high degree of fairness, although one could argue that there is a balance in the exchange between employee and employer: that is to expect nothing of each other besides “callous cash payment.”

66 Robinson and Rousseau (1994)
67 Van den Brande et al., (2000) 2, 31
68 Coyle-Shapiro, Kessler, (2000)
69 Robinson, Rousseau, (1994)
70 Robinson, Kraatz, Rousseau, (1994)
71 Turnley, Feldman, (1998)
72 Van den Brande et al., (2002), 49 ff
73 Rousseau, (1990)
74 Tsui et al. (1997)
From the perspective of corporate anomie, an objective base for a moral judgement can only be found in what strengthens or undermines the cohesiveness of the social system business enterprise. Imbalanced power relations undermine this cohesion; therefore an analysis of the corporate balance of power offers an objective foundation for an inquiry into business morality. Power relations come first. They will shape the terms of the psychological contract, its perceived (lack of) fairness and equity, in due course.

**The irrational organisation**

There is an unequal race going on between the virtual economy that creates virtual profits by manipulation of expectancies, and the real economy in which people of flesh and blood make products or render services, that is create real value. It pits shop-floor reality against targets derived from virtual-financial spread-sheet reality. The result is an enormous strain on organisations.

Supposition 4 reads:

The one-sided articulation of interests by financial capital creates a climate of management by stress that works out in a detrimental way for organisational mental health, comparable with the mental health effects that permanent stress has on humans.

In order to analyse these mental effects we have to make use of the Organizational Psycho-dynamics (OP) approach, the shortest summary of which runs: “When anxiety intrudes, rational procedures are distorted by irrational processes.” The focus on unconscious, irrational organizational behaviour runs counter the conventional organisation theory that is built on the premise that business is a rational phenomenon that should be understood from the perspective of rational men taking rational decisions.

Confronted with high anxiety, people want to stabilize their inner lives and do this by creating group defence mechanisms. This may make them retreat from role, task and boundaries. Boundary in the psycho-dynamic sense is a psycho-spatial border between uncertainty and control; which makes one feel that the company knows best about the market or the outside world in general. When people face uncertainty and feel at risk, they retreat from the organisational to their personal boundaries, fencing off narrow psychic areas where they can feel safe within. This explains the phenomenon of scapegoating the other department within organizations.

By creating defence mechanisms to reduce primary anxiety, organization members distort reality. This may lead to the construction of collective fantasies as a means to deny the organization’s limits in capability as well as the threats from the Great Unknown of the environment. These unconscious states of mind may give impetus to pathological-regressive patterns of behaviour that may end up in illusionary ideation when a group

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75 Hirschhorn, (1998), 3
76 ibid, 27
drifts into a world of its own, detached from reality. Regression is a defence mechanism well-known in psycho-dynamics, meaning attempts made to recreate positive emotional states experienced in early childhood. Early experiences, whether positive or negative, precipitate in the unconscious as ‘scripts’ that direct much of people’s adult behaviour. The discovery of OP is the thesis that groups as well can regress into earlier patterns of behaviour.

In the 1950s the psychiatrist Wilfred Bion identified three basic assumptions on which group dynamic processes are based: dependency, fight-flight and pairing. These can set in motion pathological-regressive processes within the organisation that lead to dysfunctional patterns of functioning and persistent organisational cultures that are hard to understand from a rational-behaviouristic perspective. So, in a dependency culture the organisation looks for a strong, charismatic leader to whom the members can look up as omnipotent and to whom they are willing to sacrifice their autonomy in return for safety. The fight-flight culture takes the organisation on constant alert for potential attack that is countered either by fight or flight. This arouses aggression, if not against the fancied outside enemy, then against peers within, or against whatever authority in sight. Characteristic is the sharp division into the camps of ‘us’ and ‘them.’ A pairing culture, in conclusion, is utopian in character as it is preoccupied with the belief (fantasy) that sometime in the future a person (Messiah) or idea will emerge bringing ultimate salvation from presently experienced strain.

Psycho-dynamic theorists assume that elements of organisational culture, such as shared myths, legends and stories, can be traced back to these ‘basic assumptions’ by groups. As such, they reflect anxiety about the environment in which the organisation operates. Normally, organisational rituals, such as regulations, procedures and the stability offered by hierarchy are able to contain these anxieties. When these structural containments operate insufficiently, this can lead to organisational neurosis, which can be divided into five common ‘neurotic styles.’ So the ‘suspicious organisation’ is a possible outcome to the extreme of the ‘fight-flight assumption’ which sees the world as a dangerous place anyhow. The ‘depressive organisation’ is based on the same assumption, leaning towards the ‘flight impulse.’ The ‘dramatic organisation’ – somewhere between bold and impulsive – is mostly related to a dependency culture that has little in-built restraints on the acts of the charismatic leader.

It is in line with the logic of labour under the ‘paradigm of informationalism’ (Castells) that the structural containments as we know them will fail to channel work-related anxieties sufficiently in the future. Where the new information technologies integrate production processes into ever wider networks which are dispersed spatially over the globe, the mutual dependency increases: there are more claims to be met and more requirements to be taken into consideration. On the other hand, there are little coherent group connections left any

more to alleviate the rising strain of work. Or, in the terms of psycho dynamic theory: people find it harder to maintain boundaries around their roles that allow them to shield their professional autonomy. In the end this tendency will undermine morality, as this is based on the social ties created by work that bind persons deeply. Self-images are related to each other through work: “While it is synonymous with social effort and constraint, it allows one to relate to reality as well as to other people in complex forms of co-operation which implicate constant agreements on the right way of living and acting together.”

When mutual relations in work erode, so will morality.

Conclusion

There is little disagreement on the observable fact that business ethics eroded since the end of the 1990s which had a major effect on the financial and economic crises that marked the following decade. The aim of this chapter was to develop a diagnostic tool that (theoretically) could allow us to study the present moral crisis in management in a systematic way. Thereto the concept of corporate anomie has been logically derived from Durkheim’s ‘social pathologies.’

This concept has been formulated in four suppositions and the first aim was to show the logical consistency between corporate anomie and these suppositions as well as between these statements together. Subsequently, it had to be demonstrated that these suppositions are suitable for empirical research – that is that in theory they can be falsified in a Popperian way. Finally this approach could (again in theory) lead to the construction of a set of indicators to determine the extent of the moral rot in the management system.

The outcome has been mixed but not unsatisfactory:

• It looks like the supposed concentration of power at the top of the organisation can be determined by application of power indices as developed in political science. Especially the game-theoretical approach seems promising.

• The extent to which the one-sided articulation of interests at the top of the organisation gives rise to a contest of logics may be harder to determine, as the methodology within the inter-disciplinary approach of Organisational Discourse Analysis seems to be far from full-grown.

• The supposed strengthening of vote over voice seems to be rather convincingly underpinned by a quite substantial research done on the subject of the psychological contract – this notwithstanding the criticisms that can be brought in against the methodological foundation of this approach as such.

• The phenomenon of the irrational organisation first coincides with common experience that ‘abnormal’ organisational behaviour is in fact rather ‘normal.’ Organisational Psycho-dynamics seems to have at its disposal a set of indicators to diagnose these behavioural patterns.

79 Perret, (1997)
Some of these disciplines are far beyond this author’s field of competence, so he can only suggest a possible scientific yield from a combination of these scientific approaches together. Combined they might allow for a holistic study the forces of anomie in today’s business world. This would require however a really interdisciplinary effort, bringing together contributions from such distant academic tribes like social scientists, mathematicians, psychoanalysts and linguists. And surely this would not deliver a measuring rod along which the extent of a moral rot could be quantified. This would be qualitative research anyhow which is aimed at interpretation, an iterative process based on dialogue, reformulation, historical analysis, tentative explanation and modification that rarely provides any final, unitary outcomes.
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There are valuable human activities which require the motive of money-making and the environment of private wealth-ownership for their full fruition. Moreover, dangerous human proclivities can be canalised into comparatively harmless channels by the existence of opportunities for money-making and private wealth, which, if they cannot be satisfied in this way, may find their outlet in cruelty, the reckless pursuit of personal power and authority, and other forms of self-aggrandisement. It is better that a man should tyrannise over his bank balance than over his fellow-citizens.

But it is not necessary for the stimulation of these activities and the satisfaction of these proclivities that the game should be played for such high stakes as at present. Much lower stakes will serve the purpose equally well, as soon as the players are accustomed to them. The task of transmuting human nature must not be confused with the task of managing it. Though in the ideal commonwealth men may have been taught or inspired or bred to take no interest in the stakes, it may still be wise and prudent statesmanship to allow the game to be played, subject to rules and limitations.

John Maynard Keynes (1883-1946)

5. Guided Capitalism and Beyond

5.1 FORCES OF CAPITALIST EXPANSION
5.2 FORCES OF CAPITALIST STAGNATION
5.1 Forces of capitalist expansion

The social contract

Bretton Woods, New Hampshire, July 1944. While the war raged on from the Normandy coastline to the atolls of the Pacific, here the leaders of the Allied Nations met in order to lay the economic foundations of a better world. The conference would create the IMF and the World Bank, the institutions that are the pillars of the international monetary system till today. But it had a far wider impact. The first half of the 20th century had been a period of societal tragedies, aptly worded by one of the speakers, US Treasury Secretary Henry Morgenthau:

“All of us have seen the great economic tragedy of our time. We saw the worldwide depression of the 1930s. We saw currency disorders develop and spread from land to land, destroying the basis for international trade and international investment and even international faith. In their wake, we saw unemployment and wretchedness. We saw their victims fall prey to demagogues and dictators. We saw bewilderment and bitterness become the breeders of fascism, and finally, of war.”

These were the seismic tremors, the epicentre of which can be traced back to the first wave of globalisation that is to be dated from around 1870 to 1914 precisely, when both the systems of international relations and global free trade collapsed. The complete unravelling of economic and labour market regulations had backfired in an accumulation of traumatic events: the First World War that led to the Bolshevik Revolution and massive social unrest all over Europe, the Great Depression that favoured the Nazi coup d’état, leading to the Second World War. But after the devastation world leaders would do it right this time. They wisely made a social contract with the working population which “ensured that the gains from economic globalisation would be used to compensate the losers in the interest of political stability.” This was the basic principle on which the welfare state was founded. Government plays a key role in it, in order to protect and promote the economic and social well-being of its citizens, based on the principles of equality of opportunity, equitable distribution of wealth and public responsibility for those unable to avail themselves of the minimal provisions for a good life.

The ability to fulfil the obligations of the social contract was however dependent on certain economic conditions. Thereto post-war governments had to set themselves four basic economic objectives.

To realise a high level of economic growth (1) was the first and most essential one. Continuous growth was the conditio sine qua non to foot the bill for all the social insurance, basic education, health services and publicly funded housing that the welfare state was
assumed to provide, without hampering capitalist expansion. In a stagnant economy, business and the state are locked up in a zero sum game in which state expenditure works out detrimental to business profitability.

Full employment (2) - apart from being an aim in itself - was an equally necessary precondition. Mass unemployment had been the great trauma of the pre-war years. A job for every man - married women were normally not supposed to work outdoors – was the essential outcome that the working population would expect from the social contract. It was however an equally essential precondition to limit the claims made on the newly created social security system, and thereby for its viability.

International monetary stability (3) should offer security to the business world and prevent the leaking away of national wealth by balancing foreign-trade payments. Price stability (4) should realise the same security for consumers at home. Some countries, like the Netherlands, added the realisation of an equitable income distribution as a separate aim, thus arriving at the ‘magic pentagon’ of social-economic policy objectives.

These four (or five) objectives are the essence of the system of guided capitalism. They could only be realised by guidance of the state which, in its role of director, steered the development of capitalism for its own good. These objectives are closely interconnected and hard to achieve in combination. It was common to fail one of them in any year. In the end, as we will see, governments would fail them all.

Questionable progress

The main failure was in the promise of permanent growth and prosperity, which was hard to keep over time. In fact, the architects of the new world order, gathered at Bretton Woods, had promised a unique novelty in the economic history of mankind. To the classical economists, stagnation was a fact of life. They saw periods in which the national income didn’t grow, but even diminished, as inevitable. Ricardo explained recurrent stagnation from price fluctuations in agrarian products. A rise of the population would create more demand for food which would lead to rising grain prices, which would again force wages upwards. So profits would be depressed, resulting in less investment and finally in stagnation. In a primarily agrarian economy, where workers’ consumption didn’t exceed basic necessities, this theory was far from unrealistic.

Marx based his stagnation theory on his law of the falling rate of profits. Profit can only emerge when workers add more value during the production process (in working hours) than they receive in value (their wages). The difference forms the surplus value. The higher the surplus value, the higher is the accumulation of capital from which investments are made. Through these investments however, ever more machinery is added to an ever shrinking work force. Marx, like Ricardo, based his economic theory on the labour theory
of value. According to Marx, as labour is banned from production by machinery, the only source of surplus value is banned. Less surplus value means less profits, so economic activity declines and stagnation sets in.

It was only at the end of the 19th century that economists began to believe in the possibility to finally break the deadlock of recurrent periods of stagnation. Better equipped theoretically by the marginal utility theory of value, they accepted it as an axiom that markets always tend to equilibrium, just as a tightrope walker finds back his position every time he slightly loses his balance. The only precondition for the equilibrium model to function adequately was that the price mechanism went on unhindered; then a basic disturbance would be impossible. The Great Depression taught the world otherwise, inspiring a new wave of stagnation theories. Kondratiev had observed a sequence of long term alternations of growth and stagnation; the so called long wave of the business cycle. His explanation was that only after periods of 50 to 60 years infrastructural works like roads, railways and harbours needed capital replacement, inducing investments and thereby a new wave of growth. Schumpeter foresaw a rather permanent stagnation, due to economic fossilization. Economic growth, in his view, is created by dynamic entrepreneurs who bring innovations to the market. In the meantime however, economic power had been taken over by the management caste. Managers are not entrepreneurs, but administrators. Erosion of the entrepreneurial function would in the end lead to economic sclerosis.

In short, the ‘stagnation thesis’ has a long tradition. Even during the heyday of guided capitalism, when economic growth was abundant, latter-day Marxists like Baran and Sweezy stuck to the tenets of their prophet, presupposing an inherent tendency of the capitalist system to stagnate. They characterised the advanced economies of the mid-20th century as ‘monopoly capitalism,’ given the fact that “today, the typical economic unit in the capitalist world is not the small firm producing a negligible fraction of a homogeneous output for an anonymous market but a large-scale enterprise producing a significant share of the output of an industry, or even several industries, and able to control its prices, the volume of its production, and the types and the amounts of its investments.” Under these circumstances, the centre of their theory is “the generation and the absorption of the economic surplus,” defined as “the difference between what a society produces and the costs of producing it.” Due to the monopolistic position of the major players, the surplus they heap up is so enormous in quantity that they are unable to spend it – thus blocking the economic circulation of production and consumption and thereby curtailing the room for investment.

As a consequence, Baran and Sweezy had to treat the unprecedented growth of the
1960s – which in itself is undeniable – as the exception to the rule to be explained. Reasoning the other way round – as mainstream economists do - the stagnation during the Interbellum needs an explanation, as well as the ‘stagflation’ of the 1970s. It’s one way or the other.

**The ‘industrial-financial complex’**

In the late 19th century we see a paradigm of economic modernity emerge, that would develop into the dominant model of the decades to come till the present time. It is based on two kinds of efficiency:

- the efficiency of the process of production and sales, due to the combination of mass production and managerial capitalism, and
- the efficiency of the accumulation of capital through the working of the modern financial system and by way of access to the global asset markets.

Rationalisation of the sales process, like that of production, first emerged in the United States. Mass production made prices for manufactured goods plummet. In 1908 the Ford Motor Comp. sold cars at a price of $ 850. In 1916, three years after the introduction of the fully mass produced model T, it cost only $ 360. The most dramatic change however was in volume, as this former luxury good became within reach of the ordinary man. Ford sold six thousand cars in 1908; 577 thousand eight years later. It set the classic example to be repeated all over again – first in manufacturing industry, later on in the service sector as well.

On the supply side, modern industry was able to offer a glut of manufactured goods. Now it was time to rationalise the sales effort as well, in order to make it reach the consumers. That was when the concepts of ‘consumption’ and ‘marketing’ entered the economic vocabulary. Rationalisation of the sales process meant a change in the mindset of people, as radical as the introduction of mass production was in the way they produced. “Economists at the turn of the century noted that most working people were content to earn just enough income to provide for their basic needs and a few luxuries, after which they preferred increased leisure time over additional work hours and additional income.” A basic principle of the paradigm of modernity however is that sufficient is never enough - enough doesn’t keep industry’s pot boiling. By the turn of the century “the American business community set out to radically change the psychology that built a nation – to turn American workers from investors in the future to spenders in the present.” By the end of the 1920s 60% of all durable consumer goods sold in the US were purchased on instalment credit.6 Pumping money into the economy to keep the consumers consuming, as John Maynard Keynes adequately observed, had to become the main instrument to keep the wheels of industry turning.

Thereto the wheels of selling had to be kept turning as well. Where Ford created

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6 Rifkin (1995), 19-22
the foundation of rationalised production, his competitor General Motors founded the rationalised sales effort. In the words of its founder: “The key to economic prosperity is the organised creation of dissatisfaction.” Only when workers-turned-into-consumers are dissatisfied with what they have, are they to be tempted to buy something new. It is hard to imagine that the epithet ‘new,’ nowadays routinely used as a selling point, hardly was a recommendation only a century ago. Firms boasted that their products were ‘known for decades,’ preferably centuries.

The fact that the psychology of consumerism is based on the creation of dissatisfaction has an important social impact. It created a shift in status perception in which “the source of status is no longer the ability to make things but simply the ability to purchase them.”

Earlier we saw how man liberated himself through his work, by forcing out the principle ‘I produce what I am’ and replacing it by ‘I am what I produce.’ A status of producer is finite. When a craftsman has made a product to the best of his ability, this gives him a kind of final satisfaction. Consumer status – ‘I am what I consume’- on the other hand is infinite, as the ability of industry to create new products and services is infinite. This makes the status ladder of consumerism a slippery one, as endless changing consumer patterns lead to endless adaptation of self perception.

This may create serious social tension. As ‘work’ is no longer the primary status indicator, we observe the erosion of socialisation through production that was the dominant feature of the industrial era. Durkheim’s organic solidarity is undermined as the existing labour order has become more and more individualised and fragmented. Individualisation of work and fragmentation of durable working relations are the main characteristics of the ‘information age’ we live in. Modern information technology enables companies to produce all over the world and to regroup production in ever changing configurations. Work is continuously shifted around the globe – the term offshoring has become a household word in economic discussions. The same information technology makes it possible to reduce any one’s economic activity to one financial denominator. Work becomes individualised and stable patterns of cooperation and human relations at work become fragmented.

Individualisation and fragmentation progressively result in exclusion. “There has been accentuation of uneven development, this time not only between North and South, but between the dynamic segments and societies everywhere, and those that risk becoming irrelevant from the perspective of the system’s logic.” Parallel to “an unleashing of formidable productive forces,” due to modern information technology, we observe “the consolidation of black holes of human misery, be it Burkina Faso, South Bronx, Kamakasagi, Chiaapas or La Courneuve.”

Many tens of millions of want-to-be consumers all over the world find their access to the display window blocked.

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7 Braverman (1974), 276
8 Castells (1996), 2
An island of modernity

The emergence of what we could call the modern ‘industrial-financial complex,’ following its own rationality, is in essence the economic history of the 20th century. It shows how the economy developed into an autonomous system; not in a coordinate way, but as the dominant system in society to which all other labour and social relations are subordinated. The road to modernity was traversed however only in a slow way. Till far into the 20th century European economies can be characterised as dual systems in which the modern industrial sector formed only an isolated part of an environment that was still dominated by the small, family owned firm. The two segments of the economy were almost totally fenced off from each other. The traditional sector worked the land and practised the crafts in the old-fashioned way. As a result, its productivity was low. It had no access to the modern financial system that in the meantime developed into an industry in its own right, offering a wide range of services of increasing complexity. Nor had it a need to. Its capital needs were limited, as tools often were handed over from father to son. The small, traditional firm operated in a subsistence way, thus limiting the accumulation of capital within the economy as a whole. But it played a dominant role in opposition to the industrial market sector. The modern factory worker covered his basic needs primarily with goods and services provided by the traditional sector, the shopkeeper around the corner, so that only a small part of wages paid by the modern enterprise flowed back into it through sales. It was like an island of modernity in a sea of traditionalism.

The ‘island theory’ dates back to Rosa Luxemburg who tried to solve the crisis in Marxist ideology at her time. It followed from the fact that clearly capitalism didn’t collapse, as the prophet had foretold. To the contrary, it flourished during the first wave of globalisation. This observation made some Marxist theoreticians revise their theory. Luxemburg however stuck to orthodoxy. She developed the concept of Landnahme (literally: the grabbing of land) to explain that the final collapse was only retarded by an unforeseen factor: capitalism had not yet been full-grown.

"Historically, capitalism emerges and develops in a non-capitalist environment," which it has to conquer. “In this environment the process of the accumulation of capital pushes itself forwards.” It needs however the traditional sector as well as it strives to abolish it. In the capitalist part of the economy, the workers have to produce ‘surplus value.’ Thus a lack of purchasing power is created among them. This had been Marx’s original argument, based on the fact that the fraction of the value added spent on the surplus value for the capitalist cannot be spent on consumption by the worker as well. If however, demand from the traditional, non-capitalist sector comes to the rescue, stagnation is prevented, if only temporarily. So, capitalist growth through accumulation of capital is only possible through

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9 Grassl (2000), 73-74
10 Rosa Luxemburg (1870-1919), Marxist politician and theorist. Major work: Die Akkumulation des Kapitals (1913)
a continuous exchange between the capitalist and the non-capitalist part of the national or world economy. Only when capitalism would have been fully developed – that is when it would have completely conquered the non-capitalist sector - would the stagnating forces make themselves felt in full, finally leading to the collapse of the capitalist system as foretold.\footnote{Lutz (1984), 57-61}

One may hold to this theory as one wish. For a start, the belief in the final collapse of capitalism will find few adherents nowadays. A theory of ‘internal territorial expansion’ however - the notion of the ‘industrial-financial complex’ fighting, with the arsenal of modern production concepts and sophisticated financial techniques at its disposal, a battle of conquest on enemy territory so to speak – seems interesting enough to take a closer look at.

**Explaining post-war growth**

Almost immediately after WW II a wave of unprecedented economic growth swept over the impoverished countries of Western Europe. Soon its peoples got used to it, almost taking it for granted. Lutz distinguishes two basic positions to explain the ‘normality’ of the post-war prosperity in Europe.

“One version - which has gained increasing acceptance during the last decades, not only in economics and the social sciences, but also in the public awareness in Europe – poses explicitly or presupposes implicitly that the European industrial nations have succeeded to find the way back to their inherent road to development and growth. Consequently, the devastating collapses in economic development that all European countries had to endure between 1914 and 1945, would have had their origins either in exogenous disturbing factors (especially both world wars) or in economic neglects or mistakes (especially the Great Depression of 1929/30) which would have temporarily pushed off the economies from their normal path of development. (…)

“The other version of the thesis that states the normality of the post-war prosperity argues the working of a strong effect of overtaking that would explain the particular dynamic of the early post-war period and the subsequent smoothing down of the growth curve. This version is advocated in a wide range of theories – primarily, but not exclusively within the Marxist tradition – that trace back the post-war prosperity, or at least its start, to the exceptional circumstances at the end of the Second World War.” \footnote{ibid (1984), 31-33}
era seems to be a more fruitful one. One exceptional circumstance of course was the need for reconstruction of the ruins that the war had left behind. It created much employment which resulted, by way of the Keynesian multiplier effect, in much wealth of its own. There were more fundamental forces at work however, having to do with dissolving blockades to capitalist expansion.

By the end of the first wave of globalisation one means to expansion had been dried up: the extension of colonial empires. During the last quarter of the 19th century European nations had vastly extended their colonial rule. They added up new territories to their empires, as in the ‘race for Africa.’ Many social theorists at that time saw 19th century imperialism as a driving force of capitalist expansion. Colonies were opened up for the world markets, just as nowadays ‘backward societies’ are transformed into ‘emerging markets,’ thus pulling them into the orbit of the globalised world economy. At the eve of the First World War however, the colonial powers had carved up the whole globe between them. ‘External territorial expansion’ had come to an end.

Between the wars, ‘internal territorial expansion’ had been blocked as well. The ‘Old World’ lacked large, integrated markets like in the United States. It was impoverished and therefore incapable to absorb the quantity of products that mass production could deliver. Another reason was that in the crisis-prone climate of the 1920’s large corporations looked for state intervention to regulate the national economy, thus diminishing competition and enlarging the role of public (nationalised) enterprises.13 State intervention was the direct reaction to the social havoc that laissez-faire had caused during the preceding decades. And, as we saw in chapter 3, modern Tayloristic and Fordist production concepts did gain little acceptance in Europe between the wars. In Europe, as opposed to the US, the expansion of the modern industrial-capitalism had been retarded till far into the 20th century. It was only in the 1950s and 1960s that the transition process could be made in which the modern, industrial-capitalist sector gradually absorbed the pre-modern, traditional part of the economy, thus opening space both for investment and modern production concepts.

Industrial capitalism shaped modernity. Its financial system assured the most efficient allocation of the means of production, increasingly on a global scale. It decides who may produce what and where. Its production and logistical system contains the techniques by which the most efficient application of the means of production is realised. The efficiency of production raises the turnover rate of capital, which determines the return on investment. Only when these forces were unleashed, a strong takeover effort became possible. Figure 3 14 gives an impression of the effects in terms of labour productivity.

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13 Pellicelli (1976)
14 Calculated from Pilat (1998)
Till far into the 1960s the United States were the undisputed front runner in terms of industrial productivity, a position the country owed to its economies of scale and its role as ‘the arsenal of democracy’ during WW II. The take-over effort by the European countries in the post-war era is remarkable however. The graph shows that the largest relative gains were made during the 1960s. The Netherlands and Belgium kept up the pace of modernisation during the next decades, leaving behind the original example in the end.

The high rise in labour productivity no doubt resulted from the spreading of the application of modern production concepts to what was up till then the traditional sector. Higher productivity enabled wages to rise at an unprecedented scale, producing the abundant growth during the post-war years. The thesis of the ‘capitalisation of the traditional sector’¹⁵ may well, at least in part, explain this happy development. And, especially relevant in the context of this study, in its wake it brought the rule of modern labour relations to the majority of the working population.

Steam engine, railways and automobile

Besides the ‘internal territorial expansion’ (Luxemburg’s Landnahme) there was a second force of capitalist expansion: the ‘innovational expansion.’ Sometimes technical innovations are fundamental in character. They create entirely new markets – indeed entirely new economies, to be followed naturally by fundamental changes in the societal structure.

Baran and Sweezy call them ‘epoch-making innovations.’ They explain the exceptions

¹⁵ Graßl (2000), 73-75
to the presupposed inherent tendency to stagnation in capitalist economies from “powerful external stimuli which offset these depressive effects and enabled the economy to grow fairly rapidly.” These stimuli are, besides wars and their aftermaths, innovations of an epoch-making magnitude. Historically, they count only three of them: the steam engine of the 18th century, the railways that shaped the face of the 19th century, and finally the automobile that has had such an enormous impact on the economy and society of the 20th century.

What gives these fundamental innovations their overwhelming impact on the economy is that they first use up large quantities of investment themselves. In the United States “from 1850 to 1900 investments in the railways exceeded investment in all manufacturing industries combined.” But they also “create vast investment outlets in addition to the capital which they directly absorb.”

“...The automobile industry also has had a much greater indirect than direct effect on the demand for capital. The process of suburbanization, with all its attendant residential, commercial, and highway construction, has all along been propelled by the automobile. The petroleum industry, with more capital investment than any other American industry, is in large part a creation of the automobile; and several other major industries (rubber, glass) are similarly dependent. Many service ‘industries’ too have grown up in the wake of the automobile, such as filling stations and repair shops, motels and vacation resorts. Clearly, the amount of capital absorbed by all these outlets exceeds by many times the investment in the automobile industry itself.”

Between the wars the automobile had hardly reached the markets in Europe. It was considered as a luxury good for the upper middle classes and the elites. Shortly before the war, the European car industry had developed its answers to Ford’s model T: the German Volkswagen, the French 2-CV, the Italian cinquecento. But these only had their impact on consumer markets from the middle of the 1950s. Only then did the car’s societal spill-over effects become manifest.

Railway construction during the second half of the 19th century had contributed to Europe’s previous long-term economic boom. Europe between the wars was between two epoch-making innovations.

A summary

The thesis of inherent stagnation states that stagnation is the natural state of capitalism because the accumulation of capital is too successful for its own good: too much capital is chasing after too few investment opportunities. And in the end it is investment that propels economic growth. Consumption can only do that for a while. This thesis may be

16 Baran, Sweezy (1966), 216-217
Guided Capitalism and beyond

controversial among economists, but as we saw earlier, they have to shoulder the burden of proof that explains the downturns in economic history.

Baran and Sweezy mention as “a central merit of our theory that it explains the Great Depression, readily and logically, not as the Great Exception but as the normal outcome of the workings of the American economic system.” The official figure for capacity utilization in the American economy in the year 1939 was 72%. Yet, in the subsequent years, “under the impact of war and the inherent restraints of the capitalist market temporarily removed, industrial production more than doubled (…) during a period when virtually no net investment was taking place.” To them this finding “conclusively proves that the official unemployment estimates and figures on capacity utilization derived by widely accepted statistical methods greatly understate the extent to which human and material resources are under-utilized in a monopoly capitalist economy.”

To sum up what we have observed up till now:

- The system of guided capitalism itself sustained purchasing power in society.
- A first force that created space for a substantial take-over effort was the application of modern, Tayloristic and Fordist production concepts, retarded between the wars. These concepts spread widely through industry first, to be followed by the service sector at a later stage.
- The modernisation of production resulted in a high rise in labour productivity which made possible a high rise of the wage level.
- Secondly, the rationalisation of the sales process drummed up steadily growing consumer demand.
- Finally, the effects of the ‘epoch-making innovation’ of the motorcar, the introduction of which was equally retarded between the wars, created spill-over effects through society as a whole.

These factors combined set the scene for a period of unprecedented economic growth indeed. They created ‘the golden years’ of stability and prosperity.

17 ibid, 235-237
5.2 Forces of capitalist stagnation

The anchor drifts

In the meantime the anchor of the welfare state to which the whole concept of guided capitalism had been moored, was drifting. Those same factors that had propelled the dream of everlasting prosperity would contribute to the stagnation that set in during the 1970s. Combined with high inflation rates, these years are remembered as the period of ‘stagflation.’

First there were exogenous factors again that put western economies on a downward slope. There were the two oil crises of 1974 and 1979 - triggered by political events: the Israeli-Arab conflict and the Iranian Revolution – that strongly deteriorated the terms of trade for the European countries as well as the US. Inflation was fuelled by the combined effects of the amounts of ‘petrodollars’ flooding the world financial markets and the Vietnam War that was, like all major wars, fought on credit. It was the first time that the stability of the world monetary system was undermined by huge amounts of ‘world money,’ loosely circulating around the globe.

Furthermore, the effect of the modernisation of industrial production petered out. The ‘internal territorial expansion’ in industry had been almost completed successfully. The same is true for the spill-over effects of the epoch-making motorcar. At the beginning of the 1970s the automobilisation of European societies had largely been accomplished.

Another fundamental factor was the effect that guided capitalism had on the way in which large corporations were managed. Even in the US, until the 1980s, a wide variety of industries – from agriculture to airlines, with the transport, banking and energy sectors in between – were strictly regulated. Regulation “existed for one reason only: not to protect consumers from overcharging, but to protect producers from undercharging, from ‘cutthroat’ price competition – that is, genuine free-market competition.” It resulted in stable, easy to manage industries, providing stable, easy to fulfil jobs that were well-paid as well, but, on the other hand, in an erosion of the entrepreneurial function that would lead to the kind of economic fossilization that Schumpeter had feared.

The period 1950-70 is not remembered for its innovative strength. The only really new consumer product that came to the market was the television – already invented before the war and by far not ‘epoch-making’ in the economic sense. Lack of price competition and product innovation did shift the competitive battle to the sales effort as its principal weapon. Advertising, like the financial sector, developed into an industry in its own right.

“The strategy of the advertiser is to hammer into the heads of people the unquestioned desirability, indeed the imperative necessity, of owning the newest product that comes to the market. For this strategy to work however, producers have to pour on to the market a steady stream of ‘new’ products, with none daring to lag behind for fear his costumers will

18 Luttwak (1999), 32
turn to his rivals for their newness. Genuinely new or different products, however, are not easy to come by.”

Given the prime function of the sales effort as the means of competition, industry was forced to create ‘newness,’ whether real or fake. American car manufacturing offers the prime example how markets worked at that time. Technical adaptations in the 1950s and 1960s weren’t focused primarily on delivering a better or more serviceable product, but on making a more saleable product. The costs of the yearly model changes were estimated at $700 per car – 25% of its purchase price and about 2.5% of American GDP. Cosmetic adaptation replaced genuine innovation.

Whereas innovation is the ultimate driving force of economic development, as is at the core of Schumpeter’s economic theory. Innovation is not so much about inventing things, but what comes after. Implementing ‘something new’ – it can be a product as well as a production concept – triggers a shock wave from which a new combination of the means of production emerges; not as a matter of course however, it has to be forced.

“The essence of the economic development lies in the fact that the means of production which up till then has been utilised for certain static applications are forced from this track and are put to the service of new objectives. This is what we call the pushing through of new combinations. And these new combinations don’t push themselves through on their own force so to speak, like normal statistical combinations, but a certain intelligence and energy are needed that only a minority of the economic subjects have at their disposal. The pushing through of new combinations is the essence of the entrepreneurial function.”

Big business during the era of guided capitalism however was governed more by administrators than by entrepreneurs. As the effects of the new combinations forced by earlier innovations petered out, stalemate set in.

During the whole era of guided capitalism ‘external territorial expansion’ had been blocked. The economies of the ‘Free World’ were locked up in their own part of the globe, while the Communist block occupied the other one. In between skirmishes took place that tormented the Third World. It was only when, quite unexpectedly, that barrier to capitalist expansion was lifted with the fall of the Berlin Wall in 1989, that overnight an empty space of ‘emerging ‘markets’ came into being. Western economies would see to fill the gap in a stumbling hurry.

