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Theories of lean management: An empirical evaluation

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ABSTRACT

Debates within organization theory traditionally argued the relative merits of bureaucracy but today there is broad agreement across different perspectives that bureaucratic organization is inefficient and outmoded. Despite their differences, post-bureaucratic and neo-liberal theories argue that organizations with relatively flat hierarchies and low management overhead are better adapted to current market requirements. Post-bureaucratic theory also argues that employees, as well as firms, benefit from leaner management structures. This paper investigates trends in managerial leanness, proposed explanations for such trends, and the consequences of leanness for firms and employees. Although there is a trend toward flatter management hierarchies, there is only weak support for current claims regarding both the causes and consequences of lean management.

0. Introduction

Views regarding optimal organizational structure have changed dramatically in the past thirty years. Previously, researchers debated the relative merits of bureaucracy, but today bureaucracy has few defenders. Researchers from quite diverse perspectives agree that management downsizing and delayering is increasingly reversing the growth of administration that characterized the managerial revolution. Current theories of organizational structure fall into two broad camps, post-bureaucratic and neo-liberal. Together, they have displaced previous views, but their claims regarding the prevalence, causes, and consequences of lean management structures remain relatively under-studied empirically.

This paper uses two national probability samples of organizations to examine some of the claims made about trends toward lean management, the environmental and ownership conditions that favor leanness, and the ostensible advantages of lean management for both organizational performance and employee outcomes. The first section describes theories of managerial leanness and derives hypotheses. The second section describes the data. The third section presents results, and the final section concludes. In general, support for various theories of lean management is mixed at best.

1. Theory and hypotheses

1.1. Theory

Bureaucratic organizations, whatever their recognized shortcomings, were the embodiment of the modern organization for academics, managers, and the public for most of the postwar period.

Peter Blau and Alfred Chandler exemplified this generally Weberian and managerialist view within sociology and business history, respectively (e.g., Blau, 1968, 1972; Blau and Meyer, 1987; Chandler, 1977, 1990a). The organizational structures managers built reflected the technical requirements of industrial society for predictability and control over environmental uncertainties. Large-scale operations, intra-organizational differentiation, high capital requirements, and

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technological economies of scale required a large administrative component to manage complexity, minimize costs, and maintain routine. Both Blau and Chandler viewed top executives and ordinary managers through a technocratic lens as a corps of administrative professionals pursuing the larger organization's goals in disinterested fashion. The Aston Group, conducting parallel research, reached similar conclusions (Pugh, 1973; Donaldson, 2001).

Within economics, Williamson (1975, 1985) proposed a similar view in treating bureaucracy as an efficient response to market failure. When asset specificity locks buyers and sellers into bilateral monopolies firms on each side of the transaction are subject to opportunistic treatment from the other, as neither can exit the relationship. A firm that internalizes different functions within a single chain of command eliminates this source of transactions costs. This assumes, following Weber and Chandler, that managers behave in neutral, professional fashion within the firm, even though they are presumed to act opportunistically in dealings with those outside the firm.

Events in the real world soon rendered problematic these views of bureaucracy as professional and efficient. In the 1970s and 1980s output and productivity growth fell, inflation and unemployment rose, and the early 1980s witnessed the most wrenching recession since the Great Depression. A wave of manufacturing imports from Japan and other countries rapidly displaced American firms in many key industries. Plant closures in steel, autos, machine tools, consumer electronics, and other industries swept the Midwest and Northeast United States, as the new competition overwhelmed American corporations that had dominated their industries and seemed unshakable pillars of the economic order (Bluestone and Harrison, 1982). Stock prices fell low enough to reawaken the financial markets that managerial theories considered permanently dormant, setting off a wave of shareholder activism, mergers, hostile takeovers, leveraged buyouts (LBOs), and defensive restructuring (Useem, 1993). Workers' real median wages stagnated, earnings inequality grew, and unions experienced steep declines in membership and leverage. Among the few bright spots in this landscape were small, innovative computer and biotechnology startups; established big business began to seem like a relic of the fading industrial era.

Post-bureaucratic and neo-liberal theories of organizations arose in response to these developments.

Post-bureaucratic theories argued that leaner management and greater workplace participation were superior to traditional bureaucracy and represented the way forward. According to this view, hierarchies were suited to environments with stable markets and technologies, such as the first half of the post-war period. Products and processes changed in predictable fashion. Production work was deskilled and organized according to principles of Scientific Management. Consumers were relatively undemanding and accepted mass produced, standardized goods. Industries were often oligopolistic, profits steady, and firms were buffered from disruptions by their size and administrative planning capacities. A large and growing cadre of managers made this system work. However, firms' traditional coping mechanisms were overwhelmed by the new level of environmental instability resulting from macroeconomic turbulence, foreign competition, technological change, and changing consumer tastes. In the new environment competitive advantage lay in faster decisions times, innovation, and flexibility, rather than economies of scale and the accumulation of deep reserves of internal resources.

In this view, the crises of the 1970s and 1980s caused a paradigm shift toward more decentralized organizations, which have flatter hierarchies, less management control, less Taylorized jobs, and more front-line worker participation in decision-making, quality control, and problem solving. Firms share the gains from greater labor–management collaboration with employees through innovative pay practices, such as team bonuses and profit sharing. This view is attractive because post-bureaucratic organizations offer the possibility of both improved organizational performance and higher-paid, more fulfilling jobs in an era of labor market distress. Specific examples cited by this literature include large Japanese firms, German craft production, Italian small-firm industrial districts, Silicon Valley startups, biotechnology, steel mini-mills, and the Hollywood film industry, among others (Piore and Sabel, 1984; Hirschhorn, 1984; Zuboff, 1988; Powell, 1990; Kanter, 1991; Womack et al., 1991; Appelbaum and Batt, 1994; Heckscher and Donnellon, 1994; Saxenian, 1994; Whittington et al., 1999; Appelbaum et al., 2000; Child and McGrath, 2001; see also Guadalupe and Wulf, 2010). Many, though not all, of these studies focused on particular firms and industries, some of which may have attracted attention because they exemplified the proposed model, raising questions of the representativeness of the findings.

In contrast to the communitarian vision of post-bureaucratic theory, neo-liberal theory posits a return to capitalism's individualistic roots after an interlude of bureaucratic distortion. According to Michael Jensen's principal–agency theory, the economic crises of the 1970s and 1980s stimulated a healthy wave of shareholder revolts and a rollback of the managerial revolution, as firms lost their prior, and abused, independence from shareholder-owners. In this view, unlike Chandler, Blau, and Williamson, managers are opportunistic in the manner in which they run their own firms, rather than neutral technocrats. Because they use investors' capital not their own, salaried managers are tempted to spend money in ways that enhance their own power, prestige, and comfort to the detriment of investors. Unchecked, a management-dominated firm exhibits uneconomic organizational growth (empire building), excess management staff, and overly generous salaries and perks (see also Schumpeter, 1934, pp. 93f.). Before the full extent of the economic crisis was evident, Jensen was confident that various countervailing mechanisms, such as independent boards, pay for performance, and the market for corporate control, ensured that the modern corporation was optimally efficient.

> The publicly held business corporation is an awesome social invention…The growth in the use of the corporate form as well as the growth in market value of established corporations suggests that at least, up to the present, creditors and investors have by and large not been disappointed with the results, despite the agency costs inherent in the corporate form. Whatever its shortcomings, the corporation has thus far survived the market test against potential alternatives (Jensen and Meckling, 1976).