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The relation between shareholder value and human resources management in manufacturing settings

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Abstract

*This article attempts to expand knowledge about the **influence of the shareholder value on human resource management practices**, especially in the production environment. Initially, the paper reviews the origins and the bases of the financialization and shareholder value concepts. Next the interface of these concepts with human resource management practices is analyzed. Three main elements that comprise the interface between company guidelines and human resources function are explored more*

deeply: variable compensation, performance management and work autonomy. A multiple case study is presented, which attempts to verify how the financial concept of a company has in fact influenced these practices with respect to personnel management at the production level of organizations in Brazil, as well as how much they have contributed to the diffusion of generating shareholder value.

Key words: shareholder value, value-based management, human resources management, work autonomy, variable compensation.

1. Introduction

This study attempts to understand the influence of the shareholder value on personnel management practices, focusing on understanding this phenomenon at the production level of companies.

The logic of creating shareholder value has been gaining strength over recent decades due to several factors - the major one is the concentration of shares in the hands of institutional investors who put enormous pressure on organizational managers for a greater return on investment made in the stocks of these companies. As a consequence, a new mentality is gaining space in joint stock companies, according to which every practice should converge to increase their shares prices.

This scenario influences nearly every practice by organizational management in this context, including human resource management practices. According to the existing literature, the main link between the mentality of creating shareholder value and personnel management practices is variable compensation. The basic presumption governing this issue is that company employees will commit to the “cause” of generating shareholder value if part of the value generated is shared with them.

However, applying variable compensation does not, in itself, assure the dissemination of the logic of value creation. To do so, one learns from the relevant literature that this type of compensation

should be based on a preferentially individual evaluation based on objective indicators (financial, whenever possible), which identify the different levels of employee contributions to maximizing this value. Moreover, authors such as Lawler III (1990) state that in order for variable compensation tied to performance evaluation to have the desired effect, it should be applied in an environment in which there is sufficient autonomy to permit striving for higher levels of performance.

In this context, an especially interesting analysis is of practices of variable compensation, performance evaluation methods and the autonomy existing in companies at the level of production. Despite the fact that the application of variable pay at the executive levels and in commercial areas is well disseminated, in the operational areas there is a perception that adopting these practices – especially for the explicit purpose of maximizing shareholder value – is less intense. Nonetheless, the authors who advocate the mentality of creating shareholder value make clear the need to create the correct financial incentives on the shop floor (Stern, Shiely, Ross, 2001).

One key to this discussion is the deployment of the concept of autonomy in production work. When it is realized that employees (or groups of employees) can make decisions about production, an alternative is created where performance is assessed in a differentiated manner and this results in differentiated remuneration. Despite being created for other reasons, the new forms of work organization respond well to the needs of the financial concept of companies (Zilbovicius and Dias, 2005).

Thus, the present work tries to encourage the existing conceptual discussion on these issues and, later, to understand what is happening in practice with the companies in this context, in order to make possible a critical re-reading of the concepts contained in the previously studied literature. To do so, a multiple-case study was conducted with companies included in the overall context described above. The hypothesis explored in this study is:

“Companies inserted in the context of shareholder value creation and which use autonomous production designs link variable compensation practices to the achievement of financial goals,

measured individually. These practices are applied to all production employees, who are delegated the autonomy necessary to make decisions that lead to value creation, and to disseminate this logic at the operational level.”

2. The concept of a company devoted to creating shareholder value

DiMaggio (2001) edited a collection of studies that tries to understand the twenty-first century company model. In characterizing this model, the central issue raised is the imposition of shareholder control on the companies. Until the 1980s, according to this author, company managers were “protected” by monopolizing information and especially because shareholder control was diffuse. However, at the beginning of the 1980s, gain strength the so-called “financial conception of the company,” according to which the company is viewed as a portfolio of assets and the major responsibility of its executives is to make this portfolio perform by analyzing the performance of each company division and selling any structures whose financial performance fall below the alternative investments. In this context, the relationship between managers and shareholders came to be seen as an agent for a “principal”, as described in the theory of agency (Fama, 1980).