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**Structural change**

By the end of the 1970s, European economies could be considered as being in crisis when we apply its formal definition: an interruption of

19 Baran, Sweezy (1966), 132
20 ibid, 139-141
21 Joseph Schumpeter, Theorie der wirtschaftlichen Entwicklung (1911)
the rise of production output and economic growth. It was a time of gloom, raising, for the first time, doubts about the basis on which post-war prosperity had been built. Doubts that, again for the first time, were shared and amplified by the ecological movement that foresaw an end to economic progress at the very least, and an ultimate destruction of the earth as the worst outcome of the three evils of population growth, the exhaustion of irreplaceable raw materials and industrial pollution of the planet. At that time the 'Report to the Club of Rome' had just been published.

More specifically, all four pillars under the system of guided capitalism had crumbled. The objective of continuous economic growth had failed. Earlier there had been ups and downs in the business cycle in various countries at various times. Now, for the first time since 1945, economic activity in all western countries and in all parts of the capitalist economy stagnated or declined simultaneously. As a result, the promise of full employment failed too, as is shown in figure 4.  

![Figure 4: Queuing at the Dole](image)

Unemployment in Western Europe (% of the working population)

The system of fixed exchange rates created by 'Bretton Woods,' that brought so much stability to the world economy, was in ruins after the monetary crisis of 1971, never to recover again. Since then the world would be shocked periodically by crises in the international financial system. The same applied to price stability at home. Average inflation rates in the industrial countries shot up from 7.5% in 1973 to 13.1% in the following year, only to gradually descend to the still extremely high level of 9.1% in 1979.  

Especially the high unemployment rates did raise political questions again. In the backrooms where governments defined their economic policies during 'the golden years,' we meet John Maynard Keynes. He had given the explanation for the Great Depression:

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22 Calculated from Winkler Prins Jaarboek, vols. 1976-1988
23 Ibid
under-consumption meant that too many goods were chasing for too few consumers with money in their pockets. This insight gave governments, employers and unions a shared interest in keeping up the level of consumption in society. As an employer, it was no use underpaying your workers, for they were your consumers as well. And you needed the unions, formerly seen as a disruptive force in society, as fully accepted partners in maintaining the level of buying force in society. After this, formulating economic policy came down to fine-tuning the variables that Keynes had offered.

But his theory that had worked so well in the stable environment of the 1950s and ‘60s offered no remedy for the structural changes in the next decade. There is a joke by an economics professor about a Keynesian and a neo-classical economist, cycling alongside a deserted shipyard. The Keynesian says: ‘There is a shortage in the demand for ships; the government has to stimulate it’ (or it has to subsidise ship-building). For the neo-classical economist one glance is enough: ‘Old scrap. Demolish it.’

Indeed, much production capacity became ready for the scrap-heap, as a two-track economy began to emerge. Enterprises in a limited number of sectors (electronics, chemicals and pharmaceuticals) could meet the rising expectations of their workers. They were the draught horses of the post-war economy, were product development took place and productivity rose steadily, due to an increasing amount of capital per worker. However, an oil refinery with its capital-intensive production employs only few people. Large numbers of employees were found in the more traditional industries, like shoemaking and textiles, metal works and shipyards. They did the labour-intensive work in which there is little technological change, not in the products, nor in production. As a result, productivity growth was low. Yet these industries too had to pay for the rising expectations of their workforce.

Adding to the problem, shortly before north-western Europe had started to import ‘guest workers’ from the countries around the Mediterranean. It was a temporary solution for which it paid the high price of a painful process to integrate the newcomers. And, with the wisdom of hindsight, it was a quite unnecessary solution. Ten years later much of the work in the ‘old industry’ had disappeared to low-wage countries or was rationalised away. Between 1972 and 1978 the Netherlands lost 35% of its textile industry, Belgium and Germany each 28%. Dutch shipbuilding shrunk at a rate of 12%; in Denmark 8% and in France 7%. Much of the unskilled labour vanished definitively. The migrants stayed and kept coming.

Keynesian economics had no answer to this kind of changes in the structure of the economy, as its author had already admitted during his life. When pointed to the limited applicability of his theory in the long run his answer was: ‘in the long run we’re all dead.’

As mentioned before, in a stagnant economy government and private business are locked up in a zero-sum game. This is the more so as government expenditure tends to rise relatively as a share of net national product. This tendency is the result of the so-called
Baumol effect, a phenomenon discovered by William J. Baumol and William G. Bowen in the 1960s. They first made their observation that in certain labour-intensive activities productivity doesn’t rise over time from the arts sector. They pointed out that it took the same number of musicians who each needed the same preparation time in order to play Beethoven’s string quartet in 1800 as it takes today. In other words, the productivity rise in the classical music sector is nil. Nowadays, the Baumol effect is mostly used in connection with health care and education that are at the core of the welfare state. Whereas in a range of businesses, from car manufacturing to retail and banking, workers become more productive year by year due to technical innovation, it takes a nurse the same time as before to bandage a patient or a university professor to write an essay. These ‘unproductive’ activities have in common that they

- cannot be mechanised away but have to be delivered hand-made,
- cannot be ‘offshored’ to a low-wage country but have to be carried out on the spot, and
- cannot be missed for societal reasons and therefore cannot be eliminated, as a commercial enterprise would do.

For this combination of reasons ‘Baumol tasks’ primarily come at the government’s expense. When advanced technology doesn’t come to the rescue – as it does in the case of some high-tech health care like cardiology, where advanced treatment did raise productivity – it has limited opportunities to curb the relatively rising bill. Government can reduce the quantity and quality of its services; it can raise their price or reduce employee benefits, but only to a certain extent. Public sector wages for one cannot deviate too much from those in the private sector, which sets a benchmark based on private sector productivity. In the end, the costs of government production will inflate quicker than the growth of GDP, unless it is extremely high. It was in the period 1950-60; not any more in the 1970s.

The situation was aggravated by the fact that the volume of services rendered by the welfare state tended to rise over time as well. When government started to offer a wide range of education facilities, students flocked into the institutions of higher education en masse. I myself entered university in the early 1960s as one of the first of a generation that made such a step from a family background which would have made it practically impossible only ten years earlier. And I was not alone. My freshmen’s year in social sciences counted more than four hundred students, where it would have been only a tenth of this number a decade before. Universities groaned under their weight.

Secondly, the social security system was confronted with demands it wasn’t built for. It was designed to cover incidental risks like short-time unemployment or labour disability due to industrial accidents. But when during the 1970s fundamental changes occurred in the economic structure, the risks were no longer incidental but structural. In the end the system could not cope with it.

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Breaking out of the deadlock

Not surprisingly, early theories aimed at breaking out of the stalemate of stagflation confronted government’s role in the economy. According to adherents to the money supply school, headed by Milton Friedman, it caused inflation (and thereby the economic crisis of the 1970s) by allowing the money supply to expand too fast in order to finance its overgrown bureaucracy. This theory presupposes that inflation always is a monetary problem. Money however only is a reflection of what happens in the economic process. It functions as a standard of measurement, storage of value and a medium of exchange only. By treating money as a tangible phenomenon that influences the outcome of the economic process on its own force, monetarists were unable to look behind the ‘money veil,’ where the real process takes place.

For instance, where did the over-supply of money come from? Admittedly, partly from government’s welfare spending. But the demand for money also arises to a substantial part from personal debt due to over-drafts, hire-purchase of durable consumer goods, mortgages and so on – the spending that propels the economy. There is no getting around the fact that the consumer society tends to encourage people, especially those at the lower end of the income ladder, to spend more than they earn – the more so in times of stagnation when income rises are curtailed and the urge to sell is so much greater. Where the rationalisation of the sales effort has become the prime instrument to keep the wheels of industry turning, as a government it is not easy to limit the quantity of money circulating in society at the same time, without causing a credit crisis. Nevertheless, the monetarists found in their theory the perfect ideology to attack the director’s role of the nation state at its weakest side, its finance – and indirectly the system of guided capitalism as a whole.

It was only the first skirmish. The full battle set in when the heavy cannon of supply-side economics was brought to bear. According to this theory the cause of the economic problems that haunted the industrialised world was not to be found at the spending side - as Keynes had taught - but in production and supply. When an economy stagnates – when it creates insufficient employment and creates too little investment – this is because people are insufficiently triggered to be active economically.

Supply-side economists offered two cures. Deregulation was aimed at diminishing barriers to entrepreneurship and restoring the functioning of the market, as well as at forcing the working population into economic activity by taking away the safety net that the state had offered before. Secondly, a reduction of tax rates would more lavishly reward those active. Supply-side economics delivered the intellectual ammunition to set in the frontal attack, both on the role of the nation state as the director of the economy and on its ability to finance the welfare state. It paved the way to the second wave of globalisation that
The Maintenance Crew for the Human Machinery

was set in motion during the 1980s and would get an unexpected impulse in the following decade.

The Chernobyl of capitalism

The ‘thesis of inherent stagnation’ is in fact an update of Kondratiev’s theory on the long term business cycle. It states that in the long run stagnation is capitalism’s natural state, so to speak, unless it is overcome by strong external stimuli. This is so because accumulation of capital is too good for its own sake: too much capital is piled up, chasing for too few viable investment opportunities. In macro-economic terms this means that the circular flow of income choke...
collective production of goods and services as well as functions of the state are transferred to private organisations and institutions. The twin concept is economisation: the expansion of the capitalist logic into other, non-market spheres of labour.\textsuperscript{26}

The proclaimed aim of privatisation and commercialisation of government activities (like, for instance, housing, health care, education or public transport) is to make institutions more efficient by bringing them under the discipline of the market. The efficiency results, however, are questionable in quite a number of cases, not in the least because markets that are created in this way are often oligopolistic or monopolistic. So it is better to understand these policies, not from the perspective of efficiency, but from the expansion of the financial-industrial system. It opens up a wider area of human activity for the accumulation of capital.

This fundamental transformation in the societal division of labour has as its consequences first of all the fact that the logic of the market penetrates all kinds of human labour. Secondly, the combined trends of privatisation and commercialisation indicate an erosion of the nation state. National government had been, up till that point in time, the guardian of the welfare state and the power of last resort behind the system of industrial relations.

The innovational expansion fell short of expectations. No one can dispute the impact the Internet has had on many aspects of present-day life. But this is not to say that this innovation meets the criteria of an ‘epoch-making innovation.’ It did not create an outlet for investment capital large enough to offset an inherent depressive tendency in the economy. It neither brought about societal spill-over effects that would multiply investment opportunities. How else could the ‘dot com bubble’ have emerged? Only because investments made in technology funds fell far short of expectations.

It is beyond my competence as well as the scope of this study to assess the combined effect of these three forces of expansion from the 1990s onwards. This is the more so because a new variable has to be introduced into the equation.

\textbf{The virtual economy takes over}

Since the mid-1980s the virtual economy has expanded considerably. It consists of money flows that offer opportunities to create virtual profits outside the real economy in which human beings of flesh and blood manufacture products and render services. In theory, the real and virtual economies are each other’s mirror images, which can be best explained in micro-economic terms.

At the level of the individual company we find a primary process that relates to the core business of the enterprise. In manufacturing, this process is aimed at the transformation of raw materials into products; in services immaterial means like time, expertise and

\textsuperscript{26} Graßl (2000), 148
information are applied in rendering service to the client. The primary process induces two circular money flows. Raw materials are bought and enter the company; they are paid for and money leaves the company. In reverse, finished products are sold and paid for, which induces an inward money flow. The total of financial transactions that emerge from the primary process is called the operational money flow. Within this operational flow, income and expenses will not always be equal; it would rather be a coincidence if they were at any time. So, the operational money flow induces an opposite flow—the financial money flow—to cover temporary shortages and surpluses, for instance by bank credits and deposits.

Now in this model the operational process is dominant; the financial process adapts. For a long time this was also true at the level of the national economy: the real economy dictated the virtual economy. From 1945 to 1971 the Bretton Woods system maintained fixed exchange rates, anchored in the convertibility of the US dollar into gold. Under this rule, governments had to keep in place a strict monitoring system of capital flowing inwards and outwards. Consequently there hardly was an international capital market. Pension funds for instance invested their client’s savings at home. And something like global currency speculation was almost nonexistent. That was the essence of the system of guided capitalism. The nation state’s sovereignty that was based on its control over monetary and fiscal policy enabled it to bridle the economy. This era came to an end when in 1971 president Nixon, under pressure of a rising trade deficit and an expensive war in Vietnam (doesn’t that sound familiar today?) cut the tie with gold, after which all currencies went afloat. This created the opportunity for a group of primarily American economists who aimed to liberate the financial markets from the incarceration of government supervision. Once currencies were floating, logically the first market for currency futures was launched a year later, and logically at the Chicago Mercantile Exchange, in the town were Milton Friedman and his comrades-in-arms advocated the principles of free-market economics.

Futures in commodities had existed for more than a century. They enabled farmers to insure themselves against a drop in crop prices and manufacturing industry against a sudden surge in the cost of commodities—those risks were taken on by speculators. In this case the future is virtual in character—a claim or a liability—while the underlying collateral is real: a ton of cocoa or potatoes. This still links the virtual world to the real one, as the size of the trade is limited to the real volumes of cocoa or potatoes that exist in the world.

Currency futures are different: the claim and the collateral are both virtual. Now there is no limit to the size of trade any more, as virtual realities can be created ad infinitum. Currency hedging turned out to be only the first step in the discovery of a whole new world of ever more complex virtual ‘products.’ The more a virtual asset consists of a claim which depends on a claim again—in a sequence that can be extended several times—the more the virtual economy drifts ever farther away from the real economy in which it should be embedded and from its original function: to finance tangible economic activities.
Floating currencies led to widespread speculation. Normally, speculative capital would only be a tiny fraction of the total global money flow of which the larger part would serve to finance the operational flow in the real global economy. The reality of the last decades of the 20th century has turned this relationship upside down. The value of global trade in the year 1997 was estimated at US $ 5,500 billion. In the same year a daily amount of US $ 1,500 billion flashed around the globe in hot pursuit of possible exchange rate profits. 27 These profits accumulated in what Peter Drucker called ‘world money.’

“This money has no existence outside the global economy and its main money markets. It is not being created by economic activity like investment, production, consumption, or trade. It is created primarily by currency trading. It fits none of the traditional definitions of money, whether standard of measurement, storage of value, or medium of exchange. It is totally anonymous. It is virtual rather than real money. But its power is real.” 28

Virtual money has “total mobility because it serves no economic function.” Thereby it can curtail the control of money supply, credit and fiscality on which national sovereignty is based. “The only thing that can work is fiscal and monetary policies that free a country from depending on borrowing short-term, volatile world money to cover its deficits.” This however, “would only institutionalize what has already become an economic reality: basic economic decisions are made in and by the global economy, rather than the nation-state.” 29

Once currencies were floating free, there was no longer a need to control capital movements. Therefore, during the 1980s – the era of Reagan and Thatcher – all barriers to the international mobility of capital were raised down. Institutional investors (insurance companies and pension funds) started to invest abroad. Banks got bigger and broader, especially when the Big Bang in Britain opened up the markets for foreign financial firms (1986) and in the US the separation between merchant and retail banking was lifted (abolition in 1999 of the Glass-Stegal Act which dated back to the Great Depression). These were deliberate actions to widen the scope of financial markets which made the world financial system drift further into outer space.

The really astonishing thing was the trade of derivatives which are financial assets that ‘derive’ their value from other, ‘underlying’ assets. The term covers a wide range of contracts such as futures, options, swaps and, most peculiar of all, ‘exotics.’ All have in common the ‘leverage’ that is in-built into them, that is a debt expressed as a percentage of equity. In the real economy, this is what a company can lend from the bank on collateral of the constituent parts of its real worth. But in the case of derivatives, where the collateral is virtual in stead of real, what is the real worth of the underlying asset? Endless opportunities are opened up to make money with borrowed money that is borrowed,

27 Passet (1998)
28 Drucker (1997)
29 Italics by this author
etc. So a small initial position can lead to a much larger exposure. In an upward market the leverage builds a multiplier into companies-turned-money-machines that can realise astonishing profit margins. It can however turn in terrifying losses of an equal magnitude in a downward market.

Global trade in derivatives rose from US $3.5 billion in 1991 to $70 billion in 2006.\(^\text{30}\) The total outstanding liabilities in 2007 on derivatives world-wide amounts US $54,000 billion;\(^\text{31}\) that is more than 3.5 times of US GDP. The sheer size of these volumes, in combination with the complex virtual character of the entitlements traded, makes this kind of trading practically uncontrollable for the state's supervisors. And for bankers, for that matter. When in February 1995 Nick Leeson ruined Barings Bank by creating a loss of £500 million, this was due to his trade in derivatives that were so complicated that no one at the top of the bank could understand them, let alone that anyone could oversee his activities. This incident made front page headlines for quite a time. The world financial system should have taken it as an early warning signal for the havoc lying ahead. But when in February 2008 Jerome Kerviel, a low-rank trader at the French bank Société Générale, created a loss for his employer of $7.2 billion - roughly 8.5 on the 'Leeson-scale' - the financial world hardly blinkered. In the meantime it had even bigger problems at hand now the credit crunch crisis began to develop.

‘World money,’ that is virtual money made by virtual money, is not confined within earthly limits, so it can grow exponentially. But it makes its influence felt down to earth. Virtual value is based on expectancy: that the money in my purse will buy me bread at the bakery; that the company I invested in will make me a profit. When I buy a derivative, the expectancy is that the underlying virtual collateral will make me a profit, which however somehow will have to be created in the real world. By lengthening the sequence – a virtual asset that is based on virtual collateral that again is based on virtual collateral – the virtual value can be multiplied, thanks to the leverage. But somewhere in the real world real value has to be created to equal the account for these multiplied expectancies. In the credit crisis that started in 2008, this real value had to be realised by the people who had been palmed on with a so-called sub-prime mortgage which they would almost certainly not be able to redeem.

Securitisation has been the latest financial wizards’ fad. It involves the bundling of loans into packages that are sold to outside investors. In old-fashioned banking the bank provided a borrower with a loan which it kept in its books. Thereto it had to assess the risk of default by estimating the borrower’s solvency – for which one had to know the person in the first place. Securitisation meant that the risk was sold off the books and wasn’t assessed by anyone any more. As a result the balance sheets of all banks in the global financial system together could not in any way give an insight into the solvency of all banks combined.

The theory behind the deliberate and sustained liberalisation of the world financial markets had been that, by allowing businesses to spread risks globally, markets and
5 Guided Capitalism and beyond

Economies would become more shock-proof. The assumption was that markets would compensate losses in one place with profits in other parts of the globe. The reality that took shape from 2007 onwards was that losses resulting from non-assessed risks turned out to be everywhere on the globe. In fact, the global banking system had kicked its risk management over the side.

In 1987 workers at the Chernobyl nuclear plant got highly frustrated by the safety system that frequently shut down this obsolete reactor. Therefore they decided to put the system out of action temporarily. We know what happened afterwards. In 2008 the global financial machinery came creakingly to a standstill, some time after the last safety valves had been removed.

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Virtual money, real world

The Big Question is: why? Why did the whole of the global financial system fail at the same time? This is not Enron and Parmalat any more; these are no ‘incidents’ that one could blame to the greed of some ‘rogue businessmen.’ This is a system error, caused by considerate collective neglect of the most basic rules of risk analysis, which is one of the core functions of the banking profession. The only explanation for this remarkable recklessness one could think of is that there was no alternative; that there were no sufficient viable investment opportunities left in the real economy. According to the ‘thesis of inherent stagnation,’ the era from the 1990s onwards would have been depression years, in absence of an investment-inducing (‘epoch-making’) technological breakthrough. However, stagnation was staved off by growing daredevilishness.

Now the aim of this study is not to prove this thesis. The best one can say is that it is not falsified thus far. It quite well explains the Great Depression, as well as the abundant economic growth during the post-war era. And from this perspective the deep recession of the 1980s would not come as a surprise: the external stimuli that had created the growth of the post-war decennia had petered out. The fact that there was abundant economic growth from 1990 onwards may quite well be explained by two factors. One is the external territorial expansion in the form of the emerging markets. The second is the enormous amounts of ‘world money’ that were created in the virtual economy and trickled down in the real world. A depression long overdue had been staved off by this ‘forward flight into virtuality,’ so the argument would run.

Virtual money had developed into an economic determinant in its own right and ever growing amounts of it had been needed to overcome the downturn momentum. To take the virtual for the real can make one become dazzled by illusions. The perception of the relationship between human effort and value creation gets blurred. In the 1990s, during

30 Engelen (2007)
the ‘hype of the new economy,’ there grew up a common belief in the capacity of virtual money to multiply itself automatically. It were weird times. One could hear university students talk in earnest about retirement at 40. What effort did they imagine would entitle them to three quarters of their lifetime out of the labour process? No effort at all was the impression one got. In the Netherlands, in 1990 the total of outstanding mortgage debts equalled 40% of GPD. Ten years later it had risen to 100%. Apparently, people had en masse mortgaged the surplus value of their homes as if there was no to-morrow because the returns on their financial investments would continue to come like pennies from heaven. The virtual economy had enlarged the dazzlement by illusions.

When in the fall of 2008 the ‘credit crunch’ struck in full, this growth-propelling force had petered out. To the contrary: piles of debt lay around everywhere. Governments were throwing packages of money in the astonishing order of hundreds of billions of dollars into the banking system and the economy in general. It would be a mistake to think that state intervention had brought the system of guided capitalism back into operation, or, as one French paper put it, “Wall Street has turned socialist.”32 It is more like governments bewilderedly pushing the buttons, like one would imagine the Chernobyl workers did, while the system no longer responds.

The end of the social contract?

This is the end of a long-term development in which the world financial system that hardly existed at the start of the 19th century has become to dominate the economy, like the economy had become to dominate society. As a result, there is a striking similarity between the present situation we’re in and the laissez faire of the late 19th century. Now like then we are in the grip of the machinery that adjusts production and consumption, wages and employment to the whims of global finance. Neo-classical economists at the time, like the neo-liberals today are united in the same utopian vision of a fully self-regulating global market. If we can learn anything from history – an assumption that in itself is disputed – it would be that, however hard 19th century neo-classical economists tried to win over politicians to their objective to cut the economy lose from its societal environment, they failed. They had to fail, because the social price would have been too high and would evoke counter reactions from a threatened society.

One could write a developmental history of capitalism from the perspective of the progressive sophistication in the way the accumulation of capital is practiced. One only has to recall in his mind the primitivism of 19th century industrial capitalism to admire the purity of the formula of shareholder value as the highest stage of this evolution. The formula abstracts from the down to earth environment populated by people of flesh and blood as well as tips the corporate balance of power towards a higher concentration; which are, in fact, two sides of the same coin. The higher the abstraction level on which

32 Le Monde Diplomatique, October 2008
the capitalist system functions, the more the scales will tip to virtual value creation and
the more the system can ignore the real interests in the real economy - thereby the more
utopian the model becomes.

The principle of a market economy is that it must comprise all factors of production. As Polanyi points out: “Labour, land and money are essential elements of industry; they also must be organized in markets. In fact, these markets form an absolutely vital part of the economic system. But labour, land, and money are obviously not commodities; the postulate that anything that is bought and sold must have been produced for sale is emphatically untrue in regard to them. In other words, according to the empirical definition of a commodity they are not commodities. "Labour and land” are none other than the human beings themselves of which every society consists and the natural surroundings in which it exists.” Money “is merely a token of purchasing power which, as a rule, is not produced at all, but comes into being through the mechanism of banking or state finance.” So, to include these ‘fictitious commodities’ into the market mechanism would mean “to subordinate the substance of society itself to the laws of the market.” Indeed,

“To allow the market mechanism to be sole director of the fate of human beings and their natural environment indeed, even of the amount and use of purchasing power, would result in the demolition of society.”

To prevent this from happening was exactly the basic argument on which the idea of guided capitalism and the creation of the welfare state had been founded, after society had indeed been demolished in Europe’s second Thirty Years War (1914-1945). It thrust upon the nation-state the task to create, represent and uphold a societal consensus about which goods are positional and can be obtained only in prosperity and which are basic necessities that must be provided to everyone in all circumstances – that is to put limits to the market.

At present however, the capacity of the state to fulfil this role has become seriously under pressure, squeezed as it is by costly entitlements to the welfare state on the one hand, while being “increasingly bypassed by global flows of capital, goods, services, technology, communication, and information” - that is bypassed the forces of production. “It becomes increasingly contradictory for firms to operate in globalized, integrated markets, while experiencing major cost differentials in social benefits, as well as distinct levels of regulation between countries.”

Thereby the whole concept of the welfare state has come under pressure.

Financially, there are strong indications of an end of the post-war social contract between governments and their working populations.

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33 Polanyi (2001), 75-76
34 Castells (1997), 243-253
35 Lepage (1997), 71-72
The welfare state is an unsustainable institution. In fact welfare and solidarity are “financed through levies on the working generation - redistribution – banking on the hope that the debt thus acquired by the younger generations for their efforts in favour of their older parents would similarly be repaid by the following generations” However, when the burden of welfare payments becomes too heavy for the working population, it will curtail its liabilities at the other end of the nurturing chain, that is limit procreation. Then the whole system will collapse like a house of cards.

The system of socialised care has lost its moral and financial legitimacy. The argument here is that welfare transfers “basically benefited the generation which had come of age at the end of the war” and has since miraculously “followed the changing needs of this particular generation.” The complaint from the younger generations about ‘the baby-boomers who got it all’ is not unfounded.

Changes in the working environment will make traditional social security arrangements obsolete.

The whole concept of social security based on the notion of employment – being employed is what entitles a person to welfare benefits – is out of touch with “a ‘post-wage environment’ where holding a fixed job ceases to be the normal condition.”

These are tough arguments for the proponents of state-organised solidarity to counter. They set the model for deregulation, “aimed at mobilisation of the labour force by de-securitising, because security is identified and labelled as a restraining influence on growth and disfavourable in terms of location of business.” The seemingly innocent term ‘labour market reform’ is aimed at undermining standardised normal labour relations as secured by labour agreements and law in favour of making of the work force more flexible.

Thereby social rights are disputed that, in long social battles, have been accumulated as non-capitalised attainments. The resistance of the losers of deregulation is explicitly denounced as an economically reprehensible strategy of retention of rights. In the system of deregulation the only legitimacy remaining is the capitalised form of attainments (assets, income) or the capitalisation of privileges. Private assets and income would thereby be the only legitimate resources of social security.

The essence of capitalism is that the accumulation of capital pushes its way through into ever wider segments of society. The termination of the post-war social contract between governments and their working populations would mark a major stage in the development towards the fully capitalised society and the pure market economy that was the dream of 19th century neo-classical economists.

The commoditisation of human labour however creates the probability of a moral
hazard. The term originally stems from the insurance business, meaning that people tend to take higher risks when they know these are insured than they would do when the risks were their own. In the same way one could say that the banking sector as a whole could act irresponsibly in the knowledge that, where the chips would be down, governments would come to their rescue. In the wider sense moral hazard indicates the abandoning of considerations of ethics and prudence in the knowledge of absence of sanctions. It is the immorality of neglect that results from the arrogance of power.

The benchmark of moral hazard in relation to work is the extent to which it tends towards the alienation of labour which, in Marx’s terms, means that it becomes “fixated into a physical, measurable object,” so that “labour itself becomes reduced to a thing.” The content of work is the heart of the matter. When in that fully capitalised society the role of the nation state - as the guardian which stands between its citizens and developments that determine their lives, but which are out of their control - is gone, the only thing people have to go by are their productive capacities and skills. Their human capital is their own.

36 Graßl (2000), 122
References for chapter 5

• Lutz, Burkhardt (1984). Der kurze Traum immerwährende Prosperität. Frankfurt am Main: Campus
6. The Inside and Outside of Work

“Will there be leaders who understand the crucial role that human beings from each organizational stratum can play in adding value to the production of goods and services? If not, we will be stranded in a new world with old solutions.”

Shoshana Zuboff

6.1 FEAR AT THE CUTTING EDGE
6.2 THE INSIDE OF WORK (I): THE LIMITS OF MASS PRODUCTION
6.3 THE INSIDE OF WORK (II): REQUIEM FOR A FACTORY
6.4 THE INSIDE OF WORK (III): CAUGHT IN THE LEAN MACHINE
6.5 THE MUTUAL GAINS-THESIS
6.6 THE SHATTERED LABOUR ORDER

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1 Zuboff (1988, 12)
6.1 Fear at the cutting edge

Virtual reality blurs the vision on the relationship between effort and value creation. That goes for consumers and organisations alike. When, like in Malthus’ theory, virtual value augments in a geometric progression, while real value only grows in an arithmetic series, over time virtual values tend to create a reality of their own. By way of ‘profits’ in the virtual economy the accumulation of capital runs faster than profits generated by labour in the real one. From the early 1990s onwards, this induced a gigantic speed-up in the production system, in an attempt to make the real rate of profit keep up with the virtual one.

“In the US and increasingly elsewhere, an enormous intensification of work associated with downsizing and lean production has produced higher productivity in many industries, increasing the amount of profit produced by labour. But it is the rate of profit, not just the amount of it, that matters in the world of business competition. It is as though a rising surf of profits is overwhelmed and buried beneath a tidal wave of accumulated capital.”

As long as the virtual economy didn’t collapse, as it did in the end, to keep up with it was a mission impossible.

As a result, in the early years of the new millennium many companies found themselves squeezed between the spreadsheet reality of high finance translated into operational targets on the one hand and the down-to-earth reality of daily production on the other. Here we find the origin of the atmosphere of permanent emergency and immediacy which we determined to be one of the factors that contribute to corporate anomie. This creates what Sennet calls ‘companies at the cutting edge.’ These are - unlike the broad-based, inclusive bureaucracies of the past - highly exclusive, low loyalty, low trust organisations that are keen on extinguishing skill. Skill becomes defined as “the ability to do something new, rather than to draw on what one had already learned to do.” This runs counter to ‘craftsmanship,’ that is “doing something well for its own sake.” The idea of developing craftsmanship or professionalism in a slow and persevering way is at cross purposes with “institutions that want people to do many different things in short order” that emerge from the concept of flexible capitalism.

We will come back to the ‘skill-issue’ further on in this chapter. The point to be made at this place is twofold. First that, although at a higher level of sophistication, the ‘skills extinction’ observed by Sennet resembles the ‘expropriation’ of craft knowledge by Taylor a century ago. It depletes the human capital that is the worker’s own. Labour market segmentation creates niches of specialisation, black boxes of professionalism that, as

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2 Moody (1997), 45-46
3 Sennet (2006), 63 ff.
long as management cannot penetrate them, offer workers their bargaining power. As we aim to demonstrate in this chapter, the countervailing power within the labour organisation is not primarily based on legal institutions (co-determination, collective agreements) but on the workers’ autonomy over their own work, enshrined in the ‘black box of craftsmanship.’ Braverman’s observation still stands: “Workers who are controlled only by general orders and discipline are not adequately controlled, because they retain their grip on the actual processes of labour.”

Consequently, management will be out for cracking the black box, like it has been from the start of the Managerial Revolution. As a result we can observe a tendency towards general, in stead of specific skills, forcing a more homogeneous work force to offer its productive capacity at homogeneous ‘everyone’s markets’ at ‘commodity prices.’ In this manner the skills issue determines the way in which industrial relations will develop. It has done so from the beginning, when craft skills were the rallying point in the formation of trade unions towards the end of the 19th century. This means that, when we observe a widespread intrusion by management into professional know-how, we may expect the system of labour relations to erode, because the countervailing power is weakened.

As a result, there is a constant upheaval in the structures in which we work. Furedi observes a pervasive climate of latent fear in our society “that appears to have an independent existence,” independent of reality that is.

“The main reason why today’s insecurity has created an intense consciousness of risk has to do with the changing relationship between society and the individual. Many observers have commented on the relentless process of individuation that has occurred in recent decades in Western societies. Changing economic conditions have created an insecure labour market, while the transformation of service provision has increasingly shifted responsibility from the state to the individual. The individuation of work and the provision of services have made survival much more of a private matter.”

We will elaborate the new labour order further on in this chapter. Structurally, it functions not as a machine, like it did in the mass production era, but as a network system that allows for constant reconfiguration. As Sennet remarks: “The joint between nodes in the network is looser; you can take away a part, at least in theory, without destroying other parts.” Durkheim argued exactly the opposite: he based his concept of organic solidarity on the mutual dependency of the elements within the social division of labour. This leads to the conclusion that capitalism in its present evolutionary phase has the potential to affect the basis of cohesion in our society. A culture of fear, as observed by Furedi, is then only the outward symptom that reflects this underlying perception of existential threat.

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4 Braverman (1974), 100
5 Furedi (2006), 73
6 Sennet (1998), 48
6.2 The Inside of Work (I): The Limits of Mass Production

The System Bogs Down

“Detroit knows a lot about building new cars, but there’s a lot it doesn’t know about the young men building them.” During the heyday of mass production the American business magazine Fortune brought a report from the shop floor of American car manufacturing. It mentioned the fact that young workers at the assembly line had spent 20% more time in school than their colleagues over 40 years of age, while the work had nothing to offer with regard to job content. The combination of both had some effects, which were frightening managers.

“At General Motors an average of 5% of the hourly workers are missing from work without explanation every day,” the magazine reported. “Fridays and Mondays the figure goes as high as 10%.”

“There is more turnover. The quit rate at Ford last year was 25.2% Some assembly workers are so turned off, managers report with astonishment, that they just walk away mid-shift and don’t even come back to get their pay for the time they have worked.” The disgust with the work even led to overt sabotage. “Screws have been left in brake drums, tool handles welded into fender compartments to cause mysterious, unfindable and eternal rattles, paint scratched and upholstery cut.” The magazine quoted a GM top manager: “Management and the public have lately been short-changed.” His company invested $24,000 per hourly worker in 1969, he said, “but tools and technology mean nothing if the worker is absent from his job. We must receive a fair day’s work for which we pay a fair day’s wage.”

Around 1970, all over the industrialised world a new protest emerged: the revolt against drudgery and unhealthy working conditions that wrecked people and made them end up on the dole. But, unlike the student revolt out in the streets, no banners were shown and no demonstrations held. In most cases it was a silent revolt that took place behind company walls, outside the limelight of publicity.

Silent in most cases, but not always. In 1969 Italy was engulfed by a wave of strikes and mass demonstrations, fuelled, among other things, by disgust over the dumbness of work. During the ‘hot autumn’ union leaders were frightened to see that they couldn’t mobilise youngsters for traditional issues like job security any more. *That work*? Than we prefer to stay jobless. Via chosen worker representatives, the delegati, the Italian unions tried to get a grip on issues like job qualifications, working speed and labour environment. In the meantime the large industrial conglomerates launched their counter attack. During the seventies Fiat and Olivetti were frontrunners in the introduction of robots: Complaints about dull work? Okay, we’ll automate it away.

Even the Soviet-Union did not escape the workers’ revolt. They didn’t have much opportunity to revolt, so they ‘voted with their feet’ (an expression ironically coined by

7 Gooding (1970)
Lenin) through constantly changing their job. The 25th Congress of the Communist Party (spring 1976) mentioned quit rates of often more than 25% as “one of the economic key problems that has to be solved in the next five-year plan.”

As these examples demonstrate, the design principles that had shaped the production system had wider implications than just the course of production itself. The principles of mass production had been refined to their ultimate perfection, till side-effects began to crop up in the field of industrial relations. In autumn 1973 a remarkable strike took place in the South-German state of Baden-Württemberg, where, among other companies, the prestigious car manufacturer Daimler Benz is located. At stake were not primarily higher wages but better labour conditions. “Keinen Pfennig mehr in der Lohntüte. Streikziel: schöner Arbeiten,” (Not a penny more in the pocket. Strike target: working better) was a headline in the German newspaper Die Welt. One of the union demands was that the task cycle at the assembly line should not be shorter than 1,5 minute; actually it was often measured in seconds. In principle there should be a ban on more splitting up production tasks. A break of three minutes per hour worked was another modest demand.

This strike signalled a turning point. Until then, management’s primary reaction had often been to pay off bad labour conditions, and the unions’ to have their members been paid off. Many wage agreements contained supplements for ‘unfavourable working conditions.’ But under pressure of their constituency, union officials had to change their view. More and more the issue of ‘Humanisation of Work’ (or Quality of Work Life, QWL, as is the term in the English-speaking world) came up in wage bargaining, as the insight became widespread that work that is harmful to human beings, both physically and mentally, cannot be compensated by more money.

**Experimental gardens**

This brings us to the issue of production concepts. Earlier we came across management concepts - that are theories on how to manage the human factor within larger organisations. The motivational aspect of work belongs in this category and we will further elaborate the various approaches to it (‘rational and normative rhetorics’) in chapter 7.1. Here we have to do with production concepts, theories on how to design production systems within larger organisations. This is the engineer’s domain. It has important social consequences however, as the quality of work, which potentially contains alienating effects, is determined by the preceding production design.

It were especially the tight labour markets of the early 1970s that made management willing to go ahead with experiments in job design. This can be described as changing purposefully the content of production tasks with the aim to raise the worker’s job satisfaction as well as his productivity. Those twin goals could be found in every project at that time - a trade-off between the needs of the ‘human factor’ and economic criteria.
The Maintenance Crew for the Human Machinery

Box 15
Towards the inner side of work

Personnel managers in the 1970s often perceived that there was something wrong with the quality of labour, and rightly so. Most strikingly they were confronted with a mismatch between jobs as they were and the preferences of the potential workforce they had to find in the labour market. However, they found it hard to come to grips with the problem as their tool-kit contained management concepts, not production concepts. Self-determination of the worker as a theoretical construct doesn’t bring one very far, when the work at the bottom of the production structure – the material base in Marx’s words – is drained from all regulating capacity so that nothing is left to determine any more. On the other hand, the engineers often were unaware of the social effects that their designs created. They were primarily focused on efficiency. Quality of work issues were paid scant attention to in their education, nor were they a topic of discussion among their peers. The well-being of the workforce was, in their understanding, something for ‘personnel.’ So quality of work often fell between two stools.

From my own experience I remember only a few cases where personnel management made the link with the production structure. One was in a Dutch rubber company, in the early 1980’s. It had formerly had great problems manning the low-skilled production functions it had on offer, and the Head of Personnel at that time saw the opportunity when a new production line was to be designed. He formed a combined task-group, consisting of design engineers and personnel managers. Its assignment was to assure that the jobs in the new production structure would be of a certain minimum qualification level. One of the engineers later told me that he and his colleagues had politely accepted the invitation to this team, but had not had the slightest idea what in the world a personnel manager could have to say about the design of a factory. But as the project progressed, the relation became clear.

There was one example of a machine that would produce rubber boots, which subsequently had to be transported to a warehouse. How? One of the engineers found a simple solution: you put those boots in a container on wheels and one man pushes it to the warehouse. Question from the group: how many times has this to be done? Well, a quick look at the calculator: about thirty times

From the start this posed a problem to management. The design principles of mass production had been aimed at the abolishment of craft knowledge which had enabled the skilled worker to choose his own way to solve his own problems, to be replaced by Taylor’s One Best Way. Over time the system had been fine-tuned to its ultimate perfection, resulting in a level of alienation that was almost impossible to manage. The logical conclusion would be to retreat a step or two and restore some of the workers’ previous autonomy. But this would imply giving up some control over a production system that had been perfected to the extent that it had become vulnerable to the slightest disturbance.

So what happened in most cases was that job design projects took the form of ‘experimental gardens.’ A single department of limited size was selected to try out new principles of structuring production processes. This approach was carried on in the 1960s in Norway already, with the primary aim to solve management problems to attract and attain a disciplined labour force in a tight labour market, with as a possible side-effect a

8 Ligeringen (1981)
per hour. While hearing himself speak he got a hazy stare in his eyes – I guess I’m saying something wrong... Indeed, how can one make qualified work out of walking to and from a warehouse every two minutes?

In the end engineers are highly flexible: all right, if this is not the way, we’ll come up with something else. But without these group sessions, they would have designed this work of little substance without thinking twice.

A related case where ‘personnel’ trespassed the engineering domain took place in the German automotive industry. It was a lucky side-effect of a recent enlargement of co-determination legislation that brought a workers’ representative within the board of directors (Aufsichtsrat). The newly appointed workers’ director found it unsatisfactory that he had to assess investment proposals without any insight into the personnel and social effects. Human beings did not appear in investment sheets. Soon he found out that the personnel department experienced the same problem. Both reasoned that investment proposals in fact always underestimated real costs, as they neglected social consequences.

This argument convinced top management to go along with an experiment on investment analysis that was done at the next major project: the introduction of welding robots in the body shop. As manual welding would disappear, most jobs would also disappear and the remaining ones totally be restructured. Again a combined engineering-personnel task-force went ahead whereby the personnel representative’s task was to determine at every stage of the project the possible ‘personnel effects’ and to quantify them.

It resulted in a two-sided document: at the left hand the traditional (technical) investment proposal and on the right the newly added estimate of social costs for laying off workers, retraining others etc. For the personnel department this exercise also contributed to their ability to argue social policy issues in general in quantifiable terms. And in the German hierarchical business culture the fact that this composite proposal went right to the top, the Aufsichtsrat, made sure that it was taken very, very serious, as the department head remarked contently.

That I still remember these cases after so many years demonstrates how rare they were.

9 Ligteringen (1985)

‘democratisation’ of business. In the Netherlands the Dutch electronics firm Philips took the lead in this approach. An internal report from Philips, dated 1977, describes an experiment in a Dutch television assembly factory, which was set up by the company to solve its problem of “attracting and holding workers.” The report highlights the limited set-up of the experiment: “The core of the system stayed intact: the long linked line.” And it concludes:

“Many people considered the experiment as a ‘real breakthrough,’ as a realistic alternative to the traditional mass-production systems. Numerous articles appeared in the international press, but journalists often forgot to mention that only fourteen people were involved in the experiment. (...) Nowhere was it mentioned how little impact the experiment had had on the organization of work in the rest of the factory or in other TV factories.”

10 Bolweg (1976), 123
What happened then with those experimental gardens? Mostly they were a success. Productivity rose, absenteeism rates declined; everything a company could wish for was there. Undoubtedly this was partly due to the Hawthorne-effect which makes this kind of experiments hard to assess. Nevertheless, this should have been the logical moment to broaden the new and proven principles to production as a whole. But it was also the moment when line managers got the jitters. An experimental department of limited size they could oversee - but what if everybody was to settle his own work? So they grabbed for the emergency brake - ‘let us take time to evaluate this thing’ - and often not much was heard about it afterwards. In most cases ‘humanization’ hadn’t been their idea in the first place. One conclusion made at the time was that, when these projects had been initiated by staff; as was mostly the case, their chances of survival were minimal.12

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Box 16
A tough job

The introduction of semi-autonomous work groups (or self-steering teams as they were called later on) is a tough job. It means putting the production structure upside down, so that real autonomy can be created. Thereto the following preconditions have to be fulfilled:

- The task of the group has to be well rounded. The group should have a common mission and its activities have to be linked with measurable results.
- The group must have at its disposal sufficient regulating capacity to carry out the group task independently. This principle can only be realised when the first condition is met. Only the combination of both makes it possible for the group to take on responsibility for results.
- There must be sufficiently interdependence between the subtasks of the members within the group. In other words, there has to be a common interest.
- The size of the group should be chosen with care. On the one hand it should not be too small and therefore too vulnerable. But it should also make it possible for each team member to make a recognisable contribution. In practice semi-autonomous teams count eight to twelve persons; twenty is about the maximum.
- The group must have at its disposal production space, machinery and information of its own.
- The group members must be able to carry out various tasks within the group, in order to limit its vulnerability. This principle puts high demands on training.
- Group cohesion is important, but at the same time the team has to be open to its environment. There should be one person who is responsible for the outside contacts, in most cases the team leader, but sometimes this task rotates between the team members.
- Working in teams demands a totally different leadership style. Joint decision making presupposes that the influence each of the members can have is made clear beforehand. The manager has to monitor the development of the team and its members and should act as a coach.
- The reward system has to be in accordance to the teamwork. It should challenge the team workers to make a contribution, recognise achievements and contribute to team cohesion.

The list makes it clear that implementing this type of work takes a long way to go. In most cases the transition process, with all its unrest, takes a number of years.

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12 Den Hertog (1978)
6. The Inside and Outside of Work

But the workers had seen before their own eyes that work could be arranged alternatively and better, and now the bubble of expectations had burst. As a consultant once told me: “In such a situation you should not come to that same factory for the next ten years to tell people you are going to rearrange production.”

♦

The iron triangle

The ‘Humanization movement’ was carried forward with much enthusiasm by everyone who had an open eye for workers’ welfare in an alienating environment: unions, workers reps and enlightened managers alike. In hindsight however it offered a too limited approach to solve the problems of mature mass production. Like the production system, the system of industrial relations also doesn’t stand on it own. In fact there exists an iron triangle: an inextricable connection between

- the quality of the production organisation,
- the quality of work,
- and the quality of labour relations.

In box 13 (chapter 3) we came across the effects of low quality of labour, when much of the work split up in many low-skilled routine tasks, with all the stress and low motivation that go with it. Alienation dominated the lives of these workers, at work as well as in private. In such a situation labour relations will be narrowed to the wage level, as the work itself has little to offer in terms of job content. So, a low quality of work will coincide with a narrow interest in the outcome of the system of industrial relations (and a low level of involvement in co-determination for instance). But this also goes hand in hand with a low quality of the production organisation. These shortcomings spring from two basic ‘organisational choices’ in the system of mass production:

- optimizing quantity before quality, and
- assuring control before optimizing the use of human capital,

some of the effects of which are still with us in our age of the presumed knowledge economy. They became visible in the structural problems which haunted the Western business world during the last quarter of the 20th century: the ‘quality problem’ of the 1970s, the lack of flexibility perceived in the 1980s and the ‘innovation gap’ that was much discussed but hardly remedied during the 1990s.

When efficiency is the prime objective of the production system, quality can only be seen as a pre-limiting condition; something to be done ‘by-the manual.’ Separate instruments like quality circles and TQM have to solve the problem of the resulting run-of-the-mill product quality. Efficiency optimization equally requires much top down planning and control. The reason lies in the division of the regulating capacity. When the work at the production line is curtailed to repetitious and monotonous tasks, the ability of the individual worker to interfere when something goes wrong is brought back to zero.
Remember Marx’ gaps in the working day? Those gaps allowed for fixing things going astray. But in the pre-planned industrial environment no interference at shop floor level is allowed; so it has to come from higher up. And where every boss has a limited span of control the result is a hierarchy of bosses of bosses. In the end, much ‘red tape’ will diminish the ability of the company to react swiftly to developments in its environment.

This is not to say that one of these factors, the quality of work for instance, ‘causes’ the other ones. The ‘iron triangle’ offers a classical example of reciprocal causation where one variable influences the other and vice versa. This is in line with the experience I heard consultants talk about when they were starting off change processes. It does not matter much where you start, be it the organisation, the work itself or the labour relations. If one tackles one of these three factors, changes in the other fields will follow. If one wanted to search for a truly independent variable, one might look at technology. It acts as an antecedent variable in this respect that it makes possible combinations within the triangle that were not available before – for better or for worse.

In search of a socio-technical balance

After all, the ‘humanization approach’ has been as lop-sided as the Fordism to which it was a reaction. Although in theory it was aimed at raising worker productivity as well as worker satisfaction, in practice the quality of work in terms of job content was its prime and often its only objective. In hindsight it only got a chance because of the tight labour markets at the time, which made management willing to give in to the demands of organised labour. The economic feasibility of the isolated application of the instruments of job design – job rotation, job enlargement, job enrichment – has never been a proven case. Not surprisingly, after the deep recession of the early 1980s nothing was heard of experimental gardens any more.

The real question - whether it is possible to reach a balance between the striving for efficiency and the needs of human beings in production - lost nothing of its urgency. This is the theoretical starting point of socio-technical systems design (STSD) that shortly came to the attention of the business world in the 1980s. Its main principle is remarkably simple:

“It is usually not possible to maximize the advantages of technology without impeding or damaging the social component which has to interact with the technology. It is also true that one cannot maximise the requirements of each human being without damaging the technological benefits which could accrue for instance in protecting us from a potentially hostile environment. The socio-technical model requires that a complementary balance be established and that each case has to be assessed independently to achieve this.”

13 Braverman illustrates this phenomenon with some illuminative figures on the rise of the the production bureaucracy as a result of the introduction of Taylorism in American manufacturing industry. In 1899 there worked 348 thousand people in administrative functions, against 4,496 thousand in production, a ratio of 7.7% between both groups. In 1947 these numbers were 2,578 and 11,916 thousand respectively, a ratio of 21.6%. Braverman, (1974), 240.

14 Heller (1987)
The imbalance between the two is more common. “An important cause of human asset under-utilization in organizations is an excessive centralization of authority and its resultant low involvement of subordinate levels in the process of decision-making.” This under-utilization can be perceived as a shortcoming of the ‘quality of the organisation,’ that is its ability to react to a complex and ever changing environment.

Socio-technical systems theory developed out of a large amount of experiments with job design in post-war Europe, carried out in close cooperation between companies, academics and consultants, primarily in England, the Scandinavian countries and the Netherlands. In the latter country it became known as Integral Organization Renewal (IOR) because it aims to improve the three elements of the ‘iron triangle’ in coherence. It contains a coherent set of design principles, design rules and design sequences that together form a consistent body of knowledge.

Its starting point is the ‘open system approach.’ It says that the measure of freedom of a production system to shape its internal combinations of technology, products and services and social values and industrial relations, is determined by its environment, be it technological and economic or political and cultural. It is a truism today that the environment gets more and more complex by the day, due to the competition of all against all induced by globalisation. The law of requisite variety states that turbulence in the environment of a system can only be regulated by an equivalent internal variety in that system. Or, putting it in a more popular way: chaos can only be coped with by chaos.

Now from this it follows that there are two, and only two, ways to cope with environmental complexity and uncertainty: either one increases the internal complexity or one decreases the needs for internal coordination and control. The first approach we could call the bureaucratic option by which the functionality of the organisation is broadened, mostly by creating more staff functions. When ecological problems make themselves felt you appoint an environment officer. When product quality becomes a headache you introduce TQM and a quality manager to supervise it. Broadened functionality means more internal regulation-by-the-manual, if only because the environment officer and quality manager have to show they are worth their pay. More internal regulation tends to decrease flexibility. Coping with external complexity by intensifying the internal control function may solve problems piece by piece, but leads to important sub-optimization of the organisation’s functioning as a whole. This is because centralisation of regulating authority at higher echelons robs the organisation of the regulating capacity of the broad base of the organisation. Whereas, with so much external uncertainty to cope with, there is so much to regulate that it should be all hands to the pump.

Where the bureaucratic option results in complex organisations containing simple jobs, the opposite approach starts from the maxim that what can be regulated locally should be

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15 Applied to organisations this law states that the variety within a system must be at least as great as the environmental variety against which it is attempting to regulate itself. Put more succinctly, only variety can regulate variety. W.R. Ashby, Self-regulation and Requisite Variety, in: F.E. Emery, Systems Thinking, London: Penguin (1959).
16 De Sitter et al. (1997)
regulated locally. Consequently it results in simple organisations (the regulating load of
the higher echelons is mitigated) with complex jobs in which ‘thinking and doing’ are re-
integrated. This is realised by applying a set of design rules that are simple to understand.\textsuperscript{17}

At macro level, the principle of parallel production means that logically coherent
product ‘families’ are processed independently from each other in homogeneous
production flows. This reduces a lot of internal coordination due to the interference of
heterogeneous production flows, when for instance larger series and small batch production
muddle up.

Segmentation within these production flows means that we trace clusters of production
tasks that form logically coherent units. At mid-level, the grouping of these units together
creates more stable man-machine (socio-technical) interfaces.

A flow production system seizes at the interrelations within the production system.
Therefore it can only be implemented by the way of integral change. At the same time it
is firmly based on group work. In mass production the basic building block of the system
is the individual worker. According to socio-technical theory the individual is too limited
in his capabilities to act as such a nucleus on his own. Therefore, at micro level, the
segmented clusters of production tasks are structured into modular task groups in which
the internal regulating capacity is located: the coordination, the flexible division of tasks,
quality control, maintenance, work planning etc. – all at the lowest level possible.

The point to be made here is that the measure of freedom to change the regulating
structure (who is authorised to regulate what) is determined by the production structure;
that is by the original design of the physical lay-out and product flows. When one
intervenes in the production structure, the whole division of labour is at stake – not least to
mention the structure of power and authority. That is what is meant by integral change.

\section*{Design for change}

The change process has to be thought over thoroughly beforehand and
to be well structured. As the integral change of the production
organisation is the aim, the whole process will take considerable time,
often three to four years, and will consume lots of energy from the organisation. Here is an
example of such a plan for structured change, consisting of five steps.

\textbf{Step 1: Orientation.} This activity is often carried out by a project team. From the start it
is essential to assure the commitment from top management, as organisation redesign in its
initial phase is a top down affair.

\textbf{Step 2. Quality now.} Gaining support and commitment from the organisation as a
whole is of crucial importance to the success of the change process. That is the aim of the

\textsuperscript{17} De Sitter (1998), 158
Quality now campaign. It focusses on the bottlenecks that can be solved on short notice without fundamental adaptations in the functioning of the organisation, are in most cases urgent too, and by remedying them create commitment among the work force.

**Step 3. Investigating.** The structural bottlenecks that relate to the production structure itself are investigated from two points of view:

- the structure of the execution: how are the activities within the production process actually carried out;
- the structure of the regulation: how are these activities controlled.

**Step 4. Renewal.** These points of view are relevant for the design of the new production structure. Only when one knows how the processes within the production structure take place, one can change them. Often, upper management has no idea; it sees basic materials coming in and final products coming out, but what happens in between more often than not is a black box to them. The redesign is aimed at enhanced controllability of the process.

**Step 5. Anchoring the changes.** The new design leads to the introduction of semi-autonomous task groups that carry out production and operational groups, formed by the former specialists. Hardly a machine will be left in place and almost everyone will get another, and in most cases an enlarged task. The risk of such an overall change should not be underestimated. Therefore it has to be kept in mind that integral organisation renewal is a process of trial and error. Constant evaluation is essential. But the results of such a radical effort can be impressive. When the quality of the organisation as a whole is brought on a higher level its capability to adapt to the changing environment is enhanced considerably. At the same time the quality of the work can be improved, resulting in a higher value added and labour productivity. And the labour relations will be ameliorated, as more qualified work results in more interest of the workers in their work and higher motivation.

**A say over one’s work**

Under Fordism the ‘power issue’ was mechanised away. But HRM sees the employee no longer as an extra pair of hands, but as a valuable resource that has to be utilised optimally. “Employees should be involved in matters of their companies, particularly in their daily work and their direct work environment more intensively than any time before,” states a research report on *Direct Participation.* Fröhlich, Pekruhl, (1996), 17-18 “They are asked and expected to identify with their companies and their jobs, to engage themselves in their daily work to constantly improve work processes and products.” In short, “Direct participation, in many respects, is about the re-discovery of the ‘human factor’ in organisational success.”

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18 Fröhlich, Pekruhl, (1996), 17-18
So worker’s participation was not a new concept, as the study stated, but it re-emerged under different circumstances:

“First, direct participation is directed by management. Management is the driving force that restructures organisations along these lines. It is willing to grant larger discretion to employees to carry out their tasks and encourages them to take on responsibility. It is ready to reduce direct control of the work process and promotes the idea of self-organisation of employees. Thus, direct participation is not wrought away from management by legislation, by union power or by employee protest, but is freely granted.

“Another new aspect of direct participation today is its conceptualisation as a set of integrated measures. Where older approaches to direct participation regarded itself as an isolated or restricted measure intended to solve single organisational problems which affected limited groups of employees, direct participation now has the potential as a general approach to effect the whole organisation.”

These are the two aspects the Humanisation movement missed two decades before. First it laid a one-sided stress on the ‘humanisation’ aspect, neglecting the economic aspects of redesigning production processes. Whereas its case would have been better served when both aspects would have gone hand in hand. Employers are not likely ready to change their production structure solely for the well-being of their workers. The other point is the fragmented tackling of the problem. The ‘experimental gardens’ are really a thing of the past.

In this research direct participation was separated from representative participation, such as co-determination and collective bargaining, and financial participation, like profit sharing schemes and employee share ownership. It is split up in six main forms, running from individual consultation at arm’s length (f.i. suggestion schemes) to group delegation whereby extended responsibilities are granted to semi-autonomous work groups to carry out work, without referring constantly back to management. With the exception of individual delegation, which was reported in more than half of the cases, the incidence of the main forms of direct participation in ten European countries was about one third in percentage of the workforce employed.¹⁹

Not all of these forms of participation have to be applauded upon. Suggestion schemes for instance, or ‘idea boxes’ as they are sometimes called, are an example of low grade, ‘arm’s length’ consultation. In a tightly structured production environment people are not supposed to think about their work during their work, yet management cannot stop them to do so. As a result, for this exemption to the rule a separate procedure had to be developed, which allows shop floor workers to put in suggestions for altering work processes. If successful they are rewarded for something they should not do in the first

place. Further reservations can be made when we look into the real discretionary authority that is granted to the shop floor. The researchers constructed an index for the robustness of direct participation based on the spread (percentage of employees involved) and the intensity: the number of decision making rights. This resulted in the categories weak, medium and team-based group delegation. The latter, fullest form was reported in less than 4% of the cases surveyed. So a sceptic could reasonably argue that there is much gloss in the field of direct participation. The researchers concluded:

"The managers in large numbers of organisations appear to be aware of the concept of direct participation and, more importantly, practise one or other or a number of its forms. They do so primarily for economic considerations, but are also aware of the importance of improving the quality of work life as well. The wide spread practice also suggests that direct participation is not wholly dependent on sector or task complexity or particular institutional arrangements potentially, in other words, its application would appear to be universal.

"Most importantly, the managers responding to the survey also believe that direct participation works. Each of its forms was viewed as having positive effects on a range of key indicators of economic performance, such as quality, output, costs and through-put times, on absenteeism and sickness and on reductions in number of employees and managers. Overall, the verdict of respondents on direct participation was that it had been very successful."

Quality improvement was the effect most mentioned (by 94% of managers responding), followed by reduction of throughput time (66%), increase in total output (58%) and reduction of costs (56%).

‘Semi-autonomous group work’ came quite en vogue at the end of the 1980s. Since then enthusiasm has somewhat tempered, as experiences learned what radical consequences this form of work structuring had, both for the people and the organisation. The power-related consequences may have been one factor that has hampered the wide-spread application of the socio-technical approach. STSD however is proven theory. It supplies the tools to raise the quality of work, the original QWL aim, by creating more complex, more rewarding jobs. Simultaneously, the simplicity of the organisation enhances its flexibility. Its results, when applied from the 1950s through the 1980s, were impressive. They were insufficient however to satisfy the appetite of the impatient capitalism that took form during he 1990s.

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20 Benders et al. (1999), 15
6.3 The Inside of Work (II): Requiem for a Factory

That was a lot about theory and I may hope that the reader is still with me. Now, the main question is: can it make a difference? Yes it can. Here is the story of a factory that put its production system upside down; a rare case, which got some fame among specialists. Quite a few people owed their degrees to it, PhD’s and MBAs among them. The factory survived by doing the right things rightly, following the steps of the change process described before. But in the end being good was not good enough.

The day before I visited Philips Semiconductors at Stadskanaal corporate headquarters had just announced its intention to close down 70 of its 244 production locations world wide, and had done so in a remarkable way. The president, Cor Boonstra, didn’t tell his managers and employees or the unions, but a journalist of the Financial Times. ‘Management by press’ was a communication technique I had not come across yet.

“The rumour goes that we will be among those seventy factories,” said the plant’s production manager. “But that’s nothing new. Since 1973 people here have been telling each other that the factory will be closed down.” It is fair to say that it had quite a history.

The Stadskanaal plant dated from 1955 and was located deep in the countryside of the northern Netherlands, in what once was the peat district of the country (the place owes its name to the canal by which the peat was transported). The location was typical for the immediate post-war years, when the Dutch government and companies like Philips had to cope with two closely related problems: the first to find alternative employment for the mass redundancies from agriculture, the second to find the pairs of hands (not the brains) to assemble all those gadgets which came in demand as a result of the growing wealth.

So the government created the conditions for the company to expand to remote places like Stadskanaal. At its peak the factory employed three thousand people. But in the early seventies decline set in, as the low wage countries made their influence felt and in five successive reorganisations the size of the workforce was brought down to twelve hundred in 1986.

That was when a new plant director arrived from Eindhoven HQ with a clear mission: to see whether he could restructure the loss making plant; otherwise he had to close it. He got three years for the job. He told what happened.

“When I went to Stadskanaal, it had already been unofficially decided that the plant should be closed down. The division director told me that he could produce semiconductors more economically in Taiwan. ‘There is hardly any semiconductors production left in the whole of Europe.’ In the end I was granted a few years to give it a try.”

When he arrived there, he found a workforce obsessed by maintaining employment. For that reason the factory took on any kind of work it could lay its hands on. Although in semiconductor production, it assembled household appliances like coffee machines too, as
well as wheel chairs. There where even two men overhauling old tobacco machines. All this non-essential production added considerably to the ever-growing losses. “I told them their mission seemed to be being at work, at any cost.”

Not surprisingly so, for Philips dominated the whole area. “There you had a plant that had employed three thousand people at its peak; the next employer was a machine tool factory with a hundred employees. The company pressed the local authorities constantly for infrastructure and facilities: a tennis lawn here, a theatre there, in order to motivate corporate staff to move to what it saw as Siberia. Later on we got that back as a reproach: you forced all this upon us and now you are pulling back.”

The production structure was a typical example of Tayloristic task splitting: all think-work and sales activities took place in Eindhoven, leaving Stadskanaal as a screwdriver factory, manned, “by people with big hands and small heads. One should not expect them to take initiative by themselves. Work was brought to them, not generated on the spot. If you asked people for whom they produced they said: ‘for the warehouse.’ Clients never set a foot there.”

The new plant director arrived with only the idea that a complete redesign of the production structure by introducing self-steering teams might be the solution, based on earlier experiences in other parts of the Philips organisation. “I told the local management: ‘for years we have stripped the shop floor from all intellect, which we have transferred to staff departments, and now staff laments that the floor is good for nothing. Maybe there is some truth in that, but we have created it that way ourselves. From now on I turn the onus of proof: the shop floor can do everything, until the opposite is proven.’”

The change

The project Integral Organisation Redesign Stadskanaal (IOVS by its Dutch acronym) started at the end of 1986 and lasted until the end of 1992. Its philosophy was to improve simultaneously the quality of labour, of the labour relations and the organisation. Thereto the regulating capacity had to be brought as deep into the organisation as possible. Trust was the main ingredient in the process and the most important instrument was training, lots of training.

The change process started 1986 with the strategical orientation. “From the beginning you have to have a clear mission,” said the plant’s Human Resources manager. “For us that was survival first and foremost. And after we had secured our existence, we wanted to create a flexible and innovative enterprise that could adapt to an unpredictable environment. For the workforce it was all about employment. But we never made it a secret that we wanted to improve the way the factory functioned.” The production manager too stressed the need for clarity from the start. “You need clear targets, to be reached on short term: cost price down x%, market share up y% by next year.”

So the second phase in the project was the ‘Quality now-action.’ The members of the
project team almost drowned in it, as a bubble of expectations was pumped up. “The idea was to come to a quick inventory of bottlenecks in production, and to build widespread commitment among the workforce by quick solutions. That’s why so many people participated in this phase. In this way we aroused far too great expectations, as if we would be able to solve all the problems overnight. But the team got passed on far more work than it could handle. That can be tricky: if you open the sluice, you’re washed away.”

The actual redesign of the production structure took place in the summer of 1987. The original set-up was to make a blueprint first and implement the changes thereafter. But as learning by doing progressed, the team members came to the insight that you better carry through changes by developing, leaving far more room for discussion in the factory. The production manager again: “It’s good that we realised this in time, for the developmental model turned out to be a great advantage in that the organisation has not become static and development processes got permanency.”

Training was the main instrument of change, organised top down and obligatory for everyone. Even the plant director himself took part in the basic operator-training course. It made clear that the redesign process had consequences for everyone in the organisation, from management down to the operator at the shop floor. As production tasks were to be enlarged, people had to acquire new skills. And as product quality became an urgent issue, it became clear that only well trained people could realise high quality products. Over the years, meagre and fat ones, the company has spent a six digits training budget, on average more than a thousand Dutch guilders per employee. This investment paid off handsomely later, as the factory had to acquire its ISO-9000 quality certificate. Training courses could easily be based on the audits that are part of the certification process as thinking in terms of training had been deeply ingrained in the organisation.

As the result of the new design ‘whole task groups,’ as they were called, were introduced and former functional departments were split up and integrated into the line production. Others were reformed to so-called Operational Groups. That was clearly a compromise, especially in the case of the maintenance department. It shows how tough a nut a company culture can be to crack. ‘BM,’ (for Corporate Mechanisation) as it was called, was founded on a long tradition. Philips Corp. had always designed and built its own production machines. As a result its mechanics had a high status and an esprit de corps that was more orientated to the corporation than to the separate plant. The plant director, with all the charisma he had built up during the redesign process, did not succeed in decentralising maintenance.

All in all the implementation of the changes went rather smoothly, which is surprising as, due to the termination of the display screen production, the workforce was cut down from 1,200 to 850 in 1991. The times when one could be sure of other work in replacement were over.

22 ibid, p. 112.
23 Demonstrated by De Sitter whose book contains an overview of twenty case studies of work design and organisational change based on socio-technical principles. De Sitter (1982), 163 ff
6. The Inside and Outside of Work

Trust was the name of the game. The production manager remembers: “At the start we asked the works council and the unions to participate in the project. That was asked too much, but they agreed to be present as observers. We had a philosophy and we asked for credit, which we gradually managed to get.”

Communication played an important role in the process. One of the most visible elements was the wallpapers, which appeared every six weeks. They were the main instruments to communicate the principles and the progress of the organisation renewal to the workforce. During the project twelve such papers were issued. Remarkably, the eleventh one appeared under the authority of the works council, a sign of the trust that had been built up.

Trust also plays an important role in the plant director’s story. “I took every opportunity to get on the soapbox and carry across my story, stirring people’s sense of urgency by telling them the water was not up to their chest but up to their nose. I had quite some credit with the works council for several reasons. I had a background in semi-conductors, where the complaint had always been that management understood nothing about the business. I was a few years away from retirement, so I had nothing to lose and much to gain. And I had the support from Eindhoven, which meant a lot for that was the big fear. I have always shielded the people in Stadskanaal from headquarters, telling them that that was my affair.” So aspects of personality play a role in such a process. “Such a change can only be led by the highest man in the organisation. It is not something you can delegate.”

Shortly after the project was finished, early 1993, The HR manager gave as his impression: “When you redesign a production structure you are forced to think about the boundaries of the task groups. Most operators got broader tasks, for instance operating various machines. But it looks like they are more discontented than before. Now that the original aim of survival has been attained they want more: maintenance, logistics, quality and process control integrated into their jobs.”

The shock wave

In the meantime the shock wave had hit, named Operation Centurion. What the plant director had done for the Stadskanaal plant -stirring people’s sense of urgency and showing a way out- a new president named Jan Timmer did for Philips Corp. as a whole. In the almost hundred years of its existence the company had always been a front runner in technology. Its laboratories, which among other products invented the audio cassette and the CD, were famous the world over. But trust in its technological head-start had made the company slow in its reaction to the market, especially to the fierce competition from Japan. That was painfully demonstrated in 1979 when Philips introduced its new video recorder: the V2000 system. Friend and foe alike acknowledged its technical superiority compared to the Japanese VHS system; it only
reached the market years to late. In the meantime VHS had become the market standard.

In August 1990 Timmer shocked his senior management with a presentation which showed that forty percent of all the company’s activities - chips and personal computer production, video recorders, audio and parts of medical systems - all had made losses during the preceding five years. He announced mass lay-offs on an unprecedented scale: 9,000 in computer and components production alone, about 40,000 in other activities world-wide. The total costs of Centurion would amount to f 4.5 billion, which would bring the company’s result heavily into the red.

Although the attention of the press focused mainly on the massive job losses, the culture shock that Timmer forced upon the company was at least as important. In a series of brainwash sessions he stressed quality awareness and market orientation as the central elements of the new company culture. Excuses about unfavourable market conditions would no longer be tolerated. Every manager had to sign a personal contract with the company, committing him to certain targets in terms of market share and profits to be reached in the next one or two years. If those targets were not met, tough luck - second chances would not be given any more.