Feng et al (2001) go more deeply into this issue, discussing how capital markets mediate between capital saved by the United States middle class and the companies, understanding what it provides and what it demands in terms of returns. According to the authors, the pressure on companies to provide greater returns is a reflection of an increasingly “financialized” society. In that country, approximately 40% of families apply 10% of their annual income in the capital markets to provide for retirement. This pressure does not occur only in the large corporations. Venture capital usually seeks companies in the embryonic stage, exactly because they want greater returns, despite risks also being higher. Private equity, in turn, is capital which is generally allocated to companies that are beyond the initial stage, seeking opportunities for resale or opening up the capital of these companies, at time of profit taking. Thus, support for this kind of capital for companies of various types and sizes would be

another source of pressure on its managers. The authors conclude that companies with these players as major shareholders or controllers come to use financial logic as their main orientation due to the pressure they exercise.

Over the course of the 1980s however, a new financial concept of companies began to gather strength, as an alternative to it - the concept of shareholder value. This is an extension of the financialization concept, since back when companies were already focused on financial results, shareholders began to realize that the return from companies was not sufficient. “The central idea of the concept of a company devoted to generating shareholder value is that the only legitimate purpose of the company is to maximize shareholder value” (Fligstein, 2002, p. 148).

Moreover, in the attempt to make the differences in concepts of companies and their consequences explicit, Froud et al. (2000) characterize the production and financial logic of the companies, making tangible what they represent and how they are different. Despite making clear that the different rationales are not totally consistent and that they do not fully dominate the market for an entire period of time and should not be analyzed in a mutually exclusive way, each exercised a strong influence at the time they were in vogue.

The stereotype of the production logic (predominant in the 1980s) is characterized by competition for processes and products, a focus on reducing production time, lower inventories, better quality and by the leadership of Japanese companies. The stereotype of the financial logic (predominant in the 1990s) is marked by universal competition for financial results by explicitly comparing company return on investment with all others, independently of the segment of activity, by the pressure coming from the capital markets, by the challenge to management represented in strictly financial terms, and by the leadership of U.S. companies.

2.1 Value-based management models

It is in the context explained above that diverse value-based management models based arose. It is understood that the term “value” has to do with shareholder value and not with the interest of any

other parties. According to Froud et al (2000) various world-renowned consulting firms have developed their own models and metrics to measure company contributions to creating shareholder value. These models help to make the concepts explained above tangible, elucidating how the logic of creating shareholder value permeates company practices and decision making. The model with the largest repercussions is the Economic Value Added model (hereafter called EVA), which initially was an indicator created by Stern & Stewart Co., but which has become a symbol of a comprehensive management model.

Stewart (1991) argues that companies' most important role should be to maximize their current market value. The author, one of the main EVA theoreticians, works on the need for a precise metric for companies to use as their main parameter. According to him, accounting measures such as profit, profit per share and return on equity are totally inadequate, since they do not relate directly to share prices. The company focus should be to maximize the EVA, which is "the only measure directly linked to intrinsic market value." Generically, the indicator is defined as "operating profit less the cost of all capital employed to produce this profit" and is represented algebraically by the following (Ehrbar, 1998):

$EVA = NOPAT - C\%(TC)$, where:

NOPAT: Net Operating Profit After Taxes C%: Capital Cost in percentage

TC: Total Capital

One of the most important characteristics of this measure is the charge for the use of capital, which had been little used before. Thus, managing based on maximizing the EVA raises demands on the companies; since it is not enough for them that profits be positive. If the EVA is positive, it is said that the company created value for the shareholder. If not, then value has been destroyed.

For value-based models to function in companies, the central fact is that they must be aligned to the incentives offered to executives. According to all of them, redistributing incentives is a necessary condition to effectively implement the models in order for employees to feel and act like

“owners” of the business. For these authors, it is fundamental that a bonus be granted to share the value created with the executives. In order for this to happen, the EVA should be measured in the several units and lines of operation, and that it be the sole internal measure of performance. In addition, stock option plans are recommended as means of variable compensation.

Delegation of autonomy in decision making is also seen as a precondition for the incentive system to function at the production level. Stern, Shiely and Ross (2001) stress the existence of a larger “reservoir” of knowledge about the production process, which can emerge and be used as a way to make an effective contribution to company results if workers participate in the EVA- based incentives.

3. Personnel management practices

To the extent that there is a deeper understanding of the financial concept of the company and of the shareholder value creation, it becomes clear that a wide variety of management practices adopted by the companies end up being influenced by this new logic. In this context it is to be expected that personnel management will also undergo this transformation. Despite being influenced by this logic in this same way as other company functions, human resources plays a special role since it is expected to help promote changes in the other company areas and functions.

3.1 Variable compensation practices tied to the performance management and autonomy:

As was clear from the work of the authors who deal with value-based management (Stewart, 1991; Ehrbar, 1998; Stern, Shiely and Ross, 2001) the main point of connection between the logic of shareholder value creation and personnel management is variable compensation. Nevertheless, for variable compensation practices to be implemented, there must be a performance management system to stipulate goals, to measure results achieved and to continuously encourage improved performance (as has been seen, authors who advocate models such as EVA say that these measures should be limited to a few if not just a single one).

3.1.1 Variable compensation

According to Lawler III (1990), several existing compensation systems try to represent how much an individual is worth to the organization. Thus, organizations try to align their employee compensation to their contributions, avoiding creating imbalances between the compensation structure and the practical results obtained. Historically, the main reference for compensation systems has been the job position. However, this reference makes it difficult to recognize employees differently according to their contribution to organizational objectives. Thus, other compensation systems were created to try to distinguish “delivery” by different professionals, whether as a function of the responsibility expected from their actions or the results they effectively achieved. Based on these concepts, many authors identify three large components of compensation: variable remuneration (which can be “long term” or “short term”); fixed remuneration (salary and benefits) and what is called “alternative forms of compensation” (such as promotions, access to development programs, etc.)

The literature presents several results-based compensation models. Performance-based remuneration compensates employees for achieving pre-established goals, usually aligned with company objectives. Share distribution as a means of result-based compensation means distributing company stocks instead of monetary compensation..

3.1.2 Performance management systems

Most often performance evaluation serves as a pre-requisite for variable compensation, since it already provides a measure of employee or group performance to determine the values to be paid according to pre-established criteria. Nonetheless, this is a practice using completely different methods and diverse goals, which is widely used by many firms.

Marras (2002) conceives of performance evaluation as a managerial tool to measure the results obtained by an employee or a group during a certain period. It can have several dimensions such as potential, behavior analysis, determination of knowledge, professional development and finally the

achievement of goals and results. In this way an attempt is made to gauge the gap existing between the expected results (whether group or individual) and those effectively achieved.

3.1.3 Work autonomy

According to Useem (1996) institutional investors are assertive in stating that they “don’t want to tell (managers) how they should manage their companies; they just want a well-managed company.” That is, the logic of generating shareholder value to achieve the required returns is vested with enormous pressure for results, but accompanied by broad autonomy so that the returns demanded can be achieved. This autonomy is conferred on the executive presidents by the boards of directors, but it is the presumption of the value-based management model that it be disseminated by the company.

However, the evolution of competitive scenarios has shown this approach to be limited. Many companies have begun to compete in new ways, needing greater flexibility in their methods of action and a growing commitment from their employees. The systems of punishment and control and for prescribing work do not respond in a satisfactory manner to this new environment.