While the Centurion experience traumatised the Philips workforce, the people at Stadskanaal look back at it in a rather mild way. Said the HR manager: “In 1991 we had reorganised the plant to a point where we could allow ourselves to take a look at the outside world, whereas other Philips businesses where in the midst of reorganisation. For us, Centurion was more an opportunity than a threat, as the whole environment changed. Orders from Eindhoven stopped coming in, so we had to decide for ourselves what to do. From now on it was every factory for itself, which had the advantage that one had to turn to the market for answers.”

As a direct result the controversial decentralisation of the maintenance department could be forced through. “Sometimes a crisis comes in handy.” As a result, the mechanics got better training, so that they could concentrate on more difficult tasks, especially in preventive maintenance. At the same time the operators were better trained, so that they could take over day to day maintenance. The production manager: “Pride in their trade craft weighed heavily for the mechanics. Often they asked me: ‘Haven’t I done my job well enough until now?’ Then I told them: ‘Over the years you have solved the same disturbance a hundred times quite well. Now we expect an analysis from you, so that you will have to solve it only once.’”

The decentralisation turned out to be a great advantage. The factory budget for 1991 anticipated to an enlargement of the maintenance department from 52 to 72 employees. While between 1991 and 1998 production has doubled, there are now only 32 mechanics left, spread over the various production departments. In terms of job content, quality has been enhanced for both mechanics and operators, as both have got more interesting tasks to fulfil.
Waiting times have been reduced considerably. “There was always one man drinking coffee in the canteen, either the mechanic waiting for a disturbance, or the operator waiting till the mechanic had solved it. And making the operators responsible for day to day problem solving themselves had an important side effect: they acquired more insight in the origins of the disturbances, so that less of them occurred. We had a machine with a capacity of 300 thousand products per year, which, after bringing maintenance to the shop floor, turned out 330 thousand, without any technical modification.”

A difficult market

Such a rise in output was more than welcome, for the factory still operated in a difficult market, even in prosperous years. But in 1998, due to the Asia crisis, the market declined by 7%. Add to that, that prices for diodes on average declined by 7% each year. Add to that again that Philips Stadskanaal was a rather small player in the world market and that the value of diodes forms only a small part of the value of its client’s end products. Nevertheless the factory realised a modest growth of 3%. How did it survive?

The production manager explained: “Half of the yearly price decline we compensate by growth. We keep our overhead constant, so we can spread our fixed costs over a greater number of products. The other half we cover by technical improvement, better utilisation of machinery and flexible deployment of people. And our suppliers have to improve their performance too, as about 40% of our price consist of purchased materials. If they didn’t take their share of the burden we would have to raise productivity 12 to 14% every year.

“But even if you have done this all, you have only made up for price losses. To advance you have to introduce new products, that can realise higher market prices.” The reverse of the coin was that the cost-effectiveness of parts of the existing production became questionable year by year, as certain products in the lower range of the market couldn’t be produced in Europe any longer.

Speed was an important aspect in product development, so the process had been renewed in the same integral way as he production process had been done before. In the end, multidisciplinary teams could turn out modified products in four to six weeks; totally new products took up to one and a half year. “That’s still too long,” remarked the production manager at the time, “it should take six months.”

Labour flexibility is an important instrument in the factory’s survival kit. In 1987, before the start of the IOVS-project, almost the entire workforce was hired on fixed labour contracts and the ratio of direct to indirect personnel was 1:1.2. By 1999 personnel in direct production made up the majority of the total workforce and 25% of it was employed on a flexible contract in one form or another. Not all were temporary workers, for this would mean too great a risk for production continuity. An alternative is the flex-pool, a co-
The Maintenance Crew for the Human Machinery

operation of a number of employers in the region. Together they employ a pool of highly trained and flexible workers who switch from one company to the other, dependant on the volume of production.

And again there was a relation with training. Every operator entered on a flexible contract. After a few days or weeks training on the job he could carry out some of the most simple production tasks. But as the company aimed at a broadly deployable workforce, a premium was put on completing formal vocational training at medium level: it was a condition for a fixed contract.

Flexibility adds considerably to the factory’s revenue. The production manager: “In a situation of internal inflexibility you have only one instrument left: steering on your stocks. That is what happened before. If a temporary decline in demand occurred, we kept on producing for the warehouse. At the start of the IOVS-project we held about a quarter of our yearly turnover in stocks. Now that figure has dropped to 10%, including machinery spare parts.”

The turning of the onus of proof has worked till the end. The last step was the integration of quality control into line production. It was a long and hard way to go. “Of course the quality inspectors yelled this was impossible: ‘far too risky, you’ll see it in customer complaints.’ First we have replaced quality control next to the line and then it took us three more years to decentralise it to the operators. At present the last man in line has been certified to take care of the final inspection of our products.” Customer complaints still came in, in about the same number as before, but there was a difference. Ten years before the factory delivered its products at a quality level of 500 PPM, which means that customers accepted 500 faulty parts per million produced. In the meantime this level has been brought down to 3 to 5 PPM and clients have already announced that they expect a further decline to 0.1 PPM in the near future.

Stadskanaal revisited

Four years later, early 2003, the situation looks grim. In February 2002 Philips Corp. has officially declared that it saw no long-term perspective for the production in Stadskanaal any more. Part by part it would be transferred to The Far East. The HR manager, now plant director, was still there, promoted to captain of a sinking ship. “There is no investment here any more, not in machines, not in development. Philips is only interested in us as a milk cow, for we are still profitable. But the cow is hardly fed. How long we can endure depends on the amount of forage and the condition of the cow. Anyhow, not for longer than a few years.”

In the meantime, as a result of a corporate concentration policy, the marketing and sales activity as well as product development, had been transferred to division HQ in England. “For reasons of efficiency, but I doubt the effectiveness. For a learning organisation needs
short communication lines. I firmly believe in an integrated production – that and a learning organisation is all there is. Now marketing had been taken away, you see the learning capacity decrease.”

Subsequently production itself was removed, starting with bulk products that formed 70% of total production (though less of total sales). In 2003, after two years of market depression, the mid-range products were removed, still bulk production, but still profitable too. It was in itself unbelievable that the enterprise could survive in this segment. In the early 1990s the Dutch wage level was seven to ten times that of Taiwan and the Philippines. In the meantime China had come up where the wage level was half the Philippinian. The secret was in the integration of the diffusion process in which the crystal is created and the assembly into the diode. The quality of the crystal can only be determined after assembly, so a quick feedback is needed to avoid repeated deviations. Philips Semiconductors was the only one in the world that could realise this. It was the dividend of years of effort to realise an integrated production process.

But integrated production and the learning organisation need product development next door. When that was removed the enterprise came at the end of its rope. Said the plant director at that time: “In such a situation even self-directing teams can not help us out any more. You can try to concentrate on specialities at the top of the market, but specialities become bulk products after some time, so you need constantly new products in the pipeline. It is clear that for us there is no future left within Philips Corp. any more.”

There turned out to be no future at all. An interlude brought hopes of a buy-out and a restart but spring 2005 the curtain definitively fell. Rumours within the unions were that Philips had purposely derailed the take-over negotiations, not wishing to be confronted with a viable competitor in the market. Anyway it ended where it begun: cost-competitiveness of the Far East versus Europe made the opportunities for capital accumulation too great. By the end of that year there was no production left in Stadskanaal.
6.4 The Inside of Work (III): Caught in the Lean Machine

The Japanese challenge

The socio-technical approach carried a European passport. Its ideal of a human-friendly production system in harmony with its social environment was in line with the post-war European concept to bring the economy in harmony with its societal environment.

Japan in the immediate post-war years was still more impoverished than Europe and its manufacturing sector was of limited size, due to a lack of any position to speak of in world exports. It tried to learn from its conquerors, the United States. But when the chief engineer of Toyota, Taiichi Ohno, first visited the US, what he saw initially only confused him. So, in the press street of an American car factory he saw endless rows of dedicated stamping machines, producing only the left front door or the bonnet of that only type of Chevrolet during the whole year, at the same speed, independent of change in demand.

He saw huge buffer stocks of those doors and bonnets pile up besides the assembly line, in order to keep the conveyor belt running all time under any circumstances – the Basic Law of Efficiency under the regime of Mass Production. And the same efficiency objective dictated that the shop floor should be drained from regulating capacity which resulted in huge numbers of ‘indirect personnel.’

These hidden expenses of efficiency added up, the further mass production reached maturity. Efficiency was realised by means of economies of scale and traded for inflexibility, which could only be countered by the law of great numbers. The conveyor belt, the best-known example of this type of production, runs at a speed that is technically determined. Fluctuations in production volume, due to variation in market demand, can only to be coped with by great numbers so that deviations from the standard cancel each other out.

This kind of efficiency made no sense however at the small scale of in Japanese car manufacturing at the time. From this perspective, Ohno could only see buffer stocks and ‘indirects’ as waste (muda in Japanese) and he fought all his life against it. Out of endless numbers of experiments grew a whole new production concept that became known as the Toyota Production System (TPS). Thereto, Toyota had to rely on the implicit knowledge of its workers. In the case of the press street, the product can only be changed by changing the die and mould. In American factories, this was a job done by specialists, preferably during the factory holidays. By the end of the 1950s, after lots of experiments, Toyota workers succeeded to change a die in three minutes.

This outcome demonstrated the productive capacities that were hidden at the shop floor. The systematic tapping of these capacities became a leading principle of TPS, known as kaizen (gradual improvement). It is applicable to the structure of the production system as well as its outcome, the product quality that was the well-known shortcoming of mass production. Every product that does not meet the highest quality standards,
Ohno reasoned, is just another form of *muda*, to be conquered in the same way. In mass production, quality problems are treated as random events, deviations from standard that happen inevitably and are to be solved afterwards. Toyota trained its workers to trace back errors to their origin, so that they would not occur again. Simple statistical techniques were developed that allowed them to easily determine deviations from production standards. Out of this approach emerged the tool of quality circles that in the end became formalised in Total Quality Management (TQM), based on the principle of zero defects. This brought the issue of product quality back into the line, where Ford had it removed from.

The Toyota system reached its definite form during the 1960s. But the world at large only became aware of it when in 1990 *The Machine that Changed the World* was published, a study on global car manufacturing by MIT. The authors coined the term Lean Production for TPS. The results of their research were shocking: Throughput time per car added up to 36.2 hours in Europe, 25.1 in the US and 16.8 in Japan. Inventories equalled two days of production in Europe; only 0.2 days in Japan. The size of the repair area counted for 14.4% of the assembly space in Europe; only 4.1% in Japan. The clearest difference was the way work was organised. Just like the founders of STSD, Toyota came to the conclusion that the individual is to limited in his capacities to act as the basic building block of the organisation. Therefore, the production structure is built out of teams in which ‘indirect’ tasks are integrated; TQM is an example. Consequently, in Japanese car factories 69.3% of the workers worked in teams; only 0.4% in Europe.

The *kaizen*-principle was to become the foundation of the empowerment thesis in Lean Production. It states that, by breaking the Tayloristic separation between conception and execution of work, high productivity can be combined with high job satisfaction; that is, in our perception of the concept, to reach low levels of alienation. We will come back on this issue later on in this chapter.

*The machine* pitted the new production concept against mass production as well as its predecessor, craft production. Mass production was hampered by the hidden expenses of efficiency mentioned before. As even stranger the authors judged the “remaining outposts of craft production” that they found in the luxury car production in Europe. These “high quality but low productivity” plants had one failure in common: “a widespread conviction among manager and workers that they were craftsmen.” Their focus was directed forward to the end product, which prevented them to look back, to the design of easy-to-assemble parts and to the origin of failures in production in order to erase hem for good. That was a lot to swallow for the Mercedes and BMW managements.

From this perspective it was only logical that the MIT-researchers equally opposed the socio-technical approach, denoted by them as “neo-craftsmanship.” As an example they took the Volvo plant at Udevalla (South-Sweden), an “example of a seemingly unshakable...
public faith in craftsmanship.” Cycle time amounted several hours, while about one minute in a mass- or lean-production assembly plant. Workers in the Volvo assembly teams could set their own pace and rotate jobs within the teams to their desire. It was as if “the system is a return full circle to Henry Ford’s assembly hall of 1903, which we and the rest of the world left behind.”

“Proponents of the Udevalla system argue that it can match the efficiency of lean-production plants while providing a working environment that is much more humane. We strongly disagree with both points.” Thereto the MIT researchers offered some “simple arithmetic” that showed that

“if ten workers require 8 hours simply to assemble four vehicles (not including welding the body, painting it, and gathering necessary materials) – for a total of 20 assembly hours per vehicle – Udevalla can hardly hope to compete with our survey’s leading lean-production plant, which requires only 13.3 hours to weld, paint and assemble a slightly smaller and less elaborate vehicle.” 27

History proved them right. The Udevalla factory turned out to be no match for ‘lean’ competition that set standards for efficiency and productivity from the 1980s onwards. Consequently it was closed in 1993. Around the same time, Volvo replaced the flow-line production system in its truck cabin factory at Umeå, Sweden – 16 semi-autonomous parallel production cells – for a segmented, chain-driven system. The aim was to realise a cost reduction prescribed by top management in the order of 25 to 30%, but at least as important was a use of machine-paced, non-human technology as a means for middle management to retake control over production28 Volvo had pioneered with Humanisation of Work and, just like Philips Semiconductors, lost its case. Both stories read as coloured by the patina of a bygone era. As the next developmental phase of capitalism got momentum the argument of a socio-technical balance lost ground to a one-sided focus on efficiency.

**Technology and work – work and technology**

In the meantime the IT revolution took place. It paved the way for the knowledge economy which stands for the shift from material production to abstract production. People are the link between matter and information and can easily switch from one realm to the other. As we saw in chapter 3, the system of mass production was meant to disrupt this duality within the division of labour – a disruption that disowned that worker from his know-how, if we want to follow Braverman’s argument.

Today, the smart machine takes over much of the know-how of the production process, which originally caused much optimism:

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27 ibid, 101–102
28 Wallace (2008)
A man working with a tool used to look inwards, managing the tool. Now that the tool takes care of the job on its own, he can look outwards, at the flow of work to and from the tool, at how the tool could be better used, at maintenance requirements. Taylorised work required man to ignore everything except what they did; computerised work makes it possible for the nature of work – its flow, its quality, its design – to be reclaimed as the area of workers’ collective experience.

So can we in the end drop Braverman’s book in the dustbin? Wait a moment. People as well as organisations adapt slowly to technological development and often experience this as painful. It requires a different mindset too. The Economist once described how difficult it was for bankers to conceive the computer as a information processing tool. Automation was data production to them, using the punch card technology which dated back to the time when Henry Ford launched his T-Ford. The industrial mindset blocked them to see that the essence of financial services is not in the transaction itself but in the information it contains.

The next lesson was that technology is not the only solution to solve problems in the production process. In the 1980s General Motors invested no less than $8 billion to ‘automate away’ the many problems in production we sketched at the beginning of this chapter. It led to over-automated factories in which much of the high-tech promises simply did not materialise. This failure was the more peculiar while GM could have learned from Toyota, its partner in a joint venture, that it gave priority to streamlining the production process in stead of expecting the world of technological solutions. And yes, GM had to admit: “We just didn’t a good enough job communicating to the people.” Ten years later a survey in the German capital goods industry also came to the conclusion that production automation had been carried through too far. Smaller batches were one reason. Rapid fluctuations in consumer preferences causes high costs for frequent remodelling the production lay-out. Flexibility is of the essence in today’s turbulent markets and apparently the robot is not as flexible as a human being. This may explain why about one third of the companies in the survey mentioned personnel policy as a reason to limit the level of production automation. Firms that had curtailed their level of production automation didn’t perform worse financially than their high-automated competitors.

So the unmanned factory, together with the ‘paperless office’ a popular image of the future in the early 1980s, turned out to be a mirage. These images were based on the principle of technological determinism, the classic misinterpretation that all economic and societal change is in the end determined by the opportunities that the pace of technological change opens up. This principle made quite some prominent business thinkers in the 1960s (Peter Drucker, Norbert Wiener, R. Blauner among others) expect that the alienation

29 The Economist (1994)
30 The Economist (1996)
31 The Economist, August 10, 1991
problem would disappear as a matter of course. They predicted a general rise in the quality of labour. If, so the argument ran, the computer would take over work, it would be the most easy to automate, that is the most simple and boring jobs. Consequently, the remaining work would be more qualified on average. Technology however is *no deus ex machina*. Any theory that conceives technical and social factors as confrontational – a contest which technology ‘wins’ in the end – will be unable to fathom the structural change at the inside of work. It is not about confrontation but interplay. Each phase of technological development shapes a new combination of opportunities and requires new choices. A sequence of mutually interdependent factors – economic and organisational, cultural, societal, political – determines what choices people and organisations make in the end.

The history of the personal computer offers an example where the cultural influence was essential. That it emerged in California was not accidental, according to Castells:

“The technological blossoming that took place in the early 1970s can somehow be related to the culture of freedom, individual innovation and entrepreneurialism that grew out of the 1960s culture of the American campuses. (...) The emphasis on personalized devices, on interactivity, on networking, on the relentless pursuit of new technological breakthroughs, even when it apparently did not make much business sense, was clearly in discontinuity with the somewhat cautious tradition of the corporate world.”

Politicians nor business leaders are often able to recognise a technological revolution when it happens before their eyes. When in the 1940s Thomas Watson, leader of IBM, was asked to estimate the size of the future world computer market his answer was: fifty items. He could simply not envision any commercial application for the new device.

‘Democratic’ or ‘antidemocratic’ technology?

George Orwell, writing in 1945, has put the question whether the atom bomb that had just finished the Second World War was a ‘democratic’ or an ‘anti-democratic’ weapon. In general, he wrote, the times when the dominant weapon is expensive and difficult to make are the times of despotism, while when the dominant weapon is cheap and simple this gives the ordinary man a chance. The heyday of democracy and national self-determination was the era of the musket and the rifle. The atom bomb, Orwell concluded, was expensive and complex, so it would be a weapon that would make the strong ones stronger.

Weapons are a form of technology and so the same question can be put in relation to

33 Castells (1996), 5-6
34 Orwell (1945)
production automation: is it a ‘democratic’ or an ‘anti-democratic’ form of technology? Choices which are at first sight purely technological in character determine our work and lives. It looks like technology enters from outer space and can take no other form than it takes. But behind its design there are choices hidden, based on aims, value judgements and assumptions that reflect relations of power.

During the first phase of the IT revolution – from the mid-1960s to well into the 1980s – the focus was on automating production processes. The corresponding technology was the mainframe system, which surely was complex and expensive. It is aimed at the processing of great numbers of routine transactions - a translation of Taylor’s factory model in bits and bytes so to speak. Likewise, before being automated, the administrative work had first to be split up and standardised; thereafter managerial control could be ‘built into’ the system as it had been previously been into Ford’s conveyor belt.

However, this fell short of the full opportunities that the new technology offered:

“Computerized controls are even more paralysing than traditional face-to-face chains of command in which there was still place for some form of implicit bargaining. In the 1980s in America, more often than not, new technology was viewed as a labour-saving device and as an opportunity to take control of labour, not as an instrument of organisational change.”

In Europe also, most investment in technology was applied for rationalisation, not with the aim of organisational innovation. “European enterprises insufficiently recognise the potential of the tools the information society offers to improve the competitive position,” was the conclusion of the European Commission. “Up till now these tools have mainly be used to lower costs.”

There is one essential difference between mechanisation and automating, according to Zuboff. “Information automates and informates.” It contains the symbolic reflection of events, subjects and processes that thereby become perceptible, knowable and shareable. The main question is who perceives, knows and shares this information.

“The choices that we face concern the conception and distribution of knowledge in the workplace. Imagine the following scenario. Intelligence is lodged in the smart machine at the expense of the human capacity for critical judgement. Organisational members become ever more dependent, docile, and secretly cynical. (…) Alternatively, imagine this scenario. Organization leaders recognise the new forms of skill and knowledge needed to truly exploit the potential of intelligent technology. They direct their resources toward creating a work force that can exercise critical judgement as it manages the surrounding machine systems. Work becomes more

35 Castells (1996), 169
36 Commission Européenne (2000)
abstract as it depends on understanding and manipulating information. This marks the beginning of new forms of mastery and provides an opportunity to imbue jobs with more comprehensive meaning.”

When she wrote these lines, during the first phase of the Informational Revolution, this indeed was still an open question. The dilemma that the information technology shapes is that sharing of knowledge means sharing of power. As one of the managers interviewed by Zuboff put it: “Are we all going to work for the smart machine, or will we have smart people around the machine?”

The mainframe technology reflects the bureaucratic control structure till today. The corresponding management concept is centralisation: top down control of data processes and systems. The new technological paradigm – the entrance of the Personal Computer on the market place during the 1980s and the breakthrough of the Internet in the subsequent decade – is not bureaucratic in character, rather anarchistic. So can we speak, in Orwell’s words, of a tendency towards a democratic technology? The new technology matured in an entirely new economic context. Globalisation means that economic activities are spread around the globe, be it retaining however central control over business processes. From the early Industrial Revolution onwards, physical production activities had to be concentrated under one roof, around the central source of energy – originally the steam engine. In abstract production however, one can disconnect work from time and place, be it that one has to re-integrate tasks first, in order to displace well-rounded units of work afterwards.

“Network software, user-friendly interfaces and integrated application packages reflect the interests of organisations to bind divided office labour back together and simultaneously spread the results of this labour out over geographically dispersed areas of separate outsourced units. (...) These types of programs form the backbone of systems of communication, where each supports the separation of work from place and the de-linking of labour from contractual terms, since the schedules, plans and information sharing assume that work is not necessarily done under one roof by workers employed by one firm. (...) Communication as a design concept for computer systems provides for ways of embedding managerial control and coordination in hardware and software packages.”

Seen from the perspective of managerial control, the 1980s PC “was almost the ‘wrong technology.’”

The irony of history is that this ‘democratic’ technology would be made suitable to solve the control problem of the 1990s. It is the essential device to individualise work, to control

37 Zuboff (1988), 5-6
38 Greenbaum (1998)
it by means of personalised targets, to reward according to time, place and contribution. Networks of individual computers are the indispensable neural system that connects flows of capital and labour at ever greater distances around the globe. This allows for internal top-down communication within geographically dispersed organisations. ‘Business-to-employees’ (B2E) applications enable top managers to reach tens of thousands of employees around the globe by one push on the button. When Sisco Systems introduced a monthly e-video to explain on-going business issues to its world-wide staff, it impeded the possibility to delete it unseen. He who did, could expect a stern warning by telephone, right from the top. One way of raising your viewings.

To this top-down communication there is however a counter-side. Horizontal communication - Intranet as the electronic variant of the talk at the coffee machine - could even be hazardous, as the number and variety of people that are related to the company grows. Except from employees, temp workers, subcontractors, free lance workers, consultants, external IT-specialists all take part in one way or the other in the information network that is the nucleus of the present firm. How can one be sure that all these various people share the same aims and carry no hidden agendas?

**Time-less, single-item mass production**

Time is an essential production factor. A history could be written from the perceptive of the consciousness of time, with the diffusion of the clockwork as the outward sign. This created the possibility to interpret movement and change, past and present. In the static Middle Ages for instance, the sense of time was largely absent, with the exception of the monasteries where God’s time schedule regulated the monks’ life precisely to the minute. Presumably this was the origin from which time consciousness spread to other segments of society, till today our private lives are reigned by the clock. The linear, unchangeable, measurable and omnipresent time is the source of the modernisation process that was propelled by the industrial capitalism – a process that was completed when Taylor’s stop watch entered the shop floor. This concept of time is now disrupted by what Castells interprets as a characteristic of the emerging network society: time-less time. Today’s capitalism wants to conquer not only boundaries, but also time.

According to literature, the real-time enterprise is at the verge of leaving behind just-in-time production. Real-time processing is originally a concept from information technology that indicates a processing velocity at which data processing can keep up with data entry. In other words, time of input equals time of output, in contradiction to batch-wise input when the two were separated. Translated to the production of goods and services, time-less time means that the time factor – the difference between the moments of input and output, between order and delivery – is progressively narrowed to zero (although the absolute zero point, just like in thermodynamics Kelvin’s absolute temperature, will never been reached).

The transformation from linear to time-less time is best demonstrated by the way the
financial markets operate. It is the first time in history that there exists one uniform, global capital market that operates in real time, anchored in the three time zones of London, New York and Tokyo. Here, time is the primary ingredient, not to produce goods or services, but abstract profit. “Time is critical to profit-making of the whole system. It is the speed of the transaction, sometimes automatically pre-programmed in the computer, to make quasi-instantaneous decisions, that generates the gain – or the loss.”

The operating model of the global financial system is still the most extreme - for the most abstract and therefore the purest example of working in real time. But traces can already be detected in the real economy. According to the Economist the aim is not to speed up the velocity of the information flow, but to monitor business processes to the minute and take action as soon as deviations occur. The magazine compares the real-time enterprise with a huge spread-sheet in which a change of data in one cell triggers changes in all other ones by means of pre-programmed macros. This makes the organisation to adapt to its environment in real time.

The reactive capacity of the enterprise is measured in two criteria: response time and response content, or real-time delivery and mass customization respectively. In 21st century production systems the volume of stocks can be conceived as an indicator of the quality of information. The story goes that Volvo in the mid-1990s had a large surplus of green cars. So the sales department started a discount action to get rid of this surplus. They forget however to inform production. In the factory people concluded that obviously the colour green was in demand, so the production of green cars was boosted and the surplus was soon at its former level again. Information versus stock is only one example of the general substitution of physical for intellectual means of production. Closed business systems give way to open networks of cooperation in which the character and status of cooperative relations and mutual interdependencies are defined.

Mass customization can best be described as mass production by single item. Standardised products are assembled according to the individual client’s preferences. In the early 21st century Dell Computer was a pioneer in this field. Clients can assemble their own computer via internet in a modular system, like a construct from Lego blocks. The client’s specifications are automatically transmitted to production and progress in the execution of the order can be traced. At the heart of the process lays the CRM (Consumer Relation Management) system that maintains the electronic relationship with the client. It enhances the predictability of the sales volume and is combined with a almost fully automated, flexible production system. Early adapters to the new production concept could be found in the clothing and shoe manufacturing (because fit is so important) and in Dell’s computers, a product that is especially suited for modular composition. The fanatics for the mass customization principle expected that the combination of the efficiency of mass production and the individualisation of the consumer it would mark the end of the Tayloristic system. Wise men suspended their judgement.

40 Castells (1996), 435
41 The Economist (2002)
A new division of labour

So the outlines become visible of work in the 21st century. Competitive power of the network enterprise is determined by the time frame to which it can adapt to market demand and technological change. “Time is managed as a resource, not under the linear, chronological manner of mass production, but as a differential factor in reference to the temporality of other firms, networks, processes or products.” Production in real time leads to work in real time, to ultimate flexibility. While business processes are increasingly structured by diverging time frames within the global network economy, work however is local as is social time. The strain caused by this dichotomy becomes ever more obvious. In Europe labour unions are slowly losing the battle against the regime of time-less time. Before, “the UK, the USA and Japan have been the bastions of business-imposed Stachanovism”.

Production in time-less time not only requires ultimate flexibility from workers, but may well end up in total control over workers. They become *always-on people*, as the Economist coined the phrase. Beside CRM programs there emerges ERM: Employee Relationship Management. “The basic idea is to digitise and streamline the ‘life cycle’ of employees – how they are hired, trained, managed and retrained. The latest trend is the personal tracking system. Originally developed for people in danger of being kidnapped, it allows for tracking people’s movements during the day. “Tracking people may interfere with their privacy, but it has economic attractions” the Economist remarks in a matter-of-fact tone. “For instance, it could allow much better use to be made of services technicians, by combining information on where they are with other data, such as their skills and the spare parts in their truck, to decide where to send them next.” That is where it begins. Will it end up all of us working in the electronic panopticon?

This trend blends into the global development of progressively organising business activities in networks. That are “open structures, able to expand without limits, integrating new nodes as long as they are able to communicate within the network.” That characteristic makes it highly exclusionary: he who is unable to communicate is out.

“Accordingly, the work process is increasingly individualised, labour is disaggregated in its performance and reintegrated in its outcome, through a multiplicity of interconnected tasks in different sites, ushering in a new division of labour based on the attributes/capacities of each worker rather than on the organisation of the task.”

Thereby the social cohesion is fragmented because work, the source of cohesion in society is fragmented.

42 Castells (1996), 339-341
43 The Economist (2002)
44 Castells (1996), 470-471
Design principles for efficiency and flexibility

Lean Production fits quite well into the new division of labour. And it is hardly argued any more whether LP is the superior production system in terms of efficiency. STSD lost out because the need for a balance between the technical and the social subsystem had lost its urgency - from the perspective of management that is. The balance of power had shifted in its favour the meantime.

Therefore there were three reasons. First there were societal developments: The whole concept of guided capitalism has become questionable, the welfare state and its enshrined workers’ rights included. Economically, workers’ welfare is not quite a feasible concept in the context of intensified world-wide competition. Finally, technology sided with management to strengthen its control over a recalcitrant work force. The ‘Revolt’ took only a short time, from about 1967 to 1972.

Present state of the art Lean Production has its own set of design rules.

- Value stream mapping

In essence, value stream mapping is a method to move from a current state to a future state that is cleaned from all unnecessary activities. It is the primary tool to detect muda (or to create value, which is the reverse of the coin).

“The great majority of management attention has historically gone to managing aggregates - processes, departments, firms - overseeing many products at once. Yet what’s really needed is to manage whole value streams for specific goods and services.”[45] The idea is to map all subsequent actions that are carried out to produce a specific product or service and sort them for contributing directly to the value for the client, indirectly or not at all. When the latter category is removed, a new round of mapping will focus on indirect activities that least contribute and will removed in turn. It forces managers to see the process as a whole, across department boundaries and even beyond the company walls.

Toyota realised that, as long a suppliers work according to specifications laid down by their costumer, their ability improve the product and the production process is nil. By making kaizen a shared responsibility Toyota learned that sharing information was an advantage. It offered a middle way between integration of suppliers into a large bureaucracy and complete isolation as independent companies. Over time, the integration has subsequently been widened to the network of car dealers thus creating a total value chain based on a long term relationship between the supplier, the assembler, the dealer and the final costumer. As a result of this concerted action, production volumes per hour are kept stable in the LP production system.

6. The Inside and Outside of Work

- **Flow**
  Removing unnecessary actions is one part; avoiding waste of time is another. The holistic view of the production process also shows that a product in process mostly lays waiting for the next treatment, often for about 98% of total lead time. That is because mass production operates in batch and queue (for supposed reasons of efficiency of making large series at the same time). To reach a state of flow (in which the product is in constant move from start to finish) it is necessary first to detect product ‘families’ similar to parallel production in STSD. Subsequently, all barriers along the road have to been removed: all boundaries of jobs and functions that are formalised in departments. These have to be rebuilt into teams along the road of the flow process.

  Superficially, the flow principle and the team structure are in accordance with the principles of the socio-technical approach, so that the proponents of LP argue its human-friendliness. However, work under lean conditions has to be rigorously standardised - be it by the work-team itself in stead of some Tayloristic work planning department, but standardised nevertheless.46

- **From push to pull.**
  A major contribution of the LP-concept was redirection of the production process. The idea is that, in order to limit buffer stocks, a production station upstream should produce a part only then when it is needed further downstream the production system. Originally this was done by sending a card (*kanban* in Japanese) to backward stations. In this way production is pulled out of the system by volume of demand, rather than pushed on towards the costumers. The *kanban*-system was to become the origin of Just in Time (JIT) production.

  Output fluctuations are cushioned by varying the sales effort. At the other hand, short change-over times and logistical control by means of JIT techniques allow for a wide range of product variation. In product development there is a permanent focus on easiness of assembling which is perceived as a permanent source of productivity growth.

- **Perfection**
  The idea of the perfection principle can in the simplest way formulated as continuous *kaizen*. That is to say that perfection is never ending. The final situation, total perfection, drifts away like the horizon.

  For the second time in industrial history car manufacturing became the cradle of a new production concept that, like Ford’s mass production before, turned out to be applicable in every other type of work. Lean Production can be perceived as the ideal type of a new kind of production organisation, setting the productivity standard for the 21st century.47

Due to a combination of smart-machine technology and input of worker experience it is possible to reach levels of efficiency and flexibility that were impossible before. A holistic

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46 ibid, 54, 60
view on the production process does away with far more of red tape than anyone supposed there to be in the old-fashioned mass production system. Expansion of the value chain backwards (to suppliers) and forwards (to dealers and ultimately costumers) can turn once adversarial positions into long term cooperative relations that may do away with much of the competition costs on the way from raw material to final product. The TQM-concept is to be conceived as the ultimate expression of this drive to perfection. Together with JIT is forms the essence of what really is new in the ‘new work systems.’

Efficient yes, but humane as well?

When we compare STSD and LP there are some common elements in both approaches. First both approaches led to the same conclusion that the individual is too limited in his capabilities to act as the basic building block of the production structure. This became the more true as information technology made organisational complexity grow exponentially. The team structure is at present conventional wisdom in the design of large-scale production systems. It allows for worker input in the regulation of the system, formalised in team autonomy in STSD and in the quality circles in LP. A second common denominator is the flow principle as design principle and parallel production (product families) that can bring quiet in the process by removing lots of disturbances.

From these similarities not a few authors came to the conclusion that the two approaches are just varieties of something called ‘post-Fordism’ and the authors of The machine bluntly state that lean work will be highly productive as well as challenging and fulfilling. It is interesting to trace the foundation of their brazen claim:

“We believe that, once lean production principles are fully instituted, companies will be able to move rapidly in the 1990s to automate most of the remaining repetitive tasks in auto assembly - and more. Thus by the end of the century we expect that lean-assembly plants will be populated almost entirely by highly skilled problem solvers whose task will be to think continually of ways to make the system run more smoothly and productively. The great flaw of craftsmanship is that it will never reach this goal, since it aspires to go in the other direction, back toward an era of hand-crafting as an end in itself.”

To the old alienation problem The machine offers the old-fashioned thesis of technological determinism.

The productive superiority of LP is beyond dispute. But that doesn’t mean that the system can take over the humanistic claim of the socio-technical approach as well. The onus of proof lies with those who maintain that the same system that delivers superior
efficiency and flexibility at the same time would solve the alienation problem by handing back to the worker control over his own work.

In this context it is hardly relevant to what extent Lean Production already is the dominant system. As we saw earlier, it took decades before Taylorism acquired acceptance in Europe; so it isn’t the pace that matters most, but the underlying tendency. Lean production is the production concept of the future because it fits into the tendency towards further intensification of the production process that arises from the unequal race between the virtual and the real economy. An enlargement of the employees’ discretionary power would, to a certain extent, enable them to adapt to ever higher demands. This is the idea behind the concept of ‘empowerment’ that was a buzzword in the 1990s and on which we will come back in the next sub-chapter. If this would not be the case, the competition against perfection would result in far more work stress and alienation than in the mass production of the old days.
6.5 The Mutual Gains-thesis

The aim of this sub-chapter is to examine whether there is any truth in the statement that what is often called ‘new work systems’ are to the benefit of the organisation as well as the workers – to be called the Mutual Gains-thesis. It goes by a confusing variety in designations: Alternative Work Processes, Innovative Work Processes, High Commitment Management Work Systems and Empowerment - in the end more or less condensed into the High Performance Work Systems (HPWS) concept which became a hype in relevant journals during the 1990s. It runs about like this:

HPWS practices → employee satisfaction → employee commitment → improved organisational performance

Two issues are essential here. First, High Performance Practices (HPPs), according to prevailing theory, have little or no effect in isolation; they have to be applied in bundles. Secondly, the basic assumption on which the causal link rests is that HPPs are employee-centred and 'empowering.' “Current workplace innovations seek greater degrees of flexibility in work organization, cooperation between labour and management and worker participation in the decisions and financial well-being of the company,” one of the proponents states. Critics doubt this.

“First, and most important, the structure of the employment relation and the purposes to which authority is exercised means that employee interests are subordinated to those of owners. (...) Thus, although some level of consent and cooperation may be readily achieved if employers adopt the appropriate policies, the high levels of commitment that proponents associate with a comprehensive adoption of HPPs may be far more difficult to achieve than is assumed.”

Much of the HPWS concept is founded on two related concepts that both date back to the middle of the 1980s: high commitment management and employee involvement. Walton’s ‘high commitment strategy’ is wholly based on the tenets of the Quality of Work Life movement (QWL) or ‘Humanization in its European appearance, as described before. His overview of ‘commitment strategies’ adequately summarizes the QWL concept. In contrast however to the 1970s wave of work reform, the HPWS initiative comes from management in order to meet stiffer competition standards. As a result, little attention is paid to the effects on workers and their interests. So it is not to be taken for granted that the QWL principles kept their relevance in the present context (in fact we preliminarily...
concluded in the previous sub-chapter that this relevance is lost).

The second concept, coined by Edward E. Lawler, is based on the idea that to make employees responsible for their jobs and to provide them with the skills or information needed to make informed decisions makes sense economically: “Employee involvement increases the value of the firm’s stock of human capital.” Secondly, “Self-managed teams mean that fewer middle managers are needed to schedule and monitor individual work.”

These twin concepts seem to be the sources of the High Performance Work Systems theory. At the opposite end we find the Labour Process Theory, AKA the neo-Fordist critique, which originates from Braverman’s thesis of Tayloristic de-skilling and direct managerial supervision as the essential mechanisms aimed at intensification of the production process, which in itself is conceived as a central tendency in the working of Industrial Capitalism. Work intensity, in combination with job insecurity, is the originator of job strain that again determines the level of organisational performance. So there are three theoretical models, two ‘positive’ and one ‘critical’ that have in common that they expect and try to explain the level of organisational performance:

On the two varieties of HPWS grew a confusing amount of literature that, according to one overview, seems to have at least the following attributes in common: “teamwork, high control or empowered job designs; employee participation schemes; job flexibility; high quality and continued training; performance appraisal; well-resourced selection and recruitment procedures; performance-contingent incentive payment systems (including group-based pay and profit sharing); and minimal status differences.” From this variety of characteristics one could deduct two perspectives that can help us to understand the complex reality behind this HPWS concept: job design theory and the research focused on the link between Human Resources Management and organisational performance.

The job design perspective

Job design is the substructure so to speak. It shapes the production structure which determines how people work and the say they have over their work. From the job design perspective, a major characteristic of HPWS is the team as the basic structural unit.

Probably because this was an essential insight of the former wave of workplace reform, many studies take it for granted that ‘team structure’ stands for a humanitarian way of production organisation. But the mere existence of production teams can hardly qualify as such.

Teams are indispensable in today’s production systems because the internal variety within the production process is too large for an individual to cope with. In mass production, the individual could act as the primary element of the system because this was static in itself. That was why it could be pre-planned in detail. Now that the huge

54 “Lawler (2003), 165-66
55 Ramsey et al. (2000)
56 Holman, Wood (2002), 8-10
57 Bacon, Bylton (2003); Appelbaum et al. (2000), 103-104; MacDuffie (1995); Ichniowski et al. (1996); Pil, MacDuffie (1996); Pfeffer (1998)
calculating power of today’s IT systems has taken over the cumbersome task of the planning clerks of the old days, combinations of tasks can be calculated in real time. Constant reconfiguration shapes optimal flexibility so that a high level of internal variety is created that only teams can handle. So teamwork in itself tells us nothing about working conditions at the shop floor – the question is: what kind of teamwork? It is the absence of team autonomy in LP that sets it so apart from STSD.58

Effects depend on management objectives as well as on the type of teams. Positive outcomes of the team concept for workers – in terms of job enlargement, pay rate, on occupational and hierarchical distribution of skills – are only to be found when these had been formulated beforehand as aims at the introduction of team working.59 Structurally, these effects depend to a major extent on the type of team – traditional versus ‘lean’ – that is applied. From Godard a typology of work environments can be extracted (table 1), dependent on the combination of JIT and group autonomy.

**Table 1. Types of working environment, derived from Godard**

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<tr>
<td>traditional individual</td>
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Godard’s research indicated the most favourable outcomes (from the workers’ perspective) are to be expected from traditional (read: socio-technical) group work, far more so than the ‘traditional individual’ work environment of the old days. Moderate positive outcomes were noted from a post-lean environment, a hybrid between lean and traditional team work. Godard’s results are compatible with common sense. Just-in-time production intensifies the production process. Human beings can, to a certain extent, cope with work intensity by enlarging the array of their possible reactions – that is by the width of their autonomy – and this coping capacity is larger for a group than for an individual. Consequently, Godard observed the most negative outcomes for the ‘individual lean’ working environment, where the worker has to cope with stepped-up work intensity without a group to fall back on.

Now that we have at our disposal a frame of reference, we can assess the validity of the HPWS concept. Group autonomy is one of the central variables. As a consequence of the team’s self-reliance, one would expect a decline in the size of management (complex tasks, simple organisation). Or, the other way round, where group autonomy is kept at a low level, we may expect a relatively large management structure. This criterion offers us an

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58 Dankbaar (1997)
59 Bacon, Blyton (2003), Ichniowsky et al. (1996)
60 Godard (2001)
empirical measuring rod: the number of managers relative to the size of non-managerial staff, called the management ration (MR). We will come back to this later on.

♦

**The organizational logic** The essence of what is new about the ‘new work systems’ is the lean perspective. HRM comes in when a separation is made between ‘hard’ and ‘soft’ forms of the new work systems. The hard variety, TQM + JIT, introduces strict standardisation that limits the level of employee’s discretion in carrying out his job. Therefore, some researchers argue that this effect has to be cushioned by the application of ‘soft’ HRM practices. The relationship between TQM an HRM is supposed to be based on “the ‘organizational logic’ of flexible production” which “links together a bundle of manufacturing practices (related to the minimization of buffers) with a bundle of human resource practices (related to the expansion of work skills and motivation).”

At a closer look, the HPWS concept is more about the adaptation of the human factor to the realities of the new production environment than the other way around. Its theory tells us little about how the production structure is designed. In a recent research survey on HPWS and HRM the job design perspective was categorised under the ‘work enrichment’ label, under which we find items like decentralised decision making, jobs designed for full use of skills, empowerment and self-directed/autonomous teams. In about half of the 27 researches surveyed the work enrichment dimension was not examined at all. Far more attention went to indirect forms of worker ‘vote:’ participation and idea gathering (information sharing, open horizontal communication, quality circles, employee participatory programs etc.) and formal industrial relations (collective bargaining and grievances). Another survey of research literature learns that HPWS practices are mostly defined, in terms of HRM. A substantial list of variables found in international HPWS research are all in the field of HRM, not production engineering.

Furthermore there is the conclusion that “the diffusion of such [High Involvement Work] practices is slower and more sporadic than would be expected from the perspective of economic rationality.” Apparently, there are more ‘organizational logics’ at work at the same time. When the ‘flexible production logic,’ is supposed to include human needs, the first issue at stake would be employment security. There is great unanimity in the HPWS literature that this is a *conditio sine qua non* to raise the involvement of employees. All this literature dates from the 1990s, the days when downsizing was the management concept.

61 Cooney, Shohal (2002), 44-45
62 MacDuffie (1995)
63 Wood, Wall (2007)
64 Ramsey et al. (2000), appendix
65 Pil, MacDuffie (1996)
66 Adler (1993); Brown et al. (1993); MacDuffie (1995); Pil, MacDuffie (1996); Ichniowski et al. (1997); Pfeffer (1998); Ramsey et al. (2000, Appendix); Appelbaum et al. (2000), 41-42.
The Maintenance Crew for the Human Machinery

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of the day, aimed at generating surplus profit by means of mass lay-offs. The downsizing phenomenon is only the derivative of the ‘power logic’ that explains how the dominance of the virtual economy over the real economy is transmitted through the organization.

In contrast to the power logic, the concept of empowerment emerged during the 1990s as an integral part of the HPWS approach. In daily practice it was used as a container concept that enclosed a wide variety of participative management techniques and practices. In theoretical sense it is a construct. Constructs are often used in social sciences to analyse social phenomena at a higher level of abstraction. Nothing wrong with that, as long as two tests are being met:

• strength of logic, that is the plausibility of the reasoning from the empirically observable phenomena to the theoretical entity;

• endurance: the extent to which the construct stays in use over time is an indicator of its explanatory value (if it doesn’t, there wasn’t much to it, after all).

The empowerment concept supposes a voluntary handing over of (some) managerial power and authority to employees in order to obtain their trust and motivation. Its logic is based on the assumption that humans are in want of self-determination that enables them to cope with events and situations in daily practice. “The need to empower subordinates becomes critical when subordinates feel powerless,” is the basic creed of the empowerment gospel.

Clearly, the proponents of the empowerment concept argue, there must be some involvement got from workers as work has become too complex to prescribe its adequacy in detail. Implicitly they assume that involvement is attained on basis of consensus. The question is not whether or not to appease workers by throwing at them some crumbs of power of the managerial table, but the real say they derive from control over their work from the structure of the work itself that shapes dependencies and independences.

Little empirical evidence has been delivered on the motivational effects of the HPWS approach, of which empowerment is part. Therefore one critic remarks: “To some considerable degree the arguments for empowerment seem to rest on sophistry and semantic confusion over the issues of power and control and how these can be realized.”

In the end, one cannot say anything about empowering without taking the inside of work (job design) into account. But on this aspect the empowerment approach keeps silent. To reach consensus, which seems to be the ultimate aim of empowerment, can only be realized in a structure that allows equitable expression of interests – whereas we observe a more one-sidedness in recent labour relations. Neither is consensus a conditio sine qua non.

67 Conger, Kanugo (1988)
68 Collins (1994)
Social history has shown many cases of workers doing fine jobs grudgingly under low-trust, zero-sum conditions that are known to the oldies among us as the class struggle.

As to the ‘endurance test,’ empowerment as a concept did not survive the turn of the millennium. A journal on this subject went out of print after a few years. That in a recent compendium on Human Resources Management no entry for this term can be found tells it all.

The tendency to intensify production

In sub-chapter 6.2 we saw how post-war of mass production reached its inherent limits, both as a production concept and a social model. Out of this stalemate Lean Production developed into the superior doctrine in production management while Socio-Technical Systems Design lost out in terms of efficiency. Contrary to the Mutual Gains Thesis, what case studies tell us is a shift towards the focus on efficiency as the prime criterion to organize production, while top-down managerial control stays firmly in place.

Small wonder. Capitalism strives to raise the rate of capital utilisation like the Church to teach the Gospel. The “Capitalist perestroika” (Castells) that got in motion from the late 1980s onwards deepened “the capitalist logic in the capital-labour relationships” the means to which are reducing labour costs, raising productivity and accelerating capital turnover. The latter also applies to human capital which leads, as we will see in the next sub-chapter, to a contest over ‘brainpower’ on which present day’s knowledge-based production hinges.

This means that management cannot loosen its control over labour and time, under penalty of losing out in yield for their masters, the shareholders. The pressure can change in form due to changing circumstances, but not in direction. The rise of the factory system, the emergence of factory discipline, the transition from manufacture to machine-based manufacturing, Taylor’s rules of scientific management and, last but not least, Ford’s conveyor belt all - these reforms were major steps in bringing capitalist control over time and labour in line with the requirements and opportunities of the decade. One might reason that this objective should have become of particular importance since the early 1980s, when the new informational paradigm of organisation set in that required investments in new, high-cost flexible technologies. Under these circumstances one might expect further, not less intensification of labour and control, albeit in another cloak.

This supposition is supported (but not exclusively supported) by ‘neo-Fordist’ literature. One case study observed that TQM was implemented, not as a technique to enhance the effectiveness of the production process, but as a control mechanism in de hands of management and thereby perceived by non-managerial employees as a weapon used against them. Another one finds that - contrary to the notion that post-modern organisations function by means of far more looser, informal and flexible rules

69 Empowerment in Organizations (1993-1998)
70 Rowley, Jackson (2011)
71 Castells (1996), 19, 81
72 Soltani et al. (2008)
and arrangements than their Weberian predecessors in order to raise productivity by heightening workers’ commitment - industrial bureaucratic control has been sophisticated rather than supplanted. A third one determined neo-Fordist control mechanisms where the “introduction of technically advanced accounting and information processing systems make it possible to centralize authority while decentralizing the responsibility to execute activities conceptualized at higher levels in the managerial hierarchy.” In essence, neo-Fordist decision making consists of “defining the premise of decision-making, and distributing information to operating managers on a need-to-know basis.”

When the question was put to the test whether HPWS have “indeed overcome the contradictions of lean production” research in six UK-based companies (both private and public) showed that the problems of work intensity and stress had not been solved. In search for underlying reasons the researchers depicted their findings as follows:

“Different managers and workers in each of the six organisations mentioned how their work routines and supervisory relationships had shifted in the context of different forms of organisational restructuring that shared certain characteristics. These include the emergence of new, financially driven management styles, tighter budgetary controls, greater transparency and accountability of employee performance and more widespread communication and consultation that lacked any significant element of employee influence over core management decisions. For many workers, these factors generated job stressors in the form of task enlargement, working at higher speed, worrying about work outside working hours and resentment about the nature and pace of organisational change.”

Just-in-time production, which lays at the basis of LP, means that “time is managed as a resource, not under the linear, chronological manner of mass production, but as a differential factor in reference to the temporality of other firms, networks, processes or products.” Thus it intensifies the production process to an extent that makes Castells speak of “business-imposed Stachanovism.”

In the neo-Fordist opinion, Lean Production is not an alternative to, but the most advanced form of Fordism. In fact it is the next phase in a continuous development, only interrupted by ‘The Revolt’ which lasted a short while, from 1967 till 1972. It provides “flexibility without giving up the advantages of the traditional system of mass production, including the undeniable productivity of the assembly line.” As such “lean production does indeed look like the system for the twenty-first century.”

LP has been called “the intelligent interpretation and application of Taylor’s time-and-motion studies,” and this was meant as a compliment. In one and the same breath a rise

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73 Pulignano, Steward (2006)
74 Prechel (1994)
75 Danf ord et al. (2008)
76 Castells (1996), 439-441
77 Dankbaar (1997)
in the human uptime was reported from 45 to 57 secs/min; one of the rare cases where
the intensification process is documented in quantitative terms. The fear factor played an
important role in this and other changes in the workplace. 78

“Archaic forms of work organization such as contracting-out, casualization, old-
fashioned speed-up, and the lengthening of working time,” are observed which brings one
author to the conclusion: “Lean production” is (...) in fact streamlined mass production
that draws more consistently on the knowledge of workers to do the streamlining.”79

Even this is disputed in some cases. Delbridge, who practised the rare variety of
participative research at a Japanese owned, UK-based TV factory (called Nippon CTV),
observed “no formal involvement of operators in problem-solving activities, either at
a group or individual level.” His final image of work he executed himself under ‘lean’
conditions runs as follows:

“The Nippon CTV system is superior in its combination of technical efficiency
and social control, primarily through the marginalization of the uncertainty that
blights the manufacturing practices of many organizations. This superiority is
achieved through the avoidance of traditional bureaucratic dysfunctions and through
the extension of managerial control.

“Management has been able to all but eradicate informal negotiations over day-
to-day working because it has decoupled its internal operations from the external
sources of potential disruption - market-place fluctuations and variable and
unpredictable customer schedules; and variable reliability (in quality and delivery) of
suppliers and internal systems.

“Crucially for the labour force, the reduction in uncertainty also marginalizes the
significance of informal negotiations between management and labour over the
‘rules’ governing those operations. (…)“

“The rules and procedures at Nippon CTV are consistent with the twin objectives
of efficient capital accumulation (quantitative efficiency) and the subordination of
labour and the continuity of capitalism (qualitative efficiency).”80

The shadow of Huxley’s Brave New World looms over the world of work.

♦

Taylor is still with us

For Europe we have at our disposal of some figures from the Survey on
Working Conditions that shed some light on the intensification issue.
Table 2 shows that roughly one third of the European work force

78 Adler (1993). The case described was the GM-Toyota joint venture NUMMI at Fremont, Cal. that introduced
Japanese production concepts into the US car manufacturing.
79 Moody (1997), 85-86
80 Delbridge (1998), 146, 179-182
labours in an environment that is very much alike to classic Taylorism and this share looks remarkably stable over time. It seems like technology falls short to relieve producing man from the burden of dumb and depressing work. Indicators for intensified work are the the high level of employees reporting to be working at very high speed and the substantial rise in the number that has to perform their task in too little time.

<table>
<thead>
<tr>
<th>Table 2 Indicators for quality of work, EU employees (%)</th>
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<tr>
<td></td>
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<tr>
<td>working at very high speed</td>
</tr>
<tr>
<td>1997 81 2000 82 2007 83</td>
</tr>
<tr>
<td>55 56</td>
</tr>
<tr>
<td>not having enough time to get the job done</td>
</tr>
<tr>
<td>22 33 33</td>
</tr>
<tr>
<td>machine-paced work</td>
</tr>
<tr>
<td>23 20 19</td>
</tr>
<tr>
<td>pace of work dependent on direct control by boss</td>
</tr>
<tr>
<td>40 32 36</td>
</tr>
<tr>
<td>not able to choose or change rate of work</td>
</tr>
<tr>
<td>32</td>
</tr>
<tr>
<td>not able to choose or change methods of work</td>
</tr>
<tr>
<td>32 29 37</td>
</tr>
<tr>
<td>not able to choose or change order of tasks</td>
</tr>
<tr>
<td>39 35 41</td>
</tr>
<tr>
<td>not able to take a break when wanted</td>
</tr>
<tr>
<td>42 39 42</td>
</tr>
<tr>
<td>jobs involving monotonous tasks</td>
</tr>
<tr>
<td>46 40</td>
</tr>
<tr>
<td>jobs involving short repetitive tasks (&lt; 10 minutes)</td>
</tr>
<tr>
<td>36 32 39</td>
</tr>
<tr>
<td>having undergone training in the last 12 months</td>
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<td>32 31 30</td>
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The type of working conditions coincides with the remarkable stability of low-skilled work. In the Netherlands low-skilled work amounted to 27.6% in 1960 and 27.0% in 1999.84 High skilled work rose substantially from 9.4 to 25.9%, so that logically the middle segment was squeezed.

Overall, these figures at least suggest that there is a substantial sub-stratum in the labour structure to which the image of a post-modern industrial landscape where productivity is raised by stimulating workers’ commitment doesn’t apply.

**The bureaucratic burden and the wage squeeze**

Within the domain of the social sciences the discipline of economics is furthest developed in the direction of an empirical science. Nevertheless, in a subdivision like labour economics we find a ‘paradigmatic rift’ not unlike that between functionalism and radical humanism in sociology. Here, the opposing approaches are called the efficiency-wage and labour-extraction theories.85

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81 Paoli (1997), tables 4-203, 4-126, 4-165, 4-170, 4-172. % of employees EU-wide
82 Paoli, Merllié (2000), tables 19, 20, 24, 27, figure 20
83 Parent-Thirion et al. (2007), tables 5.1.6.1, 6.4
84 Conen, Huijgen (1983), Batenburg et al. (2003)
85 Gordon (1990)
In the neoclassical approach labour input $L$ equals the number of hours worked times the hourly wage, where the wage level $w$ reflects the marginal utility added in terms of efficiency. The labour-extraction approach goes back to the Marxian separation between labour power - which is what the employer buys on the job market – and labour, that is work actually done (see chapter 3). The conversion of the one into the other takes place within the labour process; hence the importance we attach to its structure and to the factor of managerial power that puts the conversion into motion and keeps it running.

This means that that the labour production function has to be extended. For the neoclassical economist the amount of labour power hired is labour produced:

$$L = L_p$$

where $L_p$ stands for the hours of labour power hired on the market. Following the labour-extraction theory the total labour input $L$ consists of hours hired and the amount of work done per hour ($l^*$):

$$L = L_p \cdot l^*$$

The two terms reflect the Janus face of the the company. It is a negotiator in the market at the outside while at the inside it forms a command and control system not unlike the former Soviet economies.

The transition of $L_p$ in $l^*$ can be analysed in terms of costs. On the side of the employee $l^*$ depends on the perceived cost of non-compliant behaviour $E(n)$, consisting of the penalty of foregone wage income due to job termination ($w^*$) and the possibility of detection of non-compliance ($p^*$). This possibility is dependent on the surveillance effort by management ($s$). When $s = 0$, then $p^* = 0$, then $l^* = 0$. Factor $s$ comes at a price $p_s$, so the production function per unit of labour can be described as:

$$E(l) = \frac{(w + p_s \cdot s)}{l^*}$$

This function can explain two management strategies to optimise the wage-labour effort equation. One way to lower the real price of labour $E(l)$ to raise the denominator $l^*$ which is an indicator for the intensity of labour. Where $l^* \propto (s)$ the growth in labour intensity should at least compensate for the needed rise in supervision:

$$\Delta l^* \geq \Delta s$$

That is why the labour extraction theory supposes that a progressive intensification of the labour process is a characteristic of the functioning of the capitalist system. The ‘neo-

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86 Bowles (1985)
Fordist’ literature offers sufficient empirical evidence to support this supposition. A higher intensity of supervision can be determined by a rise of the management ratio (MR) over time.

The other strategy to diminish the value of $E(l)$ is to lower the numerator by depressing the wage level $w$:

$$\Delta w \leq 0$$

We will work out the evidence for both strategies below. For the United States Gordon observes the wage squeeze and the bureaucratic burden as two interconnected key elements of the industrial landscape; an interconnection that can be logically derived from the production function above.

**FIGURE 5 MANGEMENT STILL ON THE RISE**

Magagement ratios for the US and the Netherlands (1997-2001)

The ‘bureaucratic burden’ hasn’t just sprung up overnight. In chapter 3 we came across the the rising number of managers relative to non-managerial workers (management ratio, MR) in the United States from 1880 to 1980. Figure 5 shows that for this country the long-term progression has continued till the end of the 20th century. Given the very a long period of our data sequence, we can conclude that the rise of the MR over time is a fundamental tendency in the development of industrial capitalism, at least in the

87 Gordon (1996), 5
88 ILO Laborstat – 2C. Total employment by occupation. MR calculated for non-agrarian labour force, following Gordon’s method (Gordon, 1994). Due to a change in statistical standards, the data sequence concerning the Netherlands runs to 1993 and is not comparable with the years thereafter.
The data for the Netherlands differ in level, but not in tendency. The smaller size of the managerial class in comparison to the US applies in general for Europe as a whole. Gordon gives the following values of the MR in 1989: Germany 3.9, Sweden 2.6, US 13.0. This underlines the fundamentally different management structure at both shores of the Atlantic. There seems to be an inverted relation between the MR and the level of labour protection. Sweden, with the lowest MR, scores highest on the index of labour protection; Germany scores second.

Obviously, when labour protections blunts the penalty of job termination, to intensify supervision has only limited effect.

However, although at a much lower level, the direction of the Dutch MR remarkably corresponds and at a far greater speed. Between 1977 and 1993 the management ratio in the US rose by 56%; the Netherlands overtook in the passing lane with 131%. From another source we know that during the period 1990-2000 ‘management’ was, with a growth rate of 62%, the fastest growing job category in the Netherlands. We may conclude that there is no indication to be found that contradicts the thesis of a general tendency of the managerial class in the advanced capitalist economies to grow over time.

This again corroborates the thesis of the general intensification of the production process. Such a tendency is the more plausible because it is quite compatible with our line of reasoning thus far. The relative number of managers has to rise, given the pressure on them to squeeze out the maximal labour effort from their organizations in order to fulfil targets that are increasingly more virtual than real. So logically as well as empirically these data make sense.

Two ways to squeeze wages

The wage squeeze in the US is well documented. The turning point was the year 1972. Since then real hourly net wages in manufacturing were roughly stable till 1993. Since then the development hasn’t changed:

“That’s the way it goes all over the rich world. Since 2001 the pay of the typical worker in the United States has been stuck, with real wages growing less than half as fast as productivity. By contrast, the executive types gathering for the World Economic Forum in Davos in Switzerland next week have enjoyed a Beckhamenesque bonanza. If you look back 20 years, the typical pay for the American manager has increased from roughly 40 times the average, - the level for four decades – to 110 times the average now.”

That was 2007, the year before the credit crunch crisis hit in which the effect of the

89 Gordon (1996), 47
90 Estevez-Abe et al (2001), 165
91 Batenburg et al. (2003), 96
92 Gordon (1996), 27
93 The Economist, January 18th 2007
The Maintenance Crew for the Human Machinery

virtual economy manifested itself in full force. The discourse here is not to point to the blaring inequality in incomes, although one is tempted to argue that the gross overpaying of top managers is not an issue of awarding of merit nor the result of the market forces of supply and demand, but originates from the unequal distribution of power. The Economist in a way bluntly admits this. Managers, so the argument runs, are hired to do nasty things. Take for instance the shutting down of a subsidiary; without the spur of high pay, they would tend to avoid doing such a thing. In other words, not only does power corrupt, but one has to be corrupted into power.

The point to make here however is that we see here the wage squeeze strategy ($\Delta w \leq 0$) at work: suppressing wages relative to the productive output. A way to realize this is to widen the competition within the workforce. Here Sennet’s ‘skill extinguishing’ plays a role. The more the workers’ niches of knowledge and know-how are opened up, the more they are are mutually exchangeable and the more successful this strategy will be.

In countries where strong labour protection laws are in operation however, this is not so easy. The competition among workers is moderated, but there is another possibility. In stead of getting the same (productive output) for paying less (depressed wages) one could turn the equation around: get more for paying the same. This principle might explain the phenomenon of over-education of the workforce in a country like the Netherlands.

We are lucky that there exists longitudinal research that gives us an insight in the qualitative composition of Dutch employment. The researchers were able to track the qualification levels of jobs (educational requirements) as well as the educational levels of the people who actually fulfil these jobs. One of their conclusions is that unskilled and semi-skilled work as a percentage of total employment is rather stable over a long time span. This contradicts the earlier technological-deterministic theories that automation would put Aldous Huxley’s epsilons definitively out of work. (A main reason is that many jobs in the service economy cannot be automated; they cannot be outsourced to a low-wage country either). Secondly, the knowledge economy is real, as shown by the steady growth of the top layer in the qualification pyramid. (As a result mid-level employment is squeezed out).

But the most remarkable finding is the progressive over-education of the Dutch workforce which comes into light when one compares the work individuals actually do with the education level they have reached (figure 6).

6. The Inside and Outside of Work

FIGURE 6. HUMAN CAPITAL IS BADLY USED

Educational levels attained versus job requirements, the Netherlands (1971-1995)

The trend is indisputable: over time growing numbers of people work below their attained level of education. Among university graduates alone the percentage fulfilling under-qualified jobs rose from 5 to 22% over a quarter century. From employee perspective their human capital is underused and its yield suppressed. The employer on the other hand gets more brains than he pays for. And on the labour market as a whole this leads to substantial displacement from the top downwards. When the higher qualified strata displace the lower ones, as the graph shows, consequently at the bottom of the labour structure there grows a reserve army ‘with a greater distance to the job market,’ as the euphemism in Dutch officialese reads. Put more bluntly, these reservists are declared permanently unfit for duty.

An appraisal

Methodologically, the condition of application in HPPs in ‘bundles’ requires a cumbersome search for ‘pure’ HPWS companies, where integral application is found. As a result, “No two studies seem to measure new work and HRM practices the same way.”

Moreover, direct causation in social sciences is often difficult enough to prove; the more so is a sequence of causations. In the causal chain from HPWS practices to employee satisfaction to employee commitment to improved organisational performance the weakest link in this chain is commitment, conceptualised as the extent to which employees identify with their employer and accept his goals and values as theirs. In many cases HPPs are tested on financial performance criteria only, thus bypassing the supposed intermediate

95 Godard, Delaney (2000)
variables of employee satisfaction and commitment. “The linkages from HPWS to employee outcomes and thence to organisational performance remain almost entirely untested.”\(^96\) Finally, longitudinal research is rare.

An overview of the literature shows that positive effects of the HPWS approach are almost exclusively reported in American research, while sceptical voices are heard from outside the USA, especially from Canada and the UK. One has to keep in mind that the US not only is the country of origin of the Managerial Revolution, but also the source of academic theory on personnel management, taught in business schools and copied all over the world. It was here that theorizing on High Productive Work Systems emerged, and more specifically the concept of empowerment. The remarkable difference in outcomes (and theory building based thereon) may be related to national culture. Among American managers there exists a deep-seated antagonism against ‘hourly hands.’ An “in-group loyalty” makes them shield information and decision making from ordinary employees.\(^97\) As a result, quite normal HRM practices (in European eyes) are seen as innovative in an American context. Ramsey et al.\(^98\) mention as HPWS research variables upward communication, employee consultation and induction, practices that are standard in personnel policy in Europe. The most exemplary of these supposed innovations is reducing status barriers between management and workers, explicitly mentioned as such in a number of research reports.\(^99\)

In the end, the HPWS research does not support the supposition of improvements in the work itself, in job content. Intensification of the labour process is the main tendency. We can agree with some authors who put it like this:

> "Those who put forward the hypothesis that lean production will enhance the quality of working life, or even give workers the authority to make decisions that might improve their jobs, are making statements of faith rather than tested propositions."\(^95, 100\)

Our criticism especially concentrates on the issue of empowerment. Conceptually, it has to be doubted because it is depicted as a ‘stand alone’ management technique so to speak, something that can be carried through while leaving the production structure untouched. Without being embedded in an integral redesign of work processes however, one can expect only cosmetic adaptations at best, nothing to counteract the fundamental tendency towards intensification of work.

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\(^96\) Ramsey et al. (2000)
\(^97\) Zuboff (1988), 237
\(^98\) Ramsey et al. (2000; appendix)
\(^99\) Pfeffer (1998); MacDuffie (1995); Pil, MacDuffie (1996)
\(^100\) Lewchuk, Robertson (1997)
A fallacy of the wrong level?

So there are two confrontational theses which both suppose a link between the organisation of the production process and the quality of labour. The proponents of the Mutual-Gains Thesis state that the autonomous development of the production system will further the quality of labour. The empowerment concept is the most outspoken plea for this stance. Theoretically it is correct to the extent that the Mutual-Gains Thesis is correct. In that case there will emerge more autonomy in the production process (which will also open up a source of counter-power within the organisation). To the opposite, the neo-Fordist critique supposes a progressive intensification of work to be an essential characteristic of the evolution of Industrial Capitalism towards its ideal type. This line of thought excludes a concept like empowerment.

It is of course as hard to prove the non-existence of such a thing as empowerment, as it is to prove the opposite: the existence of the intensification of the labour process. Much evidence presented is circumstantial. As there are hardly any national or international statistics available on something like labour intensification, mostly the only thing we have to go by is case studies, mainly from the US. We discussed a number of these and could have gone on for quite a while, for there exists a substantial literature on the ‘high performance’ concept. But it is hard to generalize from case studies into major trends.

Critics could argue therefore that the case to underpin the intensification-of-work-thesis contains a fallacy of the wrong level: it tries to demonstrate a tendency at macro-level (in the economy as a whole) by showing developments at micro level (by case studies). Indeed, the neo-Fordist critique offers only clues on the direction in which the quality of work moves, based on case studies. Indications of a counter-trend towards the mutual gain (empowerment) are absent however: I looked for case studies, but couldn’t find them. And the fact that the empowerment concept totally disappeared from the HRM vocabulary in ten years time might make one think that there wasn’t much to it after all.

So the plea for the intensification-of-work thesis runs as follows:

The neo-Fordist critique is based on cases studies which give it certain plausibility. When one could show contradicting case studies demonstrating the application of the empowerment concept, this would force reconsideration of the intensification of work assumption.

In absence of these, the assumption still stands. And it likewise explains a phenomenon at macro level. The only genuinely general indicator for the intensification of the labour process is the increase of the management ratio. To the extent that this ratio rises, it contradicts the notion of empowerment as a thing that happens in the real world out there. Either people decide about their own work, or their bosses control their jobs for them. It’s
between simple jobs within complex organisations (with many managers attached to them) or vice versa. So, if there had existed any such a thing like empowerment in the real world, it would have manifested itself in a drop in the relative size of management. Quod non. And that is what one could logically expect. Empowerment simply didn’t exist because it couldn’t exist. Managers couldn’t loosen their control over labour on penalty of losing yield for their masters, the share owners.

Admittedly, one cannot reason the other way round: the rising management ratio doesn’t ‘prove’ the intensification of the labour process. It only makes it the more plausible.