New organizational models were tested in this context. One of the changes is based precisely on the growing autonomy in decision making by teams and individuals, which extends onto the factory floor. The idea was that with greater autonomy, production employees would react more quickly and effectively not only to production problems (such as an unexpected failure of machines, lack of inputs etc.), but also to changes outside the production process (such as the arrival of new orders or even new products)

One way to increase autonomy in production work is to adopt the so-called semi-autonomous groups. According to Marx (1998) and Gerwin and Kolodny (1992), this way of organizing work can respond efficiently to requirements for flexibility and other market demands. Conceived by authors from the socio-technical school of work organization in reaction to the classic model, the semi-autonomous group should take on total responsibility for producing a line of products, from exclusive operation of machines to issues related to production control, quality management, equipment

maintenance, etc. Decisions about the activities to be carried out and priorities should be taken by the group. Thus as a rule, group members will be in a position to interfere in the results of defined performance indicators and which goals will be outlined.

4. Methodology and presentation of cases

To carry out a study in the intended field it is necessary to restrict the field of observation and observe companies which are really included in the context studied. Therefore, the following characteristics were adopted as criteria to select the companies to be observed:

- a) To be inserted in the context of the shareholder value. As the criteria to verify this condition, the following will be adopted:
 - Must be listed on the stock exchange, whether in Brazil or in its country of origin (in the case of multinational companies);
 - Have shareholder participation by institutional investors or financial institutions;
 - Adopt preferentially some model of value management for the shareholder (this criterion is not eliminatory);
- b) To be recognized for adopting models of flexible work organization, conferring autonomy on its production professionals.

Applying these criteria to the universe of companies active in the country makes it possible to reduce the size of the sample. Nonetheless, the phenomenon researched is relatively recent, since little was found in the literature with respect to its relationship with personnel management practices, more specifically variable compensation at the level of operations. Thus, the appropriate research method is the case study.

In the present study, semi-structured interviews were conducted with production managers and human resources managers from the companies studied. Union representatives were also heard since the phenomenon studies involved changes that can generate conflicts of interest between companies

and unions. In these interviews an attempt was made to identify changes that are occurring with respect to pressure to create value and, at the same time, changes made to help propagate this mentality. In addition to semi-structured interviews, an attempt was made to confirm the consistency of the data provided by those interviewed, by means of observing internal and external communications materials (posters, folders, texts available on the intranet and internet, etc.) and other evidence related to the theme researched, in order to permit the triangulation of data. The results of the data collection are presented in the following.

4.1 The companies

As stated, the attempt was to obtain a set of organizations in which the context discussed in the present study makes sense. Thus, all the companies studied have their shares listed on a stock exchange in countries where the capital markets are extremely developed (all are multinationals, with open capital in their countries of origin and in the sole case where the company is not of U.S. or British origin, the company also has its shares negotiated on one of the two markets.)

The four companies chosen have direct or indirect participation by institutional investors. Over 75% of the shares of two of the four companies are in the hands of this type of investor. Another company has one of the largest insurance companies in the world as an important shareholder. The only company studied that does not have a high concentration of shares in the hands of institutional investors, does have another company as a major shareholder, and that company has almost half of its shares under the power of this type of investor.

Moreover, all the companies studied have adopted flexible design in production for their operations in Brazil, designs which in some way are referenced in the semi-autonomous groups conceived in Simonetti and Marx (2007) and Gerwin and Kolodny (1992). This fact is a good indicator that some degree of autonomy is conferred on production workers.

Company 1, which is of British origin, has four large business units. The factory unit installed in Brazil belongs to the aeronautic motors unit and has approximately 260 employees and 100 service

providers. This factory is located in the outskirts of São Paulo (Brazil's main industrial and financial center), provides maintenance services for this equipment and is thus described as having low-scale, order-based production.

The second company analyzed (Company 2) is active in the personal hygiene and home and professional cleaning segment. This is a joint venture signed in 1998 by a large multinational from the United States and traditional British companies in the field. The company has two large business units – one in personal care and the other professional, which serve the institutional branch.