**A scrutiny of Strategic Human Resources Management**

The question whether or not HPWS is a proven concept is essential in the context of this study for a special reason. It turns out to be the foundation on which today’s mainstream theorising on HRM and its effects rests: Strategic Human Resources Management (S-HRM). This is only an application of the HPWS-concept:

HRM practices → HRM outcomes → improved organisational performance

There are three main approaches in the field of S-HRM research. The universalistic approach is the most simple one, stating that certain ‘best HRM practices’ will always lead to better corporate performance, independent from various local situations or cultural background. Pfeifer counts sixteen of those practices, such as participation and empowerment, incentive pay, employment security, assignment via the internal labour market and training and skill development. The contingency approach states that certain HRM policies will only be successful when they are consistent with other aspects of the organisation, especially its strategic position. Three strategic ideal types are distinguished: the prospector, constantly in search of new product-market combinations; the defender, operating in a stable market and seldom making adjustments in technology or organisational structure, and the analyser, sharing characteristics of both of these ideal types. Each strategic position, according to this theory, requires a different set of HR practices, in order to be successful. The third group of theories is the most complex one, working from a ‘holistic’ point of view. They are concerned with the way in which a pattern of multiple independent variables, rather than individual ones, relate to the dependent variable.

Delery and Doty found a “relatively strong support for a universalistic perspective and some support for both the contingency and configurational perspectives.” Such a universal prescription would make life easier for personnel managers. Three universal HR practices - profit sharing, results-oriented appraisals and offering employment security –
“had relatively strong universalistic relationships with important accounting measures of performance.”

‘Universal HR practices,’ according to this research, are effective, independent from locality or culture. The historical-sociological perspective of this study however triggers the question: are they also independent of time? Would they have been as effectual thirty years ago, or will they be twenty years from now? That would be the real test for a general theory on HRM. Our ‘historical eye’ can’t miss some impression of anachronism. Profit sharing and results-oriented appraisals look well placed in the globalisation atmosphere of the 1990s. Offering employment security however looks a bit out of touch in this enumeration, more a concept from a different era, a different Zeitgeist.

Furthermore, while Delery and Doty conclude that best HR practices are profitable, they also observe that these practices are hardly applied in practice. Of course, one reason might be that either these practices are hardly known outside the scientific community or they are seen as not very practical by the business world. Little application might also follow from the limitation of this research to the banking industry. How can we know for sure that what works in one sector of the economy is equally effective in other branches? Or in various cultures: American, European, or Japanese? This is the ‘best fit approach,’ which states that the effectiveness of HR practices depends on the specific context they are applied in, internally as well as externally.

When we trace back the sequence of possible critical questions about S-HRM research we find at the end that there is little consensus on what HRM really is. Various approaches – from the perspectives of the effectiveness of the HR department, knowledge, skills and competencies, individual HR practices or their impact on the human capital value as well as employee behaviour - will lead to different outcomes. The ‘universal best practices approach’ seems to have better empirical credentials than the competing ‘best fit approach.’ However, the national context seems to play a role. Boselie et al attribute much weight to the “institutional context” in understanding personnel management in the Netherlands. “In general, a variety of exogenous influences are seen to restrict management’s room for manoeuvre. Notably, collective bargaining agreements and labour laws in the Netherlands prescribe, prohibit and influence the HRM practices and policies of organisations.” Following the list of 16 validated ‘best practices,’ based on ‘hard’ Anglo-Saxon research, they arrive at the intriguing conclusion

“that due to institutional pressures, 12 out of the 16 are rather common in the Netherlands. This simply implies that at the level of the individual company the possibilities achieving a competitive advantage in these areas (like for example offering work security, extensive training possibilities etc.) are not feasible or very limited. On a number of best HRM practices the individual company cannot

103 Paauwe, Boselie (2005)
104 Boselie et al. (2000)
The Maintenance Crew for the Human Machinery

differentiate itself from its competitors. The best practices are already enforced
for the majority of companies due to the role/influence of legislation, collective
bargaining, works councils."

In other words, companies are forced indeed, and to their own good. This might make
one wonder whether the factor of industrial relations would not in the end be a better
explaining (independent) variable than the whole of HR practices.

♦

No theory or explanation

Ever since the emergence of HRM, science has struggled to find
empirical proof of the contribution made by HRM to corporate
performance; the HRM-P link for short. As an examination of 68
empirical studies in this field concludes:

“Certainly, the existing research suggests a positive relationship between HR and
performance. However (…) this body of work tends to lack sufficient methodological
rigor to demonstrate that the relationship is actually causal in the sense that HR
practices, when instituted, lead to higher performance. Little, if any, research has
utilized rigorous designs to test the hypothesis that employing progressive HRM
systems actually results in higher organizational performance in a causal sense.”

A causal relationship means that ‘A’ causes ‘B’ because: (1) when ‘A’ occurs, then ‘B’
(2) the occurrence of ‘A’ precedes the occurrence of ‘B’ and (3) there is no intervening
variable ‘C’ in sight. In fact, a great majority of research designs are of the ‘post-predictive’
type in which the same respondent at the same time provides information on both his
organisation’s current HR practices and past performance up until the moment the survey
is carried out. A longitudinal research design would be needed to ascertain practices first
and performance at a later date.

Even if this methodological requirement would be met, we would still only obtain a
simple statistical association – when ‘A,’ then ‘B’ – which tells us nothing about the causal
direction. The independent and dependent variable may easily switch. Common sense may
make us reasonably assume that ‘good’ HR practices (A) indeed causes higher performance
(B), but we don’t know for sure that the relation doesn’t run the other way around. A
statement like ‘the fact that a company operates well financially (B) makes that it has the
means at its disposal to execute ‘good’ HR policy (A)’ looks too plausible to discard it at
face value. Theorists on S-HRM acknowledge in theory that a two-way causality is also
possible: “that firm performance itself will give rise to a change (very often perceived as
an improvement) in HRM practices.” In practice however their research leaves this

105 Wright et al. (2005)
106 Paauwe, Richardson (1997)
6. The Inside and Outside of Work

possibility mainly out of consideration. And in practice they are probably quite right. They only lack scientific proof of their thesis.

This reversed causality is only one of the missing links in S-HRM research. A further complicating factor is the causal chain. HR practices may, as the model presupposes, lead to HR outcomes that again influence organisational performance (resulting in higher financial performance). It is however equally possible that these practices have a direct effect on performance without any change in HR outcomes. Interventions in the field of training for instance, or job design may have the direct effect of making employees more productive without any observable change in ‘HR output.’ This is due to the fact that the process by which HR interventions give rise to HR-related outcomes – including the essential factor of the quality of implementation – is neglected in many empirical studies. In other words, we still don’t know how the supposed positive effects take place.

The stakes go up when one tries to quantify the assumed contribution in financial terms. In a survey on SME’s in Flanders a group of Belgian researchers have tried to do just that.108 It turned out to be a complex calculation. A high HR-intensity – the presence of many sophisticated HR-instruments that are integrated into a coherent system – has a positive effect on labour productivity (1). As a result, the share of labour costs in the value added diminishes (2), which creates a wider margin to strengthen the liquidity, solvency and the rate of return (3). However … an intensified HR policy creates extra expenditure of its own, on result-based rewarding for instance or on training. These surplus expenditures almost undo the gain in productivity (4). On balance the net effect of an intensive HR policy seems to be almost nil. The only and deciding factor the researchers could find is a direct positive effect of an integrated and coherent HR policy on profitability (5). This would in the end make for a net positive effect at the bottom line.

If scientists have so much trouble in demonstrating that a sophisticated HR policy indeed makes a difference financially, so much more for a personnel manager who tries to prove the net worth of his activities in practice. In day-to-day practice the survey showed a distrust in the effects of an integrated HR policy. Trust in HR expenditure can only be based on the conviction that it is a worthwhile investment in the human capital of the organisation. Companies that tried such an investment soon retraced on their steps however, disappointed by the lack of instant returns.

Twenty years of scientific effort has been put into what some authors have nicknamed ‘The Quest for the Holy Grail.’ One might be inclined to question the suppositions on which the problem definition of this type of research is founded. Hesketh and Fleetwood finally come to the conclusion that “the social world is not only far more complex than this ‘scientific’ approach presupposes, but HR managers also know it is far more complex, and implicitly reject the meta-theoretical presuppositions of the ‘scientific’ approach.”110

107 Boselie et al. (2005)
108 Sels et al. (2006)
109 Sels, De Winne, 2005, 177 ff
110 Hesketh and Fleetwood, 2006
theory is about questioning those presuppositions which could eventually lead to an entirely different research approach. When the phenomena under scrutiny transcend simple linear causality, a more complex research approach may be needed.

“Complex causality is connected to what we call robust explanation. Providing a history of a phenomenon, and hence explaining it, could be interpreted to mean giving information about the underlying mechanisms and structures, along with (if we are dealing with social phenomena) the human agency that reproduces and transforms these mechanisms.”

All this adds to the most fundamental critique from a scientific point of view, that “even if convincing empirical evidence for the existence of an HRM-P link is eventually found, a statistical association in, and of itself, constitutes neither a theory or an explanation.” And as science cannot offer an explanation for the observed effects, “when stepping into the practical domain, many HR managers find little resonance between ‘scientific’ claims surrounding statistical association and causality with their own organisation’s everyday practice.” To mention only one objection: “HR practices that are associates with increased performance in one industry, occupation, location or time appear not to be associated with increased performance in other industries, occupations locations and times.”

The intriguing case of human capital

To see the reason why, we have to put to the test one of the basic deductions from the HRM concept that one could call the ‘Human Capital Thesis’ (HCT). It contains the insight that people should not be conceived as production factors but as capital assets. HCT really diverts from the traditional assumptions about ‘personnel.’ Production factors are costs and costs have to be controlled and curbed. Assets, on the other hand, should be nurtured in order to make them grow. This is the case for investment in ‘human capital.’ People, the proponents of the thesis taught us, are scarce in the long run, while capital is available in abundance. High yields on human capital investments should therefore be assured. HCT is widely endorsed verbally in statements like ‘our most valuable resource is our people’ that became one of the most common truisms in the management speak of the 1990s.

Fine, but what do employers invest in? Human capital has to do with intangibles or ‘hidden values on the balance sheet.’ When we define the concept as the total of present and potential productive capacities of employees, this is only part of the ‘hidden value equation.’ Besides there are intangible assets like trade marks, patents, contracts, partnerships and concessions, IT systems etc. that constitute the ‘structural capital.’ The combination of human and structural capital delivers the ‘intellectual capital’ that
Introduction

makes such a difference in today’s knowledge intensive economy. Now the key is that “the human capital cannot be owned, it can only be rented. The structural capital can, from the shareholder’s point of view, be owned and traded.” Logically, financiers – banks, venture capitalists – are primarily interested in the structural capital. Investing in human capital is like spending money at the renovation of a rented house one lives in. There is however a relationship between the two. In a slow process, the flow of human capital in action leaves behind a deposit of structural elements – units of value left ‘after staff went home.’ Consequently, “a key role of leadership is the transformation of human capital into structural capital.”

So, human capital doesn’t offer a straightforward investment proposal. This may explain why research aimed at demonstrating a causal connection between excellent HR policy and shareholder value showed some unexpected investment outcomes. The independent variable in this research was measured by the Human Capital Index (HCI), constructed from six ‘dimensions’ that together measured the quality of HR policy in 600 major European companies. Subsequently, the scores on this index were compared with a widely applied indicator for intellectual capital: Tobin’s Q. This is the ratio of the market value of a firm to the net replacement costs of its assets (the value according to the balance sheet). In other words, Q measures what a company is worth more that its material possessions; this ‘more’ being its intellectual capital. The Q indicator strongly correlates to financial ratios, especially to Total Return to Shareholders (TRS).

In total, the outcome of HCI explained more than half of the variance in financial worth between companies. This is however the outcome of plusses and minuses. A HR policy that is strictly focused on corporate targets and on cost effectiveness strongly adds to value creation. Furthermore, a substantial contribution to financial results is realised by a transparent policy concerning result-based pay. These ‘dimensions’ belong to the ‘hard’ variety of HRM. On the other hand, personnel care and training correlated negatively to shareholder value. “After repeated research we conclude that training possibly relates to a lower shareholder yield,” the report stated. “We assume that training raises value for the individual employee [in labour market opportunities], but not necessarily the value of the enterprise.”

This puts into question much of the development oriented approach of HRM.

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111 Edvinson, (1997)
112 De Human Capital Index (2001, 2002)
6.6 The Shattered Labour Order

A power shift

Let’s first summarize what we found thus far. This chapter on the inside and outside of work started from two premisses:

- The countervailing power within the labour organisation is not primarily based on legal institutions (co-determination, collective agreements) but on the workers’ autonomy over their own work, enshrined in the ‘black box of craftsmanship.’
- So, when we observe a wide-spread intrusion by management into this workers’ autonomy, we may expect the system of labour relations to erode, because the countervailing power is weakened.

With regard to the inside of work we saw how ‘the Revolt’ of the early 1970s was a recoil of the system of mass production that had reached its highest stage of development. There is a striking similarity between Blauner’s elaboration of the concept of alienation 113 at that time and the symptoms of corporate anomie we observe nowadays 114:

<table>
<thead>
<tr>
<th>alienation</th>
<th>corporate anomie</th>
</tr>
</thead>
<tbody>
<tr>
<td>powerlessness</td>
<td>concentration of power</td>
</tr>
<tr>
<td>estrangement</td>
<td>vote over voice</td>
</tr>
<tr>
<td>isolatedness</td>
<td>individualization of the labour process</td>
</tr>
<tr>
<td>meaninglessness</td>
<td>irrational organization</td>
</tr>
</tbody>
</table>

Seen from the perspective of this study, the long-term struggle for the quality of work life has not been primarily about the workers’ well-being, nor the amelioration of the level of alienation in their work, how important these aspects are from a humanitarian point of view. It was a power contest. The fact that the ‘experimental gardens’ of the 1970s had so little follow-up was not because they were unsatisfactory in terms of workers’ well-being or productivity, but because an application on a wider scale would intrude the managerial prerogative of control.

We saw the prevalence of Lean Production over Socio-Technical Systems Design, due to the fact that the first is a far more suitable production concept under present circumstances. A comparison of the respective change scenarios of these two concepts shows a striking contrast. The direction of the socio-technical change process is predominantly bottom-up; especially in the ‘Quality-now’ phase which is aimed at gaining commitment and support of the organisation as a whole. To the contrary, Lean Production change is given a start by value stream mapping which is a typical top-down activity. This is in line with a socio-economic context in which (as we saw in chapter 6.2) management is the driving force that restructures the organisation, direct workers’ participation included.

114 See chapter 4.3
This reflects a shift in the inter-organisational balance of power which springs from two basic sources. At the level of strategic management, the prevalence of the virtual over the real economy leads to a one-sided articulation of interests, which gives management the upper hand over workers’ interests in order to serve their masters, the capital owners. As we saw in chapter 3 these had to be satisfied with preferential treatment in the distribution of the gains of the means of production, leaving the direct access to the means of production themselves to management. In the new, virtual-economic context they make most of the opportunity to claw back what they had to let go a century ago.

At the level of operational management, technological change strengthened management’s visible hand. Present IT system design includes two characteristics that determine work and working conditions: the de-linking of work from place (and consequently from labour contracts) and the embedding of managerial control in hardware and software packages. Changes in the production system led to a highly different composition of the workforce. During the heydays of mass production, when the primary process was designed to collect Taylor’s efficiency bonus, it resulted in broad-based, inclusive organisations. The reason is that in mass production the efficiency gain is in the economies of scale. When production is inflexible in itself, adaptations to market fluctuations can only be realised by the law of big numbers. In the 1970s this system reached its point of diminishing returns. Subsequently, the wave of mass lay-offs in the early 1980s did away with the surplus of the inclusive labour force. Consequently, new casual work forms grew strongly. And not accidentally this coincided with the crisis in the post-war social systems that were grafted on this inconclusive labour order. The stagflation of the 1970s formed the first impetus to let the beast of untamed capitalism out of the cage. In vigorated competition had to prevent the wheels of the world economy to get caught in the sand.

The tendency towards progressively intensified production over time we demonstrated in chapter 6.5 to a reasonable level of plausibility. Whether a quantum leap has occurred in the meantime is open for debate. Flow production in time-less time however could quite well be perceived as the final phase in an evolution towards a new configuration of forces that could preliminary be labelled as High Intensity Work Systems (HIPS). HIPS is HPWS minus its supposed beneficial effects on the quality of labour.

Two trends

The constant reconfiguration of production systems spatially severed the link between work and place and consequently from labour contracts. Consequently this made employers to reshape their HR policies and gradually disen tangle themselves from the liabilities to a system of industrial relations that was gradually losing its relevance. Work on fixed term or zero-hours contracts and temporary agency work

115 Greenbaum (1998)
expanded and especially a new class of free lance operating, self-employed workers emerged. To all these ‘a-typical’ work forms – often 10 to 15% of total employment – the arrangements of labour law and collective bargaining do not apply or only partially. Not all these flexible work forms can be characterised as precarious work\textsuperscript{116} but often the lack of basic security runs counter the entering into long-term commitments in private life.

Besides, the transformation of the global division of labour is characterised by a sharpening segmentation “around two predominant groups of roughly similar size; a highly-skilled and technology-based labour force on the one hand; a mass of unskilled workers engaged in routine assembly and auxiliary operations on the other hand.”\textsuperscript{117}

The two trends that are the features of the new shattered labour order:
• a transformation of the substance of the work (colloquially epitomised as shift from brawn to brain) and
• the exclusionary segmentation within the labour force that goes hand in hand with a disentanglement from industrial relations,

both have far-reaching consequences for personnel management. The touchstone is whether a company still functions as a social system or tends towards forming an aggregate of transactions. When personnel management moves away from Human Resources Management towards Transactions Management, this puts a strain on established labour arrangements, as the rise of a-typical and precarious labour testifies.

\textbf{A matter of brain work}

“For the first time in history, the human mind is a direct productive force, not just a decisive element of the production system. (…) What we think, and how we think, become expressed in goods, services, material and intellectual output.”\textsuperscript{118}

This could quite well be the most concise description of what is really new about ‘new work systems.’ If this is true it means that the old struggle over control over the means of production takes an entirely new shape. The structures and institutions forged in the contest between capital and labour in the past may rapidly lose their relevance in the new world of work, the essential hallmark of which is the knowledge intensity of its production. This has to do with matter and information. Matter is what nature gives us, regardless whether its present form suits our needs; it is solid and tangible, unpredictable and flawed, but workable and controllable. Information, on the other hand, is fluid and abstract and by its abstract character offers pure forms and certainties, but it is hard to grip or to control.

A material product, that is processed matter, implicitly contains information in two ways: the original ‘brain work’ that went in its design and the ‘know-how,’ that is the knowledge about the production process that transformed matter into its end form. It is this twofold message archaeologists look after when they dig up some artefact from a civilisation not known about by way of written records. Matter and information appear

\textsuperscript{116} Nienhueser (2005)
\textsuperscript{117} Castells (1996), 387
\textsuperscript{118} Castells (1996), 32
in a certain combination that shifts over time. To the extent that the products around us become more and more abstract in character, the knowledge component takes the upper hand over matter. Software is a product that wholly consists of applied knowledge. And in what we still call the ‘hardware,’ the computer itself, the value of the materials it contains is negligible, compared with that of the knowledge stored in it. The relation between the two can be put into a formula that looks as follows:

\[
\text{Value added} = \frac{\text{amount of information}}{\text{mass}}
\]

Formulated verbally: the value added increases to the extent to which a growing amount of knowledge is added to a limited amount of matter. This is, in its most concise form, the formula for ‘informational’ work that is today’s primary source of economic growth.

Knowledge intensive production rapidly changes the content of the work we do, as well as labour relations and the composition of the workforce. In the so-called ‘industrial countries,’ notwithstanding this designation, ever fewer people earn their money by ‘making’ things or offering tangible services. More and more people are active in transforming information and applying knowledge. Only a small part of them produces new knowledge at universities and research institutes. A larger part consists of highly educated specialists that apply existing abstract knowledge: lawyers, physicians, teachers and engineers. But the largest and fastest growing category doesn’t work with abstractions, but with practically applicable knowledge. These ‘knowledge workers,’ as Peter Drucker calls them, work as surgical nurses and roentgen technicians in the health care sector, operators of computer and telephone systems, website designers and in innumerable other occupations. They form the backbone of the new labour order, comparable in position with the blue collar worker of the past.

Information is fluid and hard to control; so ‘informational’ work is hard to control. In an industrial process the ‘thinking’ can be separated from the ‘doing.’ The ‘thinking’ is ‘owned’ by the management, which owes its power to this knowledge monopoly. In an industrial economy – in industry as well as in large parts of the service sector – the knowledge hierarchy coincides with the formal hierarchy: the boss has the greatest amount of knowledge at his disposal. In a knowledge intensive economy, knowledge has become a production factor in its own right. It can no longer be separated from ‘something.’ The employment of knowledge is the work itself. The knowledge hierarchy no longer coincides with the formal hierarchy. Often the smart brains are found at the base of the organisation.

This has important consequences. First, knowledge work is not a matter of quantity but quality: this is the essence of its output. “In judging the performance of a teacher, we do no ask how many students there can be in his or her class. We ask how many students learn anything – and that’s a quality question.” Therefore, brain work cannot be ‘programmed’
like industrial work; the knowledge worker has to ‘program himself.’ And because quality is no longer a pre-limiting condition, controllable from the outside in the bureaucratic way, but is the output itself, it tends to evade control at all. This puts the position of management at jeopardy and consequently puts organisational structures upside down as well as mainstream economic thinking. “Economic and most business practice sees manual workers as a cost. To be productive, knowledge workers must be considered as a capital asset. Costs need to be controlled and reduced. Assets need to be made to grow.”

Quite so, but who’s assets are it? Unlike work experience, which is tied to the work place so to speak, productive knowledge is portable, so that knowledge workers “own the means of production.”

Labour liberated at last?

Work made measurable

Fore a while it looked like we were back in the pre-Taylor era, when skilled craftsmen controlled the knowledge base of production. Unlike the end-19th century factory artisan’s know-how, that was tied to the spatial concentrated material capital of his employer, the knowledge of today’s knowledge worker floats free of time and place. In order to bring it under managerial control, it should first be made into a measurable object. For a long time however, much intellectual work escaped this fate; the ‘black box of craftsmanship’ was simply too hard to crack, which prevented this type of work to be reduced, in Marx’ words, to a ‘thing.’

Employed as a journalist, I praised myself lucky having a boss, the editor, who didn’t know a thing about making magazines. She could observe that effort went in and a product came out that was well appreciated by the readers, but what happened in between was indeed a black box to her – not tangible and certainly not measurable. And all the better, for otherwise she would have certainly intervened. Many people in intellectual occupations will share this experience with me.

But recently, in today’s market-driven economies, the principle of reducing work to measurable objects has been driven a long way ahead. Privatisation offers one of the clearest examples. It means that all kinds of government-directed and thereby ‘indirect’ economic relations, built on trust and intrinsic professional criteria, are swallowed up by the market economy. Relations like doctor and patient, civil servant and citizen, teacher and student are gradually transformed into what ideally will be pure relations of exchange. For without exchange we cannot determine a price. Without a price we cannot determine the value added of a certain activity. And without a known value added we cannot control the efficiency of the process. All these new market relations have first to be specified: who does what, on which specifications, to what price? A reorganisation of the Dutch health care system is based on so-called diagnose-treatment combinations. About six thousand of

119 Drucker (1999)
such combinations have been drawn up. Once the diagnosis has been made, they prescribe the doctor’s actions in detail – the interventions as well as the time these will take - which reduces his work to a measurable, ‘intellectual-industrial process,’ to be supervised by the private health care insurer. This demonstrates, as a psychiatrist once cynically told me, “a serious flaw of the Creation. The Lord hadn’t understood that He should create man from Lego blocks.”

Secondly, each of these processes has to be assessed on its risks and therefore scrupulously supervised in its outcomes. For the reverse of the coin is that the system presupposes mature consumers, able to assert their rights. So, in this model each activity brings with it the risk of a legal claim to be guarded against by intensified supervision which strengthens the role of management. Case studies indicate that the outsourcing of work done by skilled professionals leads to tighter codification and control, limited professional discretion and erosion of professional skills. Just like the industrial process before, every step in the intellectual production process will be reduced to measurable units. One could call it the Taylorisation of brain work.

Once this has been realised, supervision no longer demands intrinsic know-how related to the process itself. Management can be reduced to steering by measurement of deviations from quantitative parameters previously drawn up. From the top down to the lower management strata within organisations we can therefore observe the rise of ‘the manager who hasn’t learned a trade,’ other than being a manager. Professional knowledge is in rather low esteem nowadays and the professional is often seen as a loser, who didn’t make it to management rank. In fact he is a bit suspect too, as he employs professional criteria, in deviation of the official criteria of measurement.

When labour is reduced to a measurable thing, this allows management to tighten its grip on professional work. It undermines the power base of professional groups, which generally rests on the dependency created by a gap in the organisation’s ability to cope with specific uncertainties, internally or externally. To these uncertainties professionals offer a body of knowledge and their technical skills that are critical to the organization to cope with rising complexities. Complexity is their bread and butter. To reduce professional work to a quantifiable ‘intellectual-industrial production process’ means in fact to reduce the organisation’s dependency by bringing complexity into the orbit of managerial control. Thereby the same ‘Braverman principle’ applies that explained the erosion of the craftsman’s power base before: “Workers who are controlled only by general orders and discipline are not adequately controlled, because they retain their grip on the actual processes of labour.” Read ‘professionals’ for ‘workers’ and it will become clear that in the end, intellectual work will be forced to go the same route that manual work went a century earlier.

120 Grugulis et al. (2003)
Capital liberated from space and time

- Not only work, by its ‘informational’ content, has been ‘de-materialised;’ so have been the organisational structures in which it carried out.

Flexibility is the main buzzword in today’s production which is measured along three dimensions: functional (deployment), numerical (staffing level) and time (scheduling). Functional flexibility takes the form of eradication of job descriptions and demarcations. “Usually labelled ‘multiskilling,’ this practice is more accurately called multitasking, since the actual jobs are simple standardized tasks that a really part of deskilling in the classical Taylorist manner.”

This undermines the niches of expertise on which labour’s countervailing power rests. A more homogeneous workforce tilts the organisational balance of power. Numerical flexibility takes the form of outsourcing and atypical work like part-time work, temp work, fixed-term and zero-hours contracts. These new forms are strongly aided by the trend towards the limitation of judicial labour protection. When economists and politicians speak about the need to ‘reform’ the labour market they mean limiting protection against dismissal and curtailing unemployment benefits. In practice, outsourcing has the effect of deterioration of former in-house labour conditions.

Both functional and numerical flexibility are elements of work that is tied to a certain space, so that we can say for instance that labour protection is better organised in county A than in country B. However, to the extent that work becomes more ‘informational,’ it becomes fluid so to speak, no longer tied to a certain locality. It is possible – and progressively common practice – to decompose and recompose production systems on a global scale, thus abstracting from the historically grown economic geography. In the same way the limitations of time in the linear, chronological way we know it have been overcome and replaced by real time in which the world’s resources are allocated. Time is “a managed resource” and just-in-time production is just an adaptation of the real to the virtual economy.

Functional, numerical, and temporal flexibility – that is capital’s liberation from space and time – have important consequences for the existing labour order. “Labour is disaggregated in its performance and reintegrated in its outcome […] in a new division of labour based on the attributes/capacities of each worker rather than on the organization of the task.” Thus “Labour loses its collective identity, becomes increasingly individualized in its capacities, in its working conditions and in its interests and projects.”

First, economic control is global because capital is global. Secondly, labour is local, because people’s lives are rooted in the place where they live and in their culture. Consequently, the global economy will abstract from social life as it does from time and

121 Moody (1997), 95
122 Castells (1996), 441
123 ibid, 471-475
space. “Thus the more a social organization is based upon a-historical flows, superseding the logic of any specific place, the more the logic of global power escapes the socio-political control of historically specific local/national societies.” 124

This is the Great Divide of our time.

**The erosion of industrial relations**

Literature tends to attach great weight to the antithesis between the ‘Anglo-Saxon’ versus the ‘Rhineland’ model. According to this view, Continental Europe would be able resist the most blatant forms of individualism and labour market flexibility that arise from the neo-liberal, share holder oriented business systems by keeping its institutional framework of labour legislation and regulations more or less intact. The tendency towards skills extinguishing is the same however at both sides of the divide, as both ‘Anglo-Saxon’ and ‘Rhineland’ economies are exposed to the same rules of global competition.

From the fact that labour laws are still in place more or less, we may draw only limited conclusions about the robustness of labour relations at shop floor level. In Germany the system of industrial relations is rigidly institutionalised and personnel management there is more legalistic than in other European countries.125 The country is, in short, the heartland of the Rhineland model and if industrial relations would erode here, they would erode everywhere. Notwithstanding the fact that the pillars of German legal framework - the Mitbestimmung (co-determination) and the Tarifvertrag (collective wage agreement) – are in still intact, the country indeed experiences a slow but steady erosion of system of industrial relations. At the end of the last century only 15 percent of German plants were covered by both these institutions. On the other hand, no less than 30 percent of plants in the formerly West-Germany, and 46 percent of those in the East had neither a works council nor a collective agreement. In West Germany 27% of the workforce worked outside the umbrella of a collective agreement; in the Eastern part even 43%.127

At the centre of this development is a change towards a new, mostly non-unionised workforce and new types of companies. In the banking sector, for instance, above 90 percent of employees work in companies which are a member of the banking employers’ federation and therefore are under the umbrella of a collective wage agreement. The same banks however set up new types of low-cost ‘direct banking’ operations that stay out of the confederation and the agreement and recruit students and housewives as unskilled personnel whom they pay below the going rate. Skills erosion leads to erosion of collectivist representation which results in deterioration of labour conditions. 128

The German automotive sector is huge and traditionally plays a key role in industrial relations. It has been keen to align to the trend of vertical disintegration. The share of the value added by the main assemblers (Original Equipment Manufactures, OEMs) dropped

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124 ibid, 415
125 Lawrence (1993), 32-37
126 Hassel (1999)
127 Behrens et al. (2002), 17-18
128 Hassel (1999)
from 41.3% of the total value chain in 1989 to 34.8% in 1998.\(^{129}\) Outsourcing took place primarily for efficiency reasons, but as a by-product much of the outsourced work has moved out from under the umbrella of the national wage bargaining framework for the metal and electronics industries.

A key element in Lean Production has been to integrate independent suppliers into the production flow. The most important of them - tier-one suppliers which again outsource parts to lower ranking companies – are brought into the development process from the start.\(^{130}\) The aim of the JIT concept is to create one virtual production flow, independent of judicial ownership of the means of production. The legal status of the participants in this flow is irrelevant for production progress; it is essential however in the balance of forces in industrial relations. Vertical disintegration has shifted work to less regulated, less unionised parts of the value chain, resulting in much precarious work that would have met insurmountable union opposition in-house.\(^{131}\)

A-typical work has expanded: part-time work and especially petty employment or ‘mini-jobs’ that generate insufficient income to make a living. Little attention has been given to the externalisation effects of a-typical work, given the fact that it is often accompanied by lower levels of social security. Mostly, transient workers do not succeed in building up adequate pension rights, thus creating a poverty problem for the future. “The answer to the externalisation question depends principally on the additional or net employment impact of a-typical work. This is hard to quantify, but might be expected to be relatively minor,” due to the substitution of regular jobs by transient work.\(^{132}\)

In chapter 3 we saw that industrial relations, from which personnel management would evolve later on, first emerged in the United States. Kaufman has formulated what would be an explanation from a radical or Marxist position (not necessarily his own):

> “Industrial relations was an invention of the capitalist class meant to maintain its hegemony over labour and increase the extraction of surplus value. Industrial relations came first to the United States, in turn, because American capitalists were cleverer, more pragmatic and had more to lose, and were thus the first to realize that through modest concessions and adroit manipulation they could pacify labour, keep militant unions and the government out of the workplace and actually make greater profit. Viewed from this perspective, it is no wonder that Rockefeller, Jr. - son of the world’s wealthiest capitalist - was the person most active in funding and promoting the new field of industrial relations, and that middle-class professors, anxious to avoid class revolution and steeped in the ethos of republicanism and voluntarism (…) were willing allies in this cause.”\(^{133}\)

Well yes, thank you for wording my argument so aptly. Indeed, the fact that the

\(^{129}\) Greer (2008)
\(^{130}\) Womack et al. (1990), 146 ff
\(^{131}\) Doellgast, Greer (2007)
\(^{132}\) Keller (2005)
\(^{133}\) Kaufman (2004), 596
6. The Inside and Outside of Work

The United States was the most advanced capitalist nation at the time explains why it was the birthplace of the expertise in industrial relations, both as an academic discipline and as a management practice. The United States still are the most advanced capitalist economy in the world, so there is reason to pay attention to the fact that, according to Kaufman, the industrial relations are in a state of “doom and gloom” in this country. It is again the first to realise that “industrial relations has fallen out of step with the modern workplace because its tool-kit of institutional ‘fixes’ is no longer regarded as very effective further.”

The maxim that ‘the American present is our future’ may still hold a grain of truth, in a negative sense, in the field of labour relations.

**Flexicurity: what is traded for what?**

The political concept developed in the supposed stakeholder-oriented labour relations of ‘Rhine land’ Europe is *flexicurity*. Ever since the fall of the Berlin Wall, conventional wisdom within international forums like the IMF and the OECD had it that labour markets (like all markets for that matter) should be ‘reformed’- read: liberalised.

The idea behind this policy stance is that mobility in the labour market is a good thing in itself because its efficiency is maximized when the labour population fully adapts to businesses’ perceived needs (or whims) at any time. Often the interests of outsiders on the labour market (the young, women, migrants) are pitted against those of the insiders. The latter would be protected within a bastion of legal labour protection which should be razed in order to give the excluded ones a chance. Enlarged possibility to fire would raise the employers’ inclination to hire, so the argument runs, and that would apply to former insiders and outsiders alike. The price of deregulation of legal employment protection, to be paid by a large segment of the working population, has to be set against the enlarged job opportunities, so that a EU policy paper can boldly state: “Flexicurity is in the interest of both workers and employers.”

Flexicurity is meant as a compromise to cushion the societal backlash against what is experienced as rising insecurity, especially by marginal workers in so-called ‘a-typical employment.’ The policy paper couldn’t state the aim and the means in clearer terms:

> “The trust of European citizens in future employment opportunities, in the development of human capital, in decent work and labour market developments urgently needs to be strengthened, while companies require a supportive business climate and a transparent and predictable legal framework in order to increase business potential and create employment.”

Mark that enhancing security is not the aim; it is the means to get flexible labour conditions accepted.

Thereto the whole idea of flexicurity is presented as a trade-off, but what is traded for
what? In order to be in the interest of workers as well, flexicurity would have to meet four conditions:

• flexible and secure contractual arrangements which means full integration of atypical work into the systems of industrial relations and social security;

• active labour market policies in which public employment services and municipalities are supported by temporary work agencies;

• systematic life-long learning systems, by broadening and deepening investments in skills, and

• modern social security system, making, among other things, social benefits accessible for temporary workers and possibly the self-employed.  

Of these conditions life-long learning seems to be the most essential. The main issue of labour market quality is not numerical - about the ease of shifting numbers along slots - but qualitative. Economic growth primarily depends on the transformation from lower to higher productive jobs which requires a steady enlargement of productive skills. The whole concept of flexicurity collapses when the transient work force is not able to constantly upgrade its skills in constant adaptation to ever-changing labour environments. Here the knowledge base on which the wealth of nations rests is at stake. The prime responsibility for maintenance seems however to lie on the employers’ plate. One might question the inclination to invest in the employability of the transient worker, the less binding the labour relation is in terms of mutual commitments. According to an EU-wide survey 35% of all employees had received some form of personnel training within a 12-month period, but only 12% of temporary workers. So, indirectly flexicurity tends to contribute to the erosion of the institutions of industrial relations because the more transient the labour force, the more it disentangles employers from responsibilities valid under the ‘old’ system of industrial relations.

There is a close connection between employment protection (against dismissal), unemployment protection (against the monetary effects of dismissal) and skill formation. To acquire skills is an investment (by the employee) and like any investment else it is dependent on the likelihood of its yield. The more transferable, that is the more general skills are, the more workers invest in their own human capital. The more specific skills are however - industry specific or even firm specific - the more they need protection against a loss of future wage premium on which employees’ willingness to invest in these skills depends. This has been for instance the reason for treating civil servants differently in terms of labour conditions than private sector employees; many of their skills can only be applied in government service.

Now national economies specialise in certain types of product-market strategies stressing certain skill profiles that implicate the incidence of a certain level of labour protection. The United States hardly know a system of vocational education because its economy primarily

135 Flexicurity Pathways (2007), 2-4
136 Mitlacher (2005)
137 Estevez-Abe et al. (2001)
uses general skills. This explains why the Americans have been frontrunners of the ICT Revolution: when innovation takes place from scratch there are no specific skills to apply, so only the most adaptable minds are in demand. Consequently, the US score lowest on the OECD labour protection index. To the opposite the German economy is based on long-established industries which prosper on gradual innovation in high quality niche markets. Industry-specific and firm-specific skills count for a lot here which explains the highest score (together with Sweden) in the labour protection index - and in fact does so for the whole Rhineland model of industrial relations.

From this it follows that the neo-liberal argument that high mobility contributes to the efficiency of labour markets is only valid for ‘generic skills economies.’ These near the theoretical preconditions of homogeneity and mutually exchangeability in the market, non-consideration of extern alities and perfect information availability that allow for a Pareto optimal allocation of the labour force. But supply in the labour market is hardly homogeneous and the more specific productive skills are, the more they distort perfect labour markets. Externalities play a role here: The higher government expenditure in labour market policies, the higher the level of experienced job security. And the greater the job security, the smoother is the transition from lower to higher productive jobs. Not to speak of the hypothesis of full information in a world facing growing uncertainties. This means that

“maximum flexibility is generally far from the optimum in terms of economic efficiency. The issue is then to determine what should be the most convenient flexibility/security mix compatible with the objective of job creation. The answer cannot be derived from pure theory, since the precise structural conditions have to be analysed in each national, regional or local context. In a sense this is a drastic reversal with respect to the legacy of the so-called Washington Consensus, according to which the same general menu was supposed to fit all domestic contexts.”

In European’s ‘specific skills economies’ labour protection prevents a market failure that would emerge from workers’ reluctance to invest in skills if the long-term wage premium from that investment would not be guaranteed. Consequently, a flexicurity policy that limits the level of labour protection only makes sense when there would be a shift in focus in European economies from specific to general skills. Such a strategic shift would have strong consequences in the field of income distribution and power relations between capital and labour. In ‘generic skills economies,’ the only possibility to distinguish oneself in the labour market is at tertiary educational level. In absence of a vocational education system, lower strata of the labour population have no ‘black box of craftsmanship’ to protect them. Competition within a homogeneous labour market creates a buyer’s market which explains why American real hourly wages have been stagnant since the 1970s.

138 Boyer (2006), 16
In societal respect, flexicurity may fail as a policy instrument for two reasons.

The main shortcoming of the concept is the effect on skills formation. To decrease the level of employment protection may not help the outsiders in the labour market when their problem is not their exclusion by legal labour protection, but shortcomings in their human capital. Loosening protection would expose them to a heightened competition in a widened general skills market. At the other hand, there is no employer to fall back on for training or the sustained acquisition of necessary know-how. Secondly, flexible employment generally lowers the employment status and thus disqualifies flex workers for social benefits. So, the quid pro quo at one side of the flexicurity bargain tends to be taken away automatically.
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7. The ideology of management

Meine Untersuchung mündet in dem Ergebnis daß Rechtsverhältnisse wie Staatsformen in den materiellen Lebensverhältnisse wurzeln. In der gesellschaftlichen Produktion ihres Lebens gehen die Menschen bestimmte, notwendige, von ihrem Willen unabhängige Verhältnisse ein, Produktionsverhältnisse, die einer bestimmten Entwicklungsstufe ihrer materiellen Produktivkräfte entsprechen. Die Gesamtheit dieser Produktionsverhältnisse bildet die ökonomische Struktur der Gesellschaft, die reale Basis worauf sich ein juristischer und politischer Überbau erhebt. (…) Die Produktionsweise des materiellen Lebens bedingt den sozialen, politischen und geistigen Lebensprozesse überhaupt.¹

Karl Marx, Zur Kritik der Politischen Ökonomie (1859)

7.1 STRUCTURAL CHANGE AND THE EVOLUTION OF IDEOLOGY
7.2 THE SUBSTANCE OF PERSONNEL MANAGEMENT

¹ My research leads to the result that judicial relations like political systems find their roots in the material relations of life. In the societal production during their lives people enter into certain relationships independent from their will, production relations that correspond to a certain developmental phase of their material productive power. The whole of these production relations constitutes the economic structure of society, the material base on which a judicial and political superstructure is raised. (…) The modes of production of material life determine the social, political and spiritual processes of life anyway.
7.1 Structural Change and the Evolution of Ideology

What concepts when and why?
It is about time to weave separate threads into a pattern. A major assumption on which this study is founded is that fundamental changes in the substance of the personnel discipline originate from the structural transformations in the societal-economic environment in which it operates, by means of the transformation of ideas.

Personnel management acts as an organisational membrane that vibrates with societal flux. Society, at a certain point in time, confronts personnel managers with certain critical challenges that shape their visions and theories which enable them to interpret the environment in which they operate and to formulate solutions and tools from there. Visions, theories and solutions (concepts) are in the realm of ideas and personnel management has little else to go by. So the substance of personnel management – the subject of the subsequent chapter – equals by and large the ideas that founded its actions at certain periods in time.

To explain these ideas we can usefully apply the concept of \textit{Zeitgeist} which we came across in chapter 2. It explains the similarity of ideas among themselves in certain periods of time from the central problems or paradoxes of those periods, to which they are formulated as “a matter of time’s compulsion.” In this respect the historical-sociological approach offers the unique opportunity to answer two questions – why does a certain idea emerge and why at this point in time? - from fundamental changes in societal structure.

Chapter 5 contained a treatise on structural change in the post-war economies of Western Europe. After capitalism’s transformation from the post-war model to its newest incarnation, it tended to near its ideal type by means of the conquest of the real by the virtual, shareholder value driven economy. This should be conceived as the base on which the superstructure of ideas is raised. The composites of ideas that concern us here are twofold:

- production concepts: theories on how to design production systems in large organisations, and
- management concepts, theories on how to manage large organisations.

Management concepts vary over time, but what literature sheds insufficient light on is the relationship between the two theoretical constructs, management and production concepts. As we saw in chapter 6, production concepts create what in this study is labelled ‘the inside of work,’ which has important consequences for the quality of work life. They thus may create problem areas in the field of labour relations that have to be confronted
by certain management techniques. So, when we try to understand the fluctuations in management thinking we always should have in mind the way the reality at the shop floor is moulded by the production system.

To trace the theoretical constructs that dominated management thinking at certain points in time may offer us a frame of reference to analyse the changes in the substance of the personnel discipline. To the extent that this analysis really explains the turning points in the history of Dutch personnel management, it may offer us an insight into the way the personnel discipline functions in general (at least within a European socio-economic context). This again may allow for the construction of scenarios on future management ideologies and thereby on the substance of the personnel discipline.

**Normative versus rational concepts**

Starting from management concepts, the methodology most in use is to track print media impact; that is to categorise and quantify how much has been published in the professional media about a certain management concept in a certain time interval. The premise is that the number of publications reflects the impact on management thinking. Although the method has its shortcomings – to start with this basic assumption – it is in practice the only feasible way to do this kind of research.2

Theorists on management concepts commonly picture its life cycle as a bell-shape curve: the narrow ring of early adapters widens as the concept becomes fashionable among a greater audience, until after a while a downturn trend sets in, which in the end makes it sink into the abyss of oblivion, to be followed by the next fashion or fad.3 A sequence of bell curves takes the form of a wave which is the most used metaphor to describe the rise and decline of management concepts.4 In their infant stage, when professional groups discuss new ideas in public display, their impact on daily practice will often be grossly overrated. In chapter 6.2 we saw this demonstrated in the case of the early ‘experimental gardens’ at Philips Electronics.

Equally, during the downturn trend the acceptance of a concept can be underrated when measured in the diminishing media attention it gets. Mostly there is a long way to go from embracing a new idea to its implementation, during which organisations have a lot to learn for themselves. Implementation is seldom done by the book. Those experiences will one way or the other become part of the organisation’s collective memory – long after the professional press stops writing about the original ideas that set the changes in motion. There is a process of ‘sedimentation’5 which makes that a certain concept may be ‘out of fashion’ in terms of media attention, but may have become standard practice in the

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2 Benders et al. (2006)
3 Gill, Whittle (1992)
4 Heusinkveld (2000)
meantime. So, media attention can strongly distort the effect that a certain concept has in practice. We could call this the trompe-l'oeil effect in business literature: the concept isn't in reality what it looks like on paper.

This still offers us no answer to the question what management concepts get (media) attention when and why. Barley and Kunda\(^6\) have clustered these concepts into two ‘rhetorics,’ rational and normative ones that swing back and forth. Rational rhetorics stress streamlining and rationalisation of work processes as the prime means to raise productivity and they appeal to the employees’ economic self-interest as the way to make them adapt to this rationalisation. The normative approach has the same goal in mind but aims to reach it indirectly, by stimulating motivation and commitment through satisfying the employee’s social and psychological needs.

Behind the abstractions of normative and rational rhetorics stand the metaphors of organisation as organisms or as machines. The proponents of “normative control each claimed that organizations are, or should be collectives. Whether the dominant image was of community, group, or culture, each depicted the organization as a locus of shared values and moral involvement. […] In contrast, the second set of rhetorics emphasized rational control. Proponents of scientific management and systems rationalism argued that productivity stemmed from carefully articulated methods and systems. Each portrayed the firm as a machine.”

There are theories that link swings in managerial rhetorics to the quality of labour relations, indicated by the number of union foundations and strikes. Normative rhetorics would have surged in times of high labour unrest, by way of appeasement when the organisational machine was at risk of Luddism, so to speak. Rational ones would dominate during the hulks in the labour contest. Barley and Kunda reject this thesis on ground of their measurements of print media impact in the US, compared with recorded labour unrest. They do find a relationship with the Kondratieff Long Waves. During the expansion phases in the long wave rational rhetorics prevailed; scientific management during the first two decades of the 20\(^{th}\) century, systems rationalism from the mid-1940s to the end-1960s. One could add that Business Process Redesign, certainly a rational concept, was in the fore-front of management thinking during the roaring 1990s. Alternatively, normative rhetoric dominated during the stagnation periods: industrial betterment\(^7\) during the last quarter of the 19\(^{th}\) century, the human relations and personnel management approach

\(^6\) Barley, Kunda (1992)

\(^7\) During the last quarter of the 19th century the movement of 'industrial betterment' arose among enlightened industrialists, stimulated by the ideas from intellectuals and clergymen. Its aim was to improve the working conditions and welfare of the employees. The best known name in this movement was George Pullman, who founded the Pullman Car Comp. that produced luxury railway cars. A devout puritan he considered idleness as the greatest of sins and believed as well that “cooperation between capital and labour was to their mutual benefit.” In order to regulate his employees’ lives “he created a town of twelve thousand people just south of Chicago, dedicated entirely to the construction of his cars. He ruled this town, named after him, like a feudal landlord, who laid down the regulations governing the way his society would be run.” Investors however, “were suspicious of any hint of philanthropy.” On the New York stock exchange Pullman shares were often sold like ‘how much for flowerbeds and fountains?’ In the end, Pullman’s experiment would get broke on investor opposition. In that time, like today, shareholder clout spoke louder than enlightened visions. (Donkin, 2001, 124-133). The movement of industrial
in the 1920s an ‘30s and finally the focus on organisation culture and quality during the 1970s.

As we saw in chapter 5, Long Waves originate from ‘epochal’ innovations that allow for long-term, in-depth investments, setting in a roughly 50-year period of expansion of the economy. Afterwards, the multiplier effect of these investments is depleted; investment opportunities dry up and stagnation sets in for a period of roughly the same length. The reasoning by which the two waves – the rhetoric and the economic – are linked together is that the employers’ economic prospects during these phases influence their view on the economic value of the labour factor:

“Rational and normative rhetorics both promise managers greater productivity and profitability but advocate radically different means for obtaining these ends. Rational rhetorics stress the efficient use of structures and technologies, while normative rhetorics stress employee relations. Therefore one might argue that rational rhetorics should surge when profitability seems most tightly linked to the management of capital. Conversely, normative rhetorics should surge when profitability seems to depend more on the management of labour.”

It “stands to reason,” according to Barley and Kunda, that profitability by management of capital is most promising during the upswings of the Kondratieff Long Waves, while the management of labour looks more profitable during the downturns. This ‘mega-economic approach’ relieves their theory from the idiosyncrasies of the American system of industrial relations, and gives it a broader validity.

In this context it must be remarked that the Dutch personnel discipline in most cases closely follows America’s lead in the production of management thinking. As we saw already in chapter 6.5, in fact there is hardly any independent theorizing on personnel matters in Europe. That’s why in this study so far so much attention has been paid to research and theorizing from the US. This is not not say that the interpretation of concepts and the scope of their application are not influenced by national contexts; only that the ‘body of knowledge’ which is drawn from is the same, which makes that the Rhineland system is wide open to all the idiosyncrasies of the Anglo-Saxon one. This is particularly true for the Netherlands which in terms of industrial relations seems to be the bridge country between the two models.

The permanent management agenda

The impression of management concepts fitting into the needs of time comes close to the existence of a ‘permanent management agenda’ that Karsten en van Veen postulate. “This agenda functions independently from time and place and
contains the important themes that managers cope with all the time, such as vision, co-ordination, financing, product-market relations, labour relations and forms of cooperation. Depending on the societal context and the specific situation of the company, one theme will be placed higher on the agenda than another one. Management concepts anticipate what is already high on the management agenda and push certain themes to a higher or lower place."

This pushing up and down management’s priority ladder occurs in concerted action between three parties. On the one hand there are the social scientists. Their drive is to understand social relations, to which they offer abstract theories, the applicability of which is not their primary concern. Entrepreneurs and managers, on the other hand, are concerned with the efficient and effectual functioning of their organisation. They are only interested in theories as far as they have to. In between we find the consultants. In order to advise and support management, they have to repackage existing theories to apply them to existing business practice. In this respect they are very much interested in abstract theory, as a raw material. But the content of their product, the repackaged theory, is by and large outside their scope of influence, as it is dictated by the management agenda, which in its turn is dictated for a large part by the societal context, its macro-economic component included.

The ‘intellectual history’ of the personnel discipline in the Netherlands is quite in line with Barley & Kunda’s ‘ebb-and-flow thesis’ as well as Karsten & van Veen’s ‘permanent management agenda.’ Taylorised mass production became the prevailing concept during the post-war years of reconstruction. The central focus was on productivity growth, on which all other economic parameters depended. In order to raise efficiency TWI-projects (Training within Industry, after the American war-time example) were introduced on a mass scale. Secondly, the government made the negotiable margin in wage bargaining dependent on productivity growth. So, in order to acquire an objective measuring rod to judge the contribution of separate (groups of) employees to the productivity battle the first job classification systems were introduced. Job classification and job-related training were the first activities of a personnel function in nascent state.

The rational approach fits well into an economy in its expanding phase. During the last part of the 1950s Peter Drucker’s concept of Management by Objectives caught attention. Its idea of achieving greater effectiveness by fixing specific targets throughout the whole of the organization has certain elements of a normative concept in it, as it stressed consultation about common goals. At the same time it was of course a means to more effective control and an indicator for the progressive stratification within the management profession. It fitted well into the ‘organizational engineering approach’ of that time. In the broader perspective of the operations research methodology of which it was a part, it was in Europe primarily perceived as a proof of the supposed ‘managerial gap’ vis-à-vis the United States.

8 Karsten, van Veen, p 9
The principles of mass production spread from manufacturing industries to more craft-based ones (shipbuilding) in the 1960s and service industries (from fast-food to banks) in the 1970s. This development was accompanied with a merger wave in the 1960s in order to reap the fruits of efficiency by way of economies of scale. This made that the concepts that were en vogue at that time were more in the field of strategy and marketing. This businesslike climate in which the big multinational enterprise set the tone and pace evoked counter-reactions. Politics and industrial relations from the mid-sixties onwards were dominated by the strong-arm tactics of what became known as the ‘conflict model.’ Quite in accordance with the Performance Gap Thesis, in the late sixties, till the end of the expansion phase, normative rhetorics emerged. Herzberg’s motivation theory of satisfiers and dissatisfiers, that would stimulate the Humanization of Work movement, falls in this category, as did McGregor’s Theory X and Y and Maslow’s hierarchy of needs theory. These concepts drew close attention of the growing number of ‘personnel professionals,’ while democratization and corporate social responsibility were the catchwords of the time. Other management concepts in that period like Blake and Mouton’s Managerial Grid and the Matrix Organisation were aimed at getting a grip on the organisational complexity that resulted from the enlargement of scale in the preceding period.

In hindsight the stagflation years of the 1970s may be seen as a twilight period before the severe recession hit in the subsequent decade. The Organisation Development (OD) concept has to be placed to the background of the unruly industrial relations during ‘The Revolt’ and its aftermath. The answer was to take the company on a shared-culture voyage. OD contains social intervention based on three principles: action encompasses the organisation as a whole, normative change is brought about in small training (‘T’) groups guided by change agents and the voyage is a learning trip. Notwithstanding the initial enthusiasm OD as a concept withered away due to thin theoretical foundation and costs outweighing benefits. The concept certainly fitted into the need of the time when alienation was at its peak. It left some legacy in job consultation practices afterwards.

The early 1980s saw a serious interest in theories related to the inside of work. It seems to be the only decade in which the European Zeitgeist deviated from the American pattern. Across the Atlantic the Quality of Work Life Movement had been weaker than its Humanization equivalent in Europe. Now business life was in the era of Competitive Challenge and Restructuring. Peters and Waterman (In Search of Excellence) and Michael Porter (Competitive Advantage) were the leading ideas at the time. They reflected the widely felt need to break out of the containment of big government and big business alike which in the Netherlands led to a new entrepreneurial spirit and a breakthrough in the system of industrial relations.

In the Netherlands, what became known as the ‘Dutch polder model,’ stood for a re-found time-honoured consensus. In this climate socio-technical systems design got serious attention for a while. It was perceived mainly from a normative-rhetorical perspective; thus
building on the job enrichment projects of the preceding decade. The same is true for the early reception of the Quality Circle concept of which wider opportunities were expected to regain a say over one’s work by way of consultation. Soon however these approaches were overshadowed by Total Quality Management – undoubtedly a more rational approach that opened the way for the diffusion of the Lean concept in the subsequent decade.

In Karsten and Van Veen’s catch the dilemma of that moment:

“The end of the 1980s was the age of discussions on processes of centralisation and decentralisation, on questions of quality, flexibility and cultural differences and the way in which managers should be prepared for future duties. In all proposals for organizational change one should of course take into account the labour climate inside and outside companies and institutions. For companies to breathe along with market fluctuations would only be successful when employees were not taken the breath away.”

This would be all too true for the following decade.

Undercurrent and surface waves

The ebb-and-flow is what Abrahamson labelled the Pendulum Thesis: new rational rhetorics tend to emerge shortly before the end of long wave down-swings and new normative rhetorics shortly before the end of up-swings. His research supports the theory that “employee-management rhetorics evolve in relation to macroeconomic and macro-political changes.” But this does not explain the impact that certain concepts have over time. Their “post-emergence prevalence” needs a different type of explanation. The Performance Gap Thesis postulates that certain management concepts prevail over time to the extent that they are successful in narrowing a discrepancy between levels of organisational performance that managers aspire and actual performance. This may explain the endurance of rational concepts over time:

“The bibliometric data suggest that, after some initial fluctuations ending in the 1920s, the prevalence of the scientific management rhetoric remained constant over the next 30 years. The decline in its prevalence seems to have occurred only when the systems rationalisation rhetoric replaced it during the late 1950s and early 1960s. Likewise the recent decline in the prevalence of systems rationalism coincides with the emergence of what may be a new rhetoric, flexible rationalism.”

Rational rhetorics seem to be the permanent, normative the fluctuating ones. Barley and Kunda admit that in practise the dice are loaded in favour of the rational concepts.

9 Karsten, Van Veen (1998), 43-44
10 Abrahamson (1997)
To say that rational and normative ideologies of control have swept over managerial thought in alternating sequence is not to say that adherents of rational ideologies ‘outnumbered’ adherents of normative ideologies in some eras but not in others. Nor is it to say that rational and normative rhetorics have alternately become ‘dominant,’ at least in the traditional sense of the term. In fact there is considerable evidence that rational ideologies have always ‘dominated’ the managerial community, in the sense that they are more prevalent and more tightly linked to managerial practice.

Old concerns don’t fade away.

The prevalence over time of rational over normative rhetorics brings the development of management concepts in line with the permanency in the focus of production concepts. To analyze both in combination requires a different perspective to analyze constructs of management thinking. If we want to stick to the wave metaphor we could better see the efficiency focused production concepts as the undercurrent. It flows from the early concept of Taylorism into the emergence of the Lean Production concept in the 1980s. The rational and normative rhetorics are more like the surface waves. Under certain conditions undercurrents rise to the surface and in special occasions they create tidal waves. One could reasonably suppose, as Barley and Kunda do, that these conditions have to do with urgencies arising from the working of the economic system. Following this line of reasoning, we would conceive the cost-cutting solutions of Business Process Redesign of the mid-1990s as a wave drifting on the tide that is set in motion by a new phase in the tendency to raise the level of intensity of the labour process, which is a constant element in the evolution of industrial capitalism.

Concepts as fact and ideology

The motto of this chapter makes clear that it is impossible to understand bodies of thought, Marx’s superstructure, without taking the base, the socio-economic framework of interrelations and dependencies, into account. The same explanatory model has to be applied to management concepts. Such a concept always contains an ‘objective base;’ the part that has to convince outsiders of its factual inevitability. It reflects the conditions within the producing system at a certain point in time. On the other hand, management concepts “can be assessed as sets of propositions; they may also be treated as rhetorics or ideologies.” 11 Ideology is

11 Barley, Kunda (1992)
So, the ideological part tells us which interests are served in which way, given the momentary conditions at the inside of work. When the factual foundation in a concept seems to be absent in daily practice, as was the case of the empowerment concept in the 1990s, logically such a trompe-l’œil-effect can only be explicated by its ideological component. One way to penetrate into the ideology of a management concept is first to place it in the context of the societal-economic conditions at the time; secondly to try to imagine what the interests could have been of the parties concerned with the content of the permanent management agenda – scientists, managers and consultants in between - to meet their particular agendas.

The case of the empowerment management concept is inextricably connected with the production concept of Business Process Re-engineering (BRP) that concurrently came into fashion and with the trend towards downsizing, which may not, as its originators didn’t stop to argue, be conceived as its synonym, but certainly was its logical outcome. Both have to be assessed against the background of the ‘new paradigm of work’ that emerged during the 1990s. The full power of information technology was only just unleashed, allowing for ultimate flexibility through endless reconfiguration of the production system as well as intensified managerial control through informational surveillance. Rightly the originators of BRP called IT the ‘essential enabler’ “since it permits companies to re-engineer business processes.”

As a production concept it shouldn’t be taken very serious, if only because it meant so many things to so many different people. In fact BRP is a hotchpotch of basic ideas that had been worked out before (and better) such as the team structure, flow production and TQM. From the team structure, considered as something inherently good, it is stated as a matter of fact that “Companies that have reengineered don’t want employees who can follow rules; they want people who will make their own rules.” So, “people working in a re-engineered process are, of necessity, empowered.” We came across the mutual-gains thesis before. And critics who conceived BRP as a marketing product would point to the sizeable sales volumes consultancy firms made out of the concept. BRP’s main effect was that it showed the perspective that the new paradigm of work offered to do away with the remnants of the inclusive organisations from the mass production era. And in a typical American way it wanted the potential gains all at once – demonstrated by the key words in which the originators packaged their theory: FUNDAMENTAL, RADICAL, DRAMATIC. Veiled in such a cloud of immediacy, the concept fitted well into the business climate of the 1990s, dominated as they were by the quick grabs for the maximal

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12 As we saw in chapter 6.5 the existence of something like empowerment is contradicted by the steady rise of the management ratio.
13 As outlined in chapter 6.5
14 Hammer, Champney (1994), 83
15 Pruyt (1998)
16 Biazzo (1998)
17 Hammer, Champney (1994), 70
18 Benders et al. (1998)
19 Hammer, Champney (1994), 32-36
shareholder value. The supposition of a permanent management agenda may be helpful to explain the emergence of BPR, notwithstanding “the lack of really innovative content in the vision of organizational change put forward by its supporters.” As a management ideology it suited the need of time.

So the hype of BPR as a production concept was rather short-lived, which in itself indicates that its fact-based part had little to it after all. As an all-or-nothing ideology, its legacy has been that it paved the way for downsizing, because it could not be pursued without serious consequences for workers and their jobs. Up till then mass lay-offs were an ultimate remedy to salvage companies on the brink of going under. Now, ‘downsizing’ became “something organizations undertake purposively,” a strategy of choice between multiple personnel reduction strategies, always aimed on efficiency and effecting work processes. Seen from this perspective, BPR turned into Downsizing as a concept in its own right, has set the trend towards employers’ disentanglement from the liabilities of industrial relations. When we keep in mind that the prevalence of normative rhetorics has always coincided with the quality of industrial relations, this would offer a dire outlook on the future prospects of the personnel discipline. In fact, human oriented theories on business life are what it has on offer and would be in less demand in a climate in which industrial relations are under stress.

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20 Biazzo (1998)
21 Cameron et al. (1993)
7.2 The Substance of Personnel Management

*The emergence of the personnel function*

Personnel management came into being as a direct result from the development of mass production and therefore its birth has to be located in the United States in the years 1910. Henry Ford’s Sociological Department can be considered as the first personnel department in history. As we saw in chapter 3, its core business was the surveillance of workers’ moral behaviour, which the workforce had to accept in exchange for the $5 a day. Some thought Ford to be a maverick who wanted to force his own conservative values on his workers. But he had good reason for doing so.

The source is to be found in the production design which was founded on the Basic Law of Efficiency: production has to continue under all circumstances on penalty of efficiency losses that soon became prohibitive. Everyone who has seen Charley Chaplin’s *Modern Times* remembers the satire on the vulnerability of mass production where one man can disrupt the whole production process by stepping out of its machine-paced drill. And while production units were continuously scaled-up in order to reap the economies of scale and add flexibility to a rigid system, this made interruption risks to multiply exponentially.

The ‘drive system,’ that bullied the workforce into discipline lost its function. It raised antagonisms that could create a potential Luddism, prohibitive from the perspective of risk control. At the same time it was no longer necessary to bully workers, once their know-how was ‘disowned’ by management and their pace of work was dictated by the machine. The daily practice of the system itself smoothed out all deviant behaviour, on condition that a basic cooperation was secured.

So, the requirement of a frictionless production process created its own requisite reciprocity. In order to avoid disruptive antagonisms, the execution of managerial power had to adapt by way of a transformation from domination to authority, Zuboff’s ‘spiritual dimension of power,’ that “need not depend on either violence or reasoned argument to elicit the desired action.” For this reason, authority is a far more efficient way of wielding power than dominance. As formulated in chapter 3: *the efficiency of production became dependent on the efficiency of managerial power*. Below this smooth surface of willing obedience however lies the base of a mutual morality: the shared belief that what is good for one party – the company, management – should be good for the other one, the workers, as well. Thus, business ethics evolved as a critical condition for smoothly running a business. To the newly created personnel management fell the task to monitor this condition, a function which is ascribed to it, explicitly or implicitly, till today.

The broad-based societal debate on the labour conditions that prevailed at the end of the 19th century came about along the same lines. It went into history as the Social Question and opposed the prevailing ideology at that time, the ‘labour as commodity...
The ideology of management

According to the social philosophers of the Manchester School who advocated the case of laissez-faire, labour had to be considered as any other commodity, the yield of which was determined by the unalterable law of supply and demand. Intervention would be futile, as the outcome – harsh labour conditions and wages at starvation level – were unalterably determined by the forces of nature. The German socialist Ferdinand Lassalle based his ‘iron wage law’ on this fatalistic belief: wages could not rise above subsistence level in the long run. Iron laws mould societal antagonisms in iron. This was especially true for European society that was more class-stratified than in the New World. There, class positions were far less engraved into the societal mindset and anyhow they were mitigated by the American Dream.

With the innovation of efficiency as the new economic principle, the concept of ‘cooperation’ was in the air. “All parties to industry, including the most hard-bitten employer and the most radical labour leader, realized that the industrial machine functions most effectively when everyone involved works as a team, pulls in the same direction and works with energy and commitment.” This insight would offer the basis of what was to become the field of Industrial Relations from which the discipline of personnel management would emerge.

The progressive reformers who started industrial relations in the United States were drawn together by fear, faith and commitment. The fear came from the menacing threat of the Labour Problem to civic order and the preservation of the American political and business system, the faith came from the belief that through science and institutional reform the Labour Problem could be defused, and the commitment arose from the desire to make the work world a better place through reform and uplift.

When labour unrest grew during the First World War, the Progressives were flying high. Their answer to the Labour Problem (as the Social Question was known at the other side of the Atlantic) was the introduction of a system of welfare capitalism that contained four elements: personnel management, employee welfare benefits, human relations and employee representation. “Whatever the package, all of these new features cost the employer money, but the expectation was that they would more than pay for themselves by fostering greater output, reducing cost, and protecting management autonomy and control from outside interference.” The new ethical approach was anchored in enlightened self-interest which is the best anchorage ethics can find.

That is why the transformation into the era of mass production has been such a peaceful one. “Far smaller and far slower social changes in earlier periods triggered civil wars, rebellions, and violent intellectual and spiritual crises,” Drucker reminds us. At the

24 Kaufman (2004), 82, 130
beginning of the 20th century, the two largest occupational categories where agricultural workers and domestic servants. “Farmers and maids were not ‘pushed off’ or ‘displaced.’ They went into industrial employment as fast as they could.” These two largest groups within the population “as classes were invisible.” There is “no mention in any book of a single demonstration or a single protest march by domestic servants in any place.” Industrial workers, on the other hand, formed “the first lower class in history that could be organized and could stay organized,” thus being able to function as a countervailing power to limit the worst effects of the industrial division of labour.

Welfare capitalism introduced ethical principles as the reverse of the coin. And personnel management was to guarantee fairness and justice in the employer-employee relationship through its instruments of science-based selection tests, objective job evaluation methods and job appraisals and written personnel manuals that were to create legal security for those who followed the rules. Logically, the handling of employee grievances became in the first instance the personnel manager’s task. Employee welfare benefits and the human relations approach both concentrated on the employee as a human being in caring for his needs and by activating his supposedly ‘inbuilt’ motivation. Employee representation organised the employee voice where formerly he only had his vote (with his feet, to quote Vladimir Ilich).

The goal of American personnel management was to “move American industry to a higher level of ethical and social legitimacy.” Its role became to pacify the antagonisms of the past and thus to make the organisation to adapt to the values of the surrounding society. The original personnel manager was an integrator, a pacifier which consequently made him the quality manager of managerial power whose task it was to guard the morality of power in order to safeguard the efficiency of power. When we later-on in this chapter have to consider the possible loss of function of the personnel discipline, this is the yardstick: the extent to which personnel management is still in a position to fulfil its core function, to monitor business ethics, not as a moralist, but from the perspective of due diligence.

A moral retreat
In the post-war era the personnel discipline in Europe took on its role as a guardian of workers’ rights which became institutionalised in the laws and labour regulations of the welfare state. This role became enshrined in the social policy of the 1960s and 1970s that a dictionary of that time described as follows:

“In social and personnel policy the organisation not only indicates in which way it wants to control and direct people in order to reach company goals; it also shows the extent to which it holds itself responsible for personnel employed to that aim.

25 Drucker (1994)
26 Kaufman (2004), 137
27 Dahrrendorf (1959), 161-62
Social policy then focuses at man as employee in his work and his life. In his work, by aiming at the optimal wealth and self-determination in work. In life by contributing to the social-economic and cultural development of society. 28

This indicated that a private company had only a limited say over what was after all part of its own company policy. Social aims were considered to have a validity of their own.

In the meantime a new type of capitalism had emerged. Ideologically, Fukuyama’s best-seller The End of History and the Last Man was widely read in the sense that ‘capitalism was right after all.’ The capitalism that was in its right soon became some totalitarian traits. One was the legitimacy of unlimited greed. Fundamental deregulation of supervision on the financial institutions made the markets go their own way. This opened the gate for capitalism’s latest incarnation, as an abstraction driven by the formula of share holder value as the sole relevant criterion. Thus unbridled, the virtual economy soon produced virtual ‘profits’ that began to dwarf the efforts made in the real economy, in which – however artificial in character - these foot-lose assets acted as a giant Keynesian multiplier that overheated the Western economies.