Company 3 is active in the beauty products area and has its origins also in the U.S., where it is an open capital company. It has been in Brazil for over 40 years and employs around 4,300 employees. The factory unit analyzed is located in the city of São Paulo and has approximately 1,400 employees, with approximately 1,000 of them working on in operations.

Finally, the last company studied (Company 4) is of multinational origin and has three global business divisions - beauty, hygiene and food. It has open capital in its country of origin (Europe), as well as in the North American market. The company has several factory units in Brazil; the unit analyzed is located about 80 km away from São Paulo center and manufactures cleaning products.

Having presented the companies, next is a description of their realities with respect to the central points in the present study.

4.2 The presence of the logic of generating shareholder value in the companies

Based on the interviews carried out and other data collected in the field, it can be confirmed that the logic of generating shareholder value is present at least at the management level. Company 4, for example, used formal indicators for generation of shareholder value (in this case, the company uses TSR – Total Shareholder Return- an indicator which analogously to the EVA is proposed to measure the creation of shareholder value). Beginning with a speech by the chief finance executive in February 2006, the focus on the efficient use of capital and increased margins to the detriment of market share can be clearly perceived. According to the executive, the company's long term goal is to generate

superior value for company shareholders, and to be in the upper third of companies in the sector in TSR by 2010. In the interview conducted with a company production manager, the dissemination of these guidelines was clear, since the main goals for growth in billing and company profitability were listed in the key benchmarks.

Yet in Company 2, the attempt to generate shareholder value, by the return on capital employed in the Brazilian operation, is seen as a priority. Because the American majority-owned company made a large investment in machinery upon arrival, the pressure for return on capital invested in the company is high. The main objective of the company presently is growth in sales (the only way to make the operation profitable after such an investment and in operational profit. Another piece of evidence of the focus on shareholder value is that fact that all the employees at the administrative units have the price quote for a share on the New York stock exchange as their intranet homepage. In Company 1, it is clear to all employees that an aggressive return on capital employed is expected. There is a concern with financial return which manifests as one of the four big goals of the group on the global level, which is to achieve a return on capital employed (hereafter called ROCE) of thirty percent. This goal is displayed on the factory entranceway in a very visible form, along with the other macro-objectives of the company.

Finally in Company 3, the focus on the final result is also very present, despite its being less explicit than in the other companies studied. Internally, topics such as sales growth, brand image and appearance of the products are stressed. Nonetheless, the attempt to optimize the cost structure is one of the company's six strategic priorities. Moreover, the importance of the financial result is disseminated to all employees. All employees, including operators, are pressured to improve the financial indicators, which makes a concern with profitability end up permeating day-to-day decision-making.

It is worth stressing that at all four companies studied, the manager of production and the levels above are pressured and remunerated mainly in accord with financial indicators (to the detriment of operational indicators).

4.3 The semi-autonomous groups

As explained at the beginning of this section, the selected companies use some kind of flexible system for work organization in production. In Company 1, the concept of self-managed teams was introduced at the beginning of 2004. In these groups, in which the members are responsible not just for production, but also for matters related to quality, human resources, budget and others, there is a monitor for each area, in addition to a group facilitator, who exercises a leadership role and is elected by the group every six months. The monitors interface with the other company areas, such as sales, finance and human resources. Company management suggests goals to the groups, for which they become responsible, reporting monthly on their status. According to the human resources manager, implementation of this kind of organization is still not at the level desired. Operators are still getting used to interacting with the other company departments and with the teams and to making decisions autonomously. Nevertheless, a clear evolution can be perceived. They made decision more quickly and communications at change of shifts were better.

In Company 2, when it was decided to invest in the high technology already mentioned, they realized that the team was not trained to use it. Thus, in 1998, an extensive training program was undertaken. Overcoming this deficiency in training, the company understands that the operation is sufficiently mature to begin implementation of semi-autonomous groups, forming units with greater responsibility, which are not limited to operating machines, but to developing maintenance operations, quality management, planning, and others.

Company 3 had already adopted semi-autonomous groups in 2003, in an attempt to improve company results at a time of strong growth by the competition. With the implementation of the groups, the role of line inspector has been eliminated, and the employees themselves began to carry out the

functions of setting up and adjusting the machines, quality control and production control. Each group has a set of operational indicators for which they are responsible. It is worth stressing that the financial indicators from which the operational indicators are developed are also posted in the factory. .

Company 4 is also organized by using semi-autonomous groups, even though there are still supervisors. However, operators are multi-task, and are capable of acting at different points along the line. In addition, even with supervisors, the lines adopt leaders for functional matters, such as those which deal with the company's Profit Sharing Program (PSP). Moreover, the lines deal with matters not just in production, but security, quality and maintenance as well.

4.4 Management tools for production personnel and the logic of generating shareholder value

Beginning in 2003, Company 1 used what is called "pyramid methodology", in order to have a concrete means of getting out the word to all company employees, about company and individual goals. The organization has a "pyramid" (which is physical and located at the factory entrance); each of its four sides lists macro-objectives (among them, the financial goal as measure by ROCE).

These objectives are developed at the departmental and, later, at the individual level. Every employee has a paper pyramid, which lists their individual goals, valid for a year, on each side. Beginning in 2004, these goals were linked to PSPs, structured by the company in partnership with employee representatives and validated by the union. Previously, the amount paid under the profit sharing plan was defined by an agreement with the union and was independent of achieving any particular goals.

The goals related to variable compensation for operations employees are evaluated monthly at the factory level. Potentially, variable compensation can be up to three monthly salaries per year. Indicators such as absenteeism, hours produced, productivity and total operational expenses were considered in the remuneration model. Each indicator is linked to a specific award, which permits employees to know how much they will receive per goal attained. The amounts for each goal are publicized on a chart at the factory.

At Company 2, at the level of production, a PSP linked to goal fulfillment had already been implemented in 1998, after negotiations with the union. Prior to this the variable compensation was tied to union negotiations was less objective and was not linked to group or individual performance. At the beginning of every year, the goals to be met during the period are negotiated with the chemical workers union, after being internally approved by the variable compensation committee.

On the operational level, 20% of potential variable compensation is determined based on the company's operating results (even though there are employee complaints that they have little influence over this remuneration) and the other 80% comes from the factory indicators related to safety, quality and productivity. Each goal is measured individually, making clear the contribution of each to the final result. The potential amount of variable compensation is up to one monthly salary per year, and in some cases where the goals are surpassed, can be up to 1.2 salaries.

Company 3 also adopts a variable compensation scheme for production made up of the following – 70% comes from the financial indicators from the operation in Brazil, measured by billing and profit. Another 15% comes from the goals related to the level of service delivered to the company's vendors. The remaining 15% comes from the goals in the manufacturing area, which include accidents, savings in production, the rate of rejection for poor quality and the efficiency of the line. Potentially payment for additional gains is one to two (monthly) salaries per year. The goals are monitored monthly.

Moreover, all the employees, including those in production, have a Performance Development Plan (PDP) by which competencies and individual and group goals are evaluated. The results of the evaluation on this plane can increase or reduce the amounts provided in the PSP. In the production area, PDP goals are some of the goals of the semi-autonomous group. Thus in practice, a group with better performance could have a higher amount of variable compensation than the members of the group with lower performance. Moreover, in the part of the plan which refers to competency evaluation, the evaluation is individual and carried out among the members of the groups. Thus the

company's personnel management practices contemplate that employees in a group can receive different remuneration than other employees in the same group as a result of their competency evaluations.

In Company 4, the culture of indicators has always been stronger. Some of the manufacturing indicators are used in the PSP, which is extended to all the operations. For this public, 30% of the goals refer to regional objectives for savings in production. Another 30% of the program is related to operational efficiency goals at the factory. The remaining 40% correspond to 3 or 4 goals stipulated by production managers with the employee committees which are measured at the level of the manufacturing cell. Each manager has autonomy to negotiate with its units which indicators will be used in the program.