The bonus system, so lamented later-on, is only a consequence. The old-fashioned salary system supposed a certain amount of mutual loyalty in which one delivered a fair day’s work for a fair compensation. The notion that it should be supplemented by a bonus to assure a ‘real’ effort is a sure sign that long-term commitments in the labour relation were vanishing. It is not accidental that this idea first took root in the financial sector, not only because of the incredible size of the financial assets in circulation, but also because it is often difficult to assess what ‘effort’ is in case of replacing hot air. Thus, what started as a liberalisation ended as a licence to unbridled greed for those well-placed in the system. In the field of personnel discipline the main fall-out was in vanishing loyalty and distortion of the notion of effort and value creation.

In concurrence, Castell’s “network society” pressed ahead, in which “the work process is increasingly individualized, labour is disaggregated in its performance and reintegrated in its outcome through a multiplicity of interconnected tasks in different sites ushering in a new division of labour based on the attributes/capacities of each worker rather than on the organization of the task.” 29 In fact this invalidated the social contract on which the post-war socio-economic order had been founded. From now on individualized workers, and their communities as well, would only have to survive by their wits.

Individualised work results in “a general marginalisation of any expression of collectivism.” 30 Thereby the countervailing power that was an integral part of the post-war system of industrial relations is eroded. And, as we saw in chapter 4.2, according to Durkheim there cannot be such a thing as business ethics emerging out of its own force. The anarchy of the market requires a countervailing power to prevent a moral vacuum.

28 Heemstra et al. (1984)
29 Castells (1996), 471
30 Legge (2007)
Where ethics ‘went wrong’

Not surprisingly, towards the end of the century concerns were voiced about a lowering of ethical standards and the need was expressed for an “ethical rearmament” of HR professionals. “At this point it is important to recollect that ethical concern took a central place in the earlier history of professional Human Resources Management.” Something fundamental has changed since the early 1980s: “The focus on work systems and job design to satisfy human motivational needs, especially the need for autonomy, variety, skill development and self-actualisation, were firmly on the management agenda in the 1960s and ’70s. Today they only receive a glancing acknowledgement relative to the emphasis on ‘high performance’ and ‘high commitment’ work systems linked to efficiency and effectiveness rather than intrinsic job satisfaction.”

The main question is what precisely has changed in the personnel manager’s role as quality manager of managerial power and why. One can refer to ethical principles and follow back the track to trace where they ‘went wrong.’ Socio-political theories on which an ethical approach to personnel management can be based fall in three categories.

According to unitarist theories the organisation has only one common goal and as long as everyone subscribes to the goal and submits to given authority there are neither conflicts nor ethical dilemmas. Critical theories dispute the legitimacy of the existing order and its power system anyhow, so, to carry the argument to its end, there can not be such a thing as ‘ethical management.’ The pluralist approach which emerged during the second half of the 20th century acknowledges conflicting interests but sees them as a base for democratic, participative decision making. The personnel management of 1960 and ’70s was based on this pluralism.

In the meantime however, Human Resources Management has become the leading doctrine and it has to be perceived as a unitarist theory. This, if only, becomes clear from the sole focus of the predominant line of research, Strategic Human Resources Management (S-HRM) to demonstrate the HRM-P link: the relationship between HR ‘best practices’ and corporate performance. When practices are considered ‘best’ from a utilitarian perspective or ‘fit strategically’ that’s all there is to know. This sole ‘bottom-line justification’ for HRM may seriously affect moral judgement (see box 17).

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31 Winstanley, Woodall (2000)
32 Palmer (2007)
32 Watson (2010), Palmer, (2007),
Box 17
IMMORALITY TAKEN FOR A PRODUCTIVITY PROBLEM

Consider for instance the following article in an American magazine on HRM, under the heading ‘Corporate Ethics Affect Employee Productivity’.

“Seventy-three percent of American employees working full-time say they have observed ethical misconduct at work, and more than one in three (36 percent) report being “distracted” by it. Moreover, one in ten is aware of an issue that could create scandal if discovered.

According to a new research from LRN, a Los Angeles-based consultant on corporate ethics and compliance issues, these figures demonstrate how ethical misbehaviour can lead to decreased productivity in the workplace. (…)

Although 36 percent of respondents said they had reported an unethical or questionable situation to management, others failed to report such incidents, citing several reasons. The top three reasons: 14 percent lacked confidence about how management would handle it; 13 percent were simply uncomfortable doing so, and 11 percent said that the lack of a formal reporting procedure stopped them.

Clearly, it’s in the company’s best interests to promote high ethical standards as part of the corporate culture. “By engaging employees in shared values and educating them on the company’s expectations for appropriate conduct, companies can inspire both principled and profitable performance from their workforce,” says LNR’S CEO and Chairman Dov Seidman.”

The argument here is not about the accuracy of these findings (the research was based on telephone interviews with about 1,950 employees). Neither is it about the shocking fact itself (if accurate) of such a wide-spread lack of moral standards in US business life and the lack of trust by many employees of their management’s willingness to do anything against it. It is about the way the editorial staff, both in the heading and the text, presents this observation as a derived problem - harmful in terms of deteriorating productivity and causing scandal if becoming publicly known - and consequently considers rules for “appropriate conduct” as a means to the ultimate aim of realising “profitable performance” from the workforce. The example illustrates a way of thinking that attributes no value to business morality in itself.

34 HR Magazine, July 2007
A unitarist approach leaves little scope for any ethical considerations whatsoever. “Many prescriptions of good HRM practice appeared to be based on the assumption that managerial prerogative would be accepted as legitimate, or that no ingrained or ethical difficulties would emerge, or none that could not be resolved by simple application of good management and goodwill.”

To declare eventual ethical problems to be non-existent by definition will only last as long as the legitimacy of the prevailing power structure is unquestioned. Towards the end of the first decade into the new millennium however, the effects of the deregulation that was consequently brought into force since the early 1990s are clear for everyone to see. It stimulated greed on an unprecedented scale that put aside all moral prudence in the business world in general and its financial sector in particular.

That is the context in which the discipline of personnel management has to operate. What could this mean for its substance in the long run? It looks like its core role as moral guardian has gone – declared obsolete in the era of the ‘new economy.’ It means an ethical retreat of personnel management. As one researcher remarked:

“I can say that after years of personal research on HR practitioners and practices, I have never witnessed a case of a significant employment management decision being influenced by ethical argument expressed by an HR practitioner in straightforward ethical terms – without reference, that is, to the business/corporate advantages or disadvantages of acting in particular ways.”

Said one personnel manager in a survey on ethics and HRM: “The idea that I would go to the Board and say to them: ‘We must do this because I, Bob, believe it is ethically right,’ … well, they’d send for the men in the white coats.”

The ethical retreat in personnel management is for instance manifest in the area of security and risk. Today’s core and periphery model makes wide-spread job insecurity a fact of life for the majority of the working population. This undercuts the company’s ability to act as a community of purpose. Labour organisations as communities produce ‘internal goods,’ shared values that are considered as virtues and thereby contribute to societal cohesion.

This gives the labour contract a meaning that surpasses a normal contract: it contains a contribution – to the company, to society, to a moral entity. Why else go the extra mile? But meaning gets lost when the effort is pledged to an organisation that doesn’t see itself as a moral entity any more because it acknowledges only utilitarian considerations as valid.

Here we find the ground source of the breach of psychological contract that is so often observed these days. When the only employment security should come from the employee’s own employability we all will end up as Willy Loman, the character in Arthur Miller’s play Death of a Salesman who, after a life of commercial travelling, found himself on the scrapheap of the economy.

The concept of Human Resources Management has contributed much to this state of

35 Palmer (2007)
36 Watson (2007)
37 Warren (1996)
affairs. It does away with the pluralistic ideology that acknowledges different interests at the workplace. Thereby it invalidates the whole system of industrial relations which is based on the concept of agreeing to disagree. It renders irrelevant a moral judgement of conflicting interests on grounds of legitimacy. It gives the managerial prerogative an absolute moral claim to authority and reduces the personnel manager to a lackey in the court.
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PART IV. PAST, PRESENT AND FUTURE

8. A radical theory on personnel management

The assembly line

This chapter is the assembly line, so to speak. Here the main elements of the analysis that have been developed in the preceding chapters are summarized and put together into a coherent theory that should explicate the case study: the development of personnel management in the Netherlands as described in chapter 1. Sometimes the analysis developed in the chapters 3-7 is prolonged beyond the research period of 1950-2000 because trends that take shape during a certain decade often become only clearly visible in all their consequences in the subsequent one.

The basic premise of this study is that trends within the personnel discipline originate from (and are ultimately to be explained by) the societal-economic context at certain points in time, because it is the specialism within the company that is closest positioned to society. When society is in motion, the personnel discipline vibrates simultaneously. One of the most far-reaching changes in the societal context has been the transformation from the model of guided capitalism to the neo-liberal variety and the reconsideration of the welfare state which it initiated (chapter 5). By extension, the erosion of the system of industrial relations (chapter 6.6.) had a serious impact on personnel management.

To the extent that the theory really explains the past – that is it explicates the occurrences from the underlying tendencies in society and the economy at certain points in time, showing how the personnel discipline functioned in different socio-economic contexts – this may contribute to our insight into how it functions in general. Subsequently, this might allow us to theorize about the future by reasoning the tendencies that the analysis has revealed to their logical end. We will undertake such a scenario approach in chapter 9.

The reader should keep in mind that the means which the social sciences can bring to bear in order to prove a thesis or a theory are limited. As we saw in chapter 4.2, Durkheim had difficulty to demonstrate the existence of the ‘social pathologies’ that he saw undermine cohesion in society. “Lacking factual proof, there is no alternative to deductive reasoning.” Therefore he set out to demonstrate “not that a particular occurrence does in fact weaken the social organism, but that it should have that effect.” The strength of the qualitative-deductive argument is in its logic, not in the quantifiable ‘truth.’ This doesn’t place however deduction as such in the category of ‘philosophical attributes,’ of which “it is impossible to imagine empirical data that would falsify these postulations or their derivations” (Dahrendorf). Therefore so much effort has been made in chapter 4.3 to show that the supposition of a progressive occurrence of ‘corporate anomie’ in today’s business environment can, in principle, be tested empirically. Sometimes however we cannot reach beyond philosophy. A societal mega-trend like the prevalence of the virtual over the real
A radical theory on personnel management

Economy can be logically explicated from the Kondratievian tendency towards stagnation (chapter 5.2), but this proposition “cannot be disputed by the tools of science.” Even then, this doesn’t release the qualitative-deductive researcher from his duty to bring up as much empirical evidence as he can find to support his propositions. Therefore, sometimes in this study the expression has been used: ‘demonstrated to an acceptable level of plausibility.’ It acknowledges the limits of the tools of the social sciences.

During the research the impression was forced upon the author that progress in this field has been limited, if not absent in some areas, for decades. In the field of organizational sociology, in a narrow sense the specialization of this study, not much seems to have changed since the 1960s. In chapter 4.3 I came across the theory in political science on its central concept: ‘power.’ To my surprise, I could easily fall back on the literature from my postgraduate years, to the underscored lines and my scribbling in the margin from thirty-five years ago as if they delivered yesterday’s insights. Most alarmingly, after recent frauds with research data in the field of social psychology in the Netherlands, articles appeared in the press that indicate that the search for theory formation has been abandoned at all. At present, so the story went, statistically significant correlations is the only thing researchers look for. Apparently this is the case in the social sciences as a whole (with the obvious exception of economics which is way apart from the flock anyhow). There even are cases mentioned where the financing of research projects is made dependent on the finding of these significant correlations, designated as ‘positive outcomes.’ This exposes researchers to the temptation to fiddle the data in case of need. Apart of this, ‘when $A$ then $B$ and when not $A$ than not $B$’ at best leads to a science that tells us amusing little facts to know. In the worst case it tells us nothing about any causality at all, as long as we don’t know why the association between $A$ and $B$ exists.

If this impression is true, it does raise the question how it could come to this sorry state of affairs. Is it because the belief has vanished in the imaginative power of the social sciences to contribute to the solution of the central social problems and paradoxes of our time?

**A theory on management first**

This study discerned two basic tendencies in the socio-economic context in which companies operate:

- the transformation from the model of guided capitalism towards its neo-liberal variety that gained momentum during the 1980s and has progressively reached the ideal type of capitalism in which the hindrances to the accumulation of capital are deliberately taken away so that it can take place under optimal conditions;
- the intensification of the labour process – a consistent phenomenon in the history of industrial capitalism - has got a new impulse, due to a better production concept (lean production) in terms of efficiency and superior information technology.
Both had a fundamental impact on the power structure within the organisation. As indicated in the Introduction, the theory developed in this study conceives managerial power as the ultimate explanatory variable for two reasons. First, the personnel discipline within the organisation is part of its management; that is, its power structure. From this it follows that, in order to develop a theory on personnel management, one first should have at one’s disposal a theory on management. Secondly, personnel managers handle a power-based relationship, the labour relation that is founded on the subordination of the employee to the employer. Therefore, the theoretical framework that is outlined in the Introduction takes the phenomenon of managerial power as its starting point.

Chapter 5 contains an analysis of the macro-economic development of the Western economies in the second half of the 20th century. It described the conditions under which the welfare state emerged as well as the reasons why it bogged down into the stagflation of the 1970s. The welfare state, one should keep in mind, institutionalised the workers’ rights, the guardianship of which was widely seen as one of the personnel managers’ primary duties. It gave the infant personnel discipline a solid boost.

The globalisation that set in during the 1980s and accelerated into a higher gear after the fall of the Berlin Wall, enlarged the ‘territorial expansion’ of the capitalist system and intensified the levels of competition to which the company had to adapt. Concurrently, the deregulation of the global financial markets made the virtual economy prevail over the real one and virtual ‘profits,’ accelerated by the leverage, to set the spreadsheet targets for the real value added creation. Over time these trends did overcome the inherent forces of stagnation to the extent that during the roaring 1990s the sky looked only a modest limit to reach for. In due time they intensified the competition to which individuals had to adapt. The aim of both the guided capitalism and the welfare state that accompanied it had been to soften the impact of the rat race. Thus a one-dimensional economy emerged, guided by the abstraction of shareholder value as the single leading principle that in its strictest application nullifies all contrasting stakeholder interests.

As we saw in chapter 3, in the early phase of the Managerial Revolution the capital owners had to relinquish their direct access to the means of production and had to be content with a preferential treatment in the division of the yields of the means of production (Burnham). At the inside of the factory gate management established its grip on the production process by ‘disowning’ the workers’ know-how and de-skill their work (Braverman). In both cases its power base consisted of the disposal of superior knowledge that neither capitalists nor workers could match. Following the reasoning of Frederic Taylor’s Scientific Management we could perceive the Managerial Revolution as the triumph of the Rule of Reason. Mass Production, subsequently envisioned by Henry Ford, could only function at its designed level of efficiency when it solved the enlarged vulnerability to disruptions due to the static nature of the system. The requisite reciprocity of the new production paradigm induced a shift in focus from domination as
the prominent technique of wielding power to authority, the ‘spiritual dimension of power’ (Zuboff). This is the position at the beginning of our narrative to which we can measure the subsequent change.

At present a combination of two forces - the liberation of the global financial markets which offers them leeway and sophisticated information technology that increases the transparency of the internal functioning of the organization - enables the capital owners to claw back what they had to let go a century before. The final outcome, as argued in chapter 5, is a one-sided articulation of interests at the top of the organisation. An uneven division of power was identified in chapter 4.2 as one of the anomic forces that undermine social cohesion. The erosion of the institutions of industrial relations (chapter 6.6) is a clear sign of a shift in the intra-organisational balance of power.

So management was brought back under the yoke of its masters. This contributed strongly to the crisis in management that was described in chapter 4.2. Internally however, an environment which is increasingly unpredictable and is perceived by widening groups of individuals as potentially hostile, strengthens management’s visible hand. Menace creates autocracy. A ‘permanent state of emergency’ takes shape which is another anomic form distinguished in chapter 4.2.

Positional changes of managerial power can be initiated from two sides: structure and ideas. Structurally, management’s power to rule independently over the means of production have been curtailed vis a vis the capital owners as a consequence of the transformation from the guided form of capitalism to the neo-liberal variety. Internally however, its visible hand is strengthened by the present conditions of production.

To analyse the ideological part, chapter 7.1 contains two analytical tools. The ‘permanent management agenda’ quite adequately explains which type of management concept will predominate in what kind of societal-economic context. For instance, that the concept of Business Process Redesign emerged as the in-doctrine of the 1990s is quite understandable from the context in which it proved itself as a suitable approach to do away with the remnants of the inclusive bureaucracies of the Mass Production era. In hindsight this can be conceived as the start of the disentanglement of business from the liabilities of the post-war institutions of industrial relations.

The author wants to stress that, at least in principle, the world of ideas can be researched as empirically as any other, more tangible social phenomena. The ‘Zeitgeist method’ - reasoning back to the source of an idea in order to determine the central problem or paradox of its era of emergence (Barzun) – enables us to detect anachronisms. So we traced back the 1990s concept of empowerment to the 1970s, to a context of the Quality of Life movement that answered to the quite different paradox of ‘the Revolt’ (chapter 6.1). This anachronism explains the ‘trompe-l’oeil effect:’ the concept of empowerment made no observable impact in business practice because it could not materialise in practice, given the entirely different context of the 1990s. The fact that it nevertheless did
emerge as a management concept during that period, measurable by the method of print media impact, can only be explained by deductive reasoning. Its function hasn’t been to offer practical guidance to the unruly business practice at the time, but as an instrument of ideology, to soften the image of the harsh reality of downsizing the work force went through. This ideological function should always be taken into account in the analysis of management concepts.

Thereby we have covered the major elements of the theory that directly relate to the phenomenon of managerial power. They form the upper level of the theoretical framework that it is graphically depicted in figure 1.

**FIGURE 1 THE THEORETICAL FRAMEWORK**

The core function

To understand the relationship between the management structure and the substance of the personnel discipline we have to look for its core function which is depicted as ‘morality.’ As analysed in chapter 7.2, the personnel function emerged from Mass Production to solve a major paradox: that the efficiency of production became dependent on the efficiency of managerial power. This implied ‘soft power’ (authority), which again implied a mutual morality which thus evolved to a critical condition to the frictionless running a business.

There is solid support in literature for the supposition that to personnel management was intended the duty to watch over business ethics. Its core function became, as this study put it, the quality management of managerial power; its role to monitor the requisite *reciprocity* of the system.
The core function constitutes a theoretical point of departure to assess developments within the personnel discipline over time. As such it does explain some important phases in the development of personnel management. It allows us to assess the present state of affairs as well.

It is hardly surprising that the emergence of a new management specialism caused role confusion at the start. In this case, the societal interest in the newly institutionalised workers’ rights and the newly developed ‘normative’ management theories offered inspiring aims to the new generation of trained personnel workers that entered the labour organisations from the mid-1960s. In the early phase it was not easy to discriminate between monitoring the ethics of the company’s handling of workers’ rights on behalf of the company and advocating those rights on behalf of workers. This was the more so because, as a number of testimonies in our narrative state, line management often lacked the basic skills (communicative ones in the first place) to handle personnel affairs in the modern context, a fact that was often acknowledged by managers themselves. Add to this that for a long time personnel management wasn’t perceived in terms of a contribution to the company – understandably enough, for, if this contribution should be expressed in terms of its core function of monitoring ethics, it would have made invisible in daily business practice.

So in hindsight role confusion seems to have been almost unavoidable. The ‘question of loyalty,’ with which we opened the history part, offers a clear example. The ‘professionalism debate,’ ending up in four visions, testifies it. It took a long time before the personnel discipline realised that in practice ‘personnel management embraces the managerial model because it is in its turn embraced by the managerial approach of personnel problems’ (Mok). This ended the professionalism debate as it did the notion of corporate social policy as an entity in its own right to base an independent position of the personnel manager.

The problems at the inside of work remained unsolved however. In hindsight we can see that, at the time that the personnel specialism had settled down in the corporate world, the dominant production concept at the time, Mass Production, began to run against its limits (chapter 6.2). This resulted in a major alienation problem, the effects of which were mainly to be handled by ‘Personnel.’ It could hardly get them into grips. The quality of labour problem typically fell between two stools. Its origin was in the production design, in the work of engineers, whose interest was in technical feasibility first – ‘it works’ – and in efficiency as a good second. Quality of labour mostly was beyond their scope of knowledge and experience. The personnel manager, on the other hand, experienced the effects daily, but had no way to get to the origin. In chapter 1.3 we came across a contemporary analysis of the power base of personnel management. It acknowledged a weak position in the field of workers’ motivation emerging from the production structure. That is, it had neither a concept of its own nor techniques to contribute to a possible solution. However, it could go with the flow of the societal forces that loudly demanded a better quality of work life.
At the time, society still prevailed over the economy. It shaped the challenges personnel managers conceived and their visions. During the 1970s the impact society had on the personnel discipline in the form of the concepts of social personnel management and corporate social responsibility, was at its maximum.

In a way, the strength of the impact from the socio-economic environment did not diminish, be it that the economy began to prevail over society. This explains the ‘ideation stalemate’ that almost all interviewees in chapter 1 mention. The period of the New Realism contained not much of independent thinking, more of a rapid practical adaptation to drastically changed circumstances. BRP was an IT concept originally. It was embraced by general management to reach its own peculiar aims and left it to personnel management to force the harsh reality of downsizing on the workforce. That it worked out detrimental on morale and the quality of the organisation is solidly documented in literature. At the time, no one seemed to care.

The forces at the outside – the transformation of the guided to the neo-liberal variety of capitalism - unleashed the forces at the inside of work. A chase was set it in to reach the targets of the virtual economy that are limitless in principle. Thereby we come to the second basic tendency mentioned above: the intensification of the labour process. Chapter 6.5 demonstrates to a reasonable level of plausibility that it got a new impulse during the 1990s to which Lean Production delivered the operational principles. All this made the ‘Mutual-gains-thesis’ highly questionable.

The essence of the new ‘informational’ work – analysed in chapter 6.6 on ground of Castell’s work – is that it can be de-constructed and re-constructed almost instantaneously around the globe. To the extent that capitalism is liberated from the limitations of time and space, work structures ‘de-materialise.’ “Labour loses its collective identity.” In other words, labour organisations tend to stop functioning as social systems and take the form of aggregates. Thereby the stable interdependences get lost on which Durkheim based his theory organic solidarity.

The rest follows logically. The argument above explains for the many signs of corporate anomie that we can observe around us. The erosion of the institutions of industrial relations follows from the de-materialisation of work and work structures which diminishes the capacity for generating countervailing -power. Above all, the two basic tendencies in combination explicate the present state of affairs in the personnel discipline.

The business corporation as an aggregate definitively ends any independent role for personnel management as the guardian of the social element within corporate policy as an entity in its own right. Its original core function as the guardian of the requisite reciprocity gets lost because the reciprocity has lost its relevance. Chapter 6.5 demonstrated to an acceptable level of plausibility that there are not any workers’ gains to be got from the ‘new work systems.’ The de-materialised production system has overcome the paradox of the old days of Mass Production.
All the signs of ‘corporate anomie’ that were listed in chapter 4.2 – the one-side expression of interests, the massively perceived breach of social contract, the incongruence in communication, the irrationality in decision making - are, if not scientifically ‘proven’ for anyone to see when walking around in today’s centres of world production. What does the personnel discipline have on offer yet? All around us we see loss of function. An indication is that all major activities of the personnel discipline has been sourced out: recruitment and selection, assessment, training and development, safety and health policy and first of all personnel administration where it all started from long ago. In the meantime the end of line seems to have reached. The ‘pay-rolling construction’ implies that a third party takes over all the liabilities that arise from the employment relation. In fact, the employer denies being an employer any more.

The progress in personnel management seems to have been in the ‘operational tool-kit.’ This element has not been researched separately in this study. Many testimonies in chapter 1 however mention progress in the methods and techniques that personnel management has at hand nowadays. ‘The tool-kit may be the same, but the wrenches are of better quality,’ as one interviewee put it. The author has no reason to doubt this. The question however is: to what aim?
9. The End of HRM: Two Scenarios

A new world of work
The new world of work places challenges upon the personnel discipline to which the visions and concepts of the past can hardly offer a solution. At present, the HRM-concept is the only concept it has on offer and it seems ill-suited to tackle the labour-related problems of the 21st century. A new ‘conceptual vacuum’ looms at the horizon. We could therefore now reformulate the questions from which we started our analysis of the rise of in a future-oriented way:

• what is the central problem that is created by the present societal-economic context, and
• which concept of thought is available that could offer a solution for this paradox in this context?

Futurology is not the business of the sociologist. We can only try to form a vision on the prospects for the societal division of labour by way of constructing various scenarios for different thinkable futures. Thereto we reason the tendencies we have analysed thus far to their logic end, with care and always on condition of ceteris paribus.

The scenario of the shattered labour order
A given fact is that the world has entered the second phase of globalisation. It sets in motion “the restructuring of firms and organizations, allowed by information technology and stimulated by global competition, [that] is ushering in a fundamental transformation of work: the individualisation of labour in the labour process. We are witnessing the reversal of the historical trend of salarization of work and socialization of production that was the dominant feature of the industrial era.”

The processes of salarization and socialization were exactly what brought into being a separate personnel function in the first place. One could argue that, in a fundamentally changed division of labour, this function becomes questionable. The individualization of work disrupts existing labour relations. It leads to the ‘scenario of the shattered labour order’ which accentuates the inequality of the relation between two parties. This scenario in fact extrapolates the findings of chapter 6.6.

In Castell’s ‘network economy’ we hardly find social systems any more. A system contains a structure, where it is the lack of structure of the new networks that catches the eye. “Labour is disaggregated in its performance and reintegrated in its outcome through

1 The first phase manifested itself from about 1880 and ended in the turmoil of 1914.
2 Castells, 1996, 265
a multiplicity of interconnected tasks in different sites, ushering in a new division of labour based on the attributes/capacities of each worker rather than the organisation of the task.”

Social structures can be analysed in terms of their constituent parts: relationships and distributions, both relevant for the functionality of HRM. Both presuppose a certain extent of continuity that is lost when increasingly labour processes can be reprogrammed almost in real time. The structuring principle along tasks resulted in the more or less stable production systems we knew. Organisation based on individual productive capacities would imply the end of the collectivity of labour.

So, this scenario conceives the shattering of the labour order, in terms of Castell’s analysis, as the dominant tendency today. It corresponds with Transaction Management (TM) as the leading management concept. This concept is based on the principle that the relation between people and organisation in essence is a relation of exchange defined in financial terms that lasts as long as it serves the immediate interest of both ‘parties.’ From the employers’ point of view it focuses on gaining the highest performance from the ‘transient labour relation.’ Performance appraisal becomes almost daily routine, reduced to output review. Labour regulations, on working times for instance, are alien elements to this concept, leftovers from the past and rejected. Idols contests become the exemplary model for work performance, a ‘format’ that visualises the competition of all against all and allows no second thoughts on those who can’t catch up. From the employee’s point of view, it is clear that one can only perform at top level during a limited part of one’s life span. Therefore, he or she is forced to give short term notice to his or her market capitalisation first and for all. Bonuses and share options become more important than a fair salary for a fair amount of work done. Job-hopping has little to do with personal development any more. Development doesn’t fit into the concept of TM anyhow, as little as concepts like employee loyalty and corporate culture. HRM as a development oriented concepts meets its logical end here.

TM reduces personnel management to an operational level. Recent research indicates that during the last decade the focus has been on the operational efficiency of HR services. And in a globalising economy, in which the structuring element of the division of labour is no longer the more or less stable production system as we knew it, what function is left for the HRM department? It lost already much of its functionality. Its responsibility for personnel policy has been partly transferred to line management, as a logical consequence of the principle of vertical integration within the HRM concept. Larger parts of its former domain have been outsourced to external suppliers This is the result of the real progress made in the development of tools in the HRM field which allows for further specialisation to an extent that hardly any company can afford to have all specific know-how in house – even if it wished so. When the question is put to the test what tasks have to be fulfilled by the HRM department anyhow, the answer is: very few. An analysis of the competencies attached to twelve separate personnel functions showed that only three of these still remain

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3 ibid. 470-471
4 HR Transformation v2.0 (2007)
within the exclusive domain of HRM. In all other areas external consultants are better equipped.5

Labour relations management is one of the functions that still have to be fulfilled by the internal HR department. However, in the scenario of the shattered labour order, as outlined above, the whole concept of industrial relations will become obsolete. All that is needed to manage human resources in this case is a pair of good lawyers to register the conditions of the ‘transient labour relation.’ HRM would have lost one of its last remaining core businesses.

And to the extent that personnel management can be reduced to a conglomerate of separate tasks that can be outsourced just like any other business activity by reason of cost assessment, this would be the end of the horizontal integration on which the HRM-concept is founded. Presumably the vertical integration that assures the connection with strategic corporate policy would get lost as well.

The new capitalist’s scenario

The ‘scenario of the shattered labour order’ accentuates the inequality of the relation between two parties. To the opposite, a ‘new capitalist’s scenario’ would place them on a more equal footing.

In today’s ‘knowledge economy’ it are knowledge workers who realise the ‘knowledge production.’ They are substance oriented experts who have to be treated as such. Their position differs considerably from their predecessor, the ‘organisation man.’ ‘Knowledge workers,’ said Peter Drucker, who coined the term, “collectively, are the new capitalists. Knowledge has become the key resource, and the only scarce one. This means that knowledge workers collectively own the means of production.” They “see themselves as equal to those who retain their services, as ‘professionals,’ rather than as ‘employees.’ The knowledge society is a society of seniors and juniors, rather than of bosses and subordinates” 6.

The central issue is how these employees, who no longer consider themselves as such, can be induced to deliver the high-performance contribution needed in today’s high-competition business environment. New, but still invalidated, insights into the selection of professionals suggest that value-based assessment – ‘what makes Johnny tick?’—promises better indications for high performance than the traditional competency-based selection techniques.7 After all, professionals are substance-driven.

This boils down to the question of what determines knowledge worker productivity. It can be understood and be governed, but in an entirely different way from organising manufacturing productivity. In essence, industrial productivity is about efficiency: how can a certain task, pre-programmed into the system, be executed most cost-effective? This

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5 Meier et al. (1997)
6 Drucker (2001)
7 Tissen, Lekanne Deprez (2006)
is a question of quantities. Quality figures only as a limiting condition – a standard to be met, equally pre-programmed. In knowledge work however, quality is the output itself.

“In appraising the performance of a medical laboratory, the question of how many tests it can run through its machines is quite secondary to the question of how many test results are valid and reliable.” To define the requested qualitative output, one first has to define the task. What is, for instance, the task of hospital nurses? When asked, their answers varied. Some said ‘to care for the patients,’ others ‘to satisfy the doctors,’ who are their internal clients. Creating the conditions to realise qualitative productivity “requires that the knowledge workers themselves define what the task is or should be – only knowledge workers themselves can do that.” Where manufacturing productivity demands the worker to be programmed, the productive knowledge worker has to program himself.

The ‘new capitalist’s scenario’ corresponds with approaches that can be grouped under the label of Professional Service Management (PSM). In today’s knowledge-intensive work environment the creation of organizational capacity for change is of the essence. Traditionally, this is the responsibility of top management that enforces capacity in a top-down process of command and control. In an increasingly unpredictable environment however, the law of requisite variety makes its influence felt. It states that the variety within a system must be as least as great as the variety in the environment against which it attempts to regulate itself. When the amount of internal measures of freedom necessary grows exponential, because the environmental unpredictability increases exponentially, managerial capacity faults to create change capacity. Ultimately, chaos can only be coped with by means of chaos – which denies managerial control as such.

Opposite to vertical capability development, more democratic and participative (horizontal) organisational models may enhance the internal variety by introducing team responsibility for capability development. Command and control is replaced by self-control. Both socio-technical systems theory and the lean production concept show ways of enlarging flexibility by means of decentralised authority and lateral communication. They form a body of knowledge and organisational principles that is solidly validated by scientific research as well as by practical experiment within a substantial number of companies. Practical application however is scant.

The most far-reaching alternative to the vertical and horizontal approaches is a model that replaces command and control by ideological control.

“A shared ideology may facilitate capability development among various parts or subcultures of the company by specifying broad, tacitly understood rules for appropriate action under unspecified contingences. (…) Ideological capability development rests in firms with a core identity, in which one can find a coherent set of beliefs, shared values, and common language. Through it, every member identifies strongly with, and professes loyalty to, the goal of preserving, extending, or perfecting the organization’s mission, and so can

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8 Drucker (1999)
9 Benders et al. (1999)
be trusted to make decisions in the organization’s interests.”

The PSM concept could mean that human resources withdraw themselves from the realm of the manageable altogether. There is little to manage left in the case of an autonomously operating knowledge worker who is the owner of the means of productions - his human capital - anyway.

**Competing concepts**

Up till now practice differs from the tendencies described above. One could find that all three approaches are tried out, sometimes within the same organisation. It is still too early to tell which of them – development oriented (HRM), transaction oriented (TM) or equivalency based (PSM) - will prevail.

But it is not often that we observe really equivalent relations between worker and management. Neither do we observe that the bureaucracies of the past develop into network organisations. A major reason is that managers are dubious about their role in the new environment and its consequences for the hierarchical foundation of their power. Secondly, practice shows that, more often than not, employees don’t develop into autonomous professionals, for the same reasons of insecurity. Professional self-management implies taking responsibilities for insecure outcomes. In these times of uncertainty one might as well stay on the safe side, doing as the boss tells you. In both ways, the ‘law of retention of power’ is strengthened – a reason why we tip Transaction Management as the winning horse.

Anyhow, the odds are against the HRM concept, whether of the ‘hard’ or the ‘soft’ variety. HRM hauls its origin from a bureaucratic past. Its inherent focus on development – whether individual or organisational - seems to be of secondary importance under present circumstances. One of its basic tenets, the Human Capital Thesis, turns out to be a fallacy: return on investment in human capital is insecure and needs a wider time horizon than today’s impatient capitalism allows.

In a way it doesn’t matter much any more. In the shattered labour order scenario, the workers will in the end be denied anything akin the ‘social policy’ of the old days. Images arise of throngs of workers gathered at Ford’s factory gate around 1910, eager to gain a day’s work – albeit at a higher level of sophistication of course at our time than a century ago. And to the opposite, what would Drucker’s new capitalists, the owners of the means of production, need a personnel manager for?

One way around or the other the personnel function becomes obsolete.

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References for Chapter 9