4.5 The dissemination of shareholder value mentality in production

At Company 1, the work focus for employees has not been explicitly to maximize shareholder value. However, company management has worked intensely to increase productivity and employee commitment. In addition to adopting self-managed groups, variable compensation and performance evaluation practices, the company has undertaken activities to promote a greater sense of belonging to the company and commitment to its objectives.

In Company 2, management has tried to make it clear to operators that 80% of their potential of variable compensation depends totally on them and if they make the effort to produce better results, they will benefit. However, the managers interviewed make it clear that a large number of employees still do not know how to work with this model. Many of them still do not feel responsible for these results, judging remuneration for them to be an "extra". It is clear, therefore, that the commitment to goals based on offering variable compensation is still not widespread in the company.

According to the managers interviewed at Company 3, the search to surpass production goals is part of the company culture. People are included in this context from the moment they are admitted to the company. Communication is worked on intensely as is employee involvement, encouraging the

continuous engagement of all. Incentives, over and above the PSP, are offered all the time to support this mentality. Cash awards in lesser amounts (from R\$10 to R\$50) are offered to groups that show outstanding performance. Company products or gifts are also provided as a form of recognition.

Even though a PSP has existed for over 5 years at Company 4, there is the impression that employee engagement with the results of the manufacturing cell, factory and company is still not at the desirable level. According to the manager interviewed, despite communication and many having accompanied the progress of the program, there are employees who only recall this at payment time, and who do not pay attention to the goals during the year.

5. Comparative analysis of cases

Based on the presentation of cases, it becomes possible to carry out some important analyses to arrive at conclusions in the present study. To what extent does the mentality of generating shareholder value reach production employees at the companies studied? What works in favor and what makes it more difficult to disseminate this mentality throughout the companies? Does adopting flexible organizational designs for production work *de facto* aid in making employees more responsible and consequently more pro-active in achieving organizational goals with respect to value creation? These are central questions related to the basic hypotheses of this study which will be explored in the following.

Despite it can be noticed significant evidence of the importance of the issue of creating shareholder value in the four companies studied (although to differing degrees), in none of them this issue was formally approached with production personnel, although the production manager was clearly pressured by financial objectives. Apparently these managers do not pass these objectives on to production in a clear way. It seems that the logical route from their efforts to achieving operational goals and achieving the organization's profitability goals is not made clear to production personnel.

Nevertheless, the move toward adopting personnel management tools presented in this study as vectors for disseminating the mentality of generating shareholder value is well known. The four companies studied implemented evaluation instruments and goals for remuneration based on indicators which are most often quantitative as the authors cited in section 3.1.2 suggest.

However, despite this evident movement, there are points of implementation in these instruments which diverge from what is proposed in the literature. The first, and perhaps the largest, divergence in implementing personnel management practices is that practically no company researched recognizes personnel on the individual level. Only Company 3 differentiates performance and recognizes it on the individual level, and only in an indirect way (by means of the competency evaluation contemplated in the Performance Development Plan which influences the amounts to be distributed by the PSP). Moreover, it is curious that even though all the companies studied having adopted work groups, only Companies 3 and 4 adopted group indicators for recognition – Companies 1 and 2 adopted the factory as the minimum unit of analysis.

Despite the difficulties of arriving at individual evaluations, it is important to emphasize the initiative of the two companies (Companies 1 and 2) in seeking individual performance appraisals. Although these evaluations are based more in qualitative issues, focused on employee development and do not affect variable compensation, the companies view the issue as an important incentive to training for future improvements in performance.

Another divergence with respect to the literature studied resides in the fact that financial indicators at the production level have been little explored. Moreover, when they are used, they refer to the company overall, and not the results from the factory or the unit. Even if financial indicators from production are not used due to the difficulty in measuring them, at the very least it will be necessary to explore with employees the connection between the operational indicators - which they themselves have a chance to influence - and the financial results.

With respect to implementing personnel management tools that aid in the process of creating value, it is worth citing another problem, which was raised at Companies 2 and 4 – the annual form of payment. Thus, like the problem of measuring the indicators at a very macro level, recognition at some time very distant from when the activity is occurring also causes operators to fail to feel intensely the connection with the work they are presently doing and any recognition that they might receive in the future, if the goals are met.

Another fundamental issue is the adoption of semi-autonomous groups. In practice, they seem to be helpful for discussing, adopting and evaluating indicators. However, the main point that relates the new flexible work models to the creation of value, which is work autonomy, appears not yet mature in practice. Apparently, this is the most difficult point in implementing the groups. At Companies 1 and 2 the managers were explicit in saying employees still have difficulty in feeling like “owners” of the processes. At Company 4, the role of supervisor still has not been replaced.

Employee ambition is another issue on the subject of difficulty in behavioral change. The fundamental issue for this company’s employees is still job stability and maintaining their employment, and not constant self-improvement.

6. Conclusions

As a first conclusion of this study, it can be said that, despite the clear movement in the companies studied toward the use of personnel management tools that help to disseminate the

mentality of creating shareholder value, this mentality still has not arrived in a consistent way at the production area, at least in the companies in which the study was made. As shown in the case analysis, pressure for better financial results is concretely exercised on the production managers. However, this pressure cannot be observed in a clearer form in the production area. The fact is that the personnel management models implemented at the companies studied, in theory do encourage greater productivity and financial recognition for employees when the objectives outlined are achieved. However, the pressure put on them still translates essentially into operational terms. For production, it seems that there have been no significant changes in mentality with respect to the period of the dominance of production logic, according to Froud et al. (2000). We can point to some possible causes for this finding. The first is related to the nature of the companies chosen for the study. In this study, traditional manufacturing companies were selected, those whose Brazilian operations adopt flexible work designs for production. The aim of this choice was to try to observe in practice the relationship between organizational designs that confer greater autonomy on production employees and the diffusion of the culture of shareholder value as explored by Zilbovicius and Dias (2005). Thus, this becomes a rich opportunity for future studies of companies which do not necessarily adopt more flexible organizational designs in production, but which are more intensely inserted in the context of shareholder value, such as companies whose capital comes from venture capital or private equity, as explored at the beginning of this study.

. With respect to the difficulty of instilling the logic of generating shareholder value into production, a conceptual problem in implementing personnel management models which in theory contribute to disseminating this rationale should be recalled. Contrary to what is suggested in the literature, the indicators used are most often measured at the factory level, making it difficult for production workers to perceive their individual contributions to the results achieved. Apparently this is a conscious decision. In addition to union resistance to individual recognition tied to performance in Brazil, in some of the interviews with the managers there was a discourse that “group work should be

prioritized, recognizing the results achieved by the team,” an idea which is consistent with the proposals of the socio-technical school of work organization.

To conclude, it is perceived that the basic hypothesis of this study cannot be entirely proven. Although changes were observed in management practice for production personnel at the selected companies, in order to present models for variable compensation applicable to all operational employees based on objective indicators, measuring and recognizing these results is not done in an individual manner. For this and for other reasons mentioned in this section, the dissemination of the mentality of creating shareholder value to the operational level cannot be demonstrated.

7. References

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Figures

Differentiation in recognition	Company 1	Company 2	Company 3	Company 4
Factory	X	X		
Group/Unit			X	X
Employee			X	

Figure 1 - Level of Financial Recognition, based on Performance among Production Employees. (Developed by the authors).

Type of Indicator	Level	Company 1	Company 2	Company 3	Company 4
Operational	Company /			15%	30%
	Division				
	Factory	100%	80%	15%	30%

	Group / Unit				40%
	Employee				
Financial	Company / Division		20%	70%	
	Factory				
	Group / Unit				
	Employee				

Figure 2 – Composition (by type of indicator) of the Variable Compensation Models for Production at the Companies Studied. (Developed by the authors)