Human resource alliances: defining the construct and exploring the antecedents

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Abstract Numerous scholars have documented a dramatic transformation taking place in the relationship between employers and employees. Job security and career ladders are being replaced with a doctrine of employability. In exchange for loyalty and hard work, firms are promising to keep employees’ skills current and develop them for opportunities in other workplaces. To meet these changing needs, labour market intermediaries such as temporary help firms and employee leasing organizations have emerged to mediate the relationship between firms and the spot labour market. Companies are also forming collaborative relationships, termed ‘HR alliances’ with other firms to manage their human resources. These take the form of employee-sharing relationships, training and development partnerships and ‘quasi-internal labour markets’ where employees are trained and work in one firm then permanently ‘promoted’ to a position of higher responsibility in a partner firm. In this theoretical paper, I explore the types of employees likely to be managed using an HR alliance, factors that influence firms’ use of such alliances, and factors that influence firms’ choice of collaboration partners. The paper concludes with a proposal of potential qualitative and quantitative research to study this phenomenon.

Keywords Strategic human resource management; alliances.

In his book *The New Deal at Work*, Peter Cappelli (1999) documents a dramatic transformation currently taking place in the relationship between employers and employees. While there have been variations across industry sectors and individual firms, over the last 100 years employers typically exchanged a relatively high degree of job security for job performance and loyalty. Job security included explicit commitments to long-term employment relationships, buffering employees from lay-off/recall cycles, internal development and promotion opportunities, and a strong emphasis on internal equity and justice. In exchange for skill development and opportunities to rise to positions to use these skills, employees were expected to perform their job adequately or better and demonstrate loyalty and commitment to organizational goals.

For a number of reasons, this employment relationship is breaking down. Cappelli (1999) suggests the sources of this trend are globalization, increased competition in domestic product and financial markets, shorter product lifecycles due to changing consumer demands, technological innovations, better monitoring of internal operations due to advances in information technology, the increased ability of institutional investors to discipline under-performing companies and the practice of benchmarking the best
practices of competitors and top performers. The result has been to bring the pressures of the outside market into the firm. Firm operations that were once safely nestled inside the firm have become exposed to market pressures. Functional areas that cannot perform and adapt to the market benchmarks are reorganized or outsourced to vendors that can.

All elements of the US corporation have been affected by these changes, including the employment relationship. In the broadest terms, firms have shifted from buffering employees from outside forces to relying on the external market to guide their employment relationships. Specifically, this means lowering expectations of job security and promotions and acquiring competencies from outside the organization instead of developing them internally through training and development. Instead of employment security, employers are promising employees ‘employability’ in the outside labour market (Cappelli, 1999; Kalleberg et al., 1996).

Although the changing nature of firms’ competitive contexts has forced them to increase the usage of externally acquired workers and skills, firms’ choices are not limited merely to developing skills internally or purchasing skills in the spot labour market (Lynch and Black, 1998). A large theoretical and empirical literature has developed documenting the emergence of labour market intermediaries that mediate the relationship between firms and the spot labour market. These include outsourcing agencies, temporary service firms, firms that lease groups of employees to provide organizational services on-site and fully outsourcing non-core company operations (Lynch, 2000; Pfeffer and Baron, 1988; Abraham, 1990). An important but less examined response to the changing employment relationship is the practice of some companies to collaborate with other firms to manage their human resources. There are numerous examples of firms in a variety of industry sectors forming inter-organizational relationships to improve the management of their human resources or sharing employees to reduce costs, increase skills and add flexibility.

The purpose of this paper is to describe and explain the growing practice of inter-firm collaborations in the management of human resources. The following sections define and outline the scope of this practice. Next, I develop a set of theoretical propositions that describe the usage and structuring of this practice. Specifically, I examine the type of employees likely to be managed with this type of practice, factors that influence a firm’s usage of HR alliances and factors that influence a firm’s choice of collaboration partners. The paper concludes with an outline for future qualitative and quantitative research.

Definition and examples of human resource alliances

Scholars from the fields of strategy and sociology study how firms co-operate to achieve mutual goals. A definition of an alliance that is consistent with a number of theoretical perspectives from this literature is as follows: ‘[a] voluntary arrangement between firms involving exchange, sharing, or codevelopment of products, technologies, or services’ (Gulati, 1998: 293). For this paper, a human resource alliance will be defined as a voluntary arrangement between two or more firms involving the exchange or sharing of resources or services for the purpose of improving the selection, management and retention of employees. The following sections illustrate three archetypical HR alliances.

Employee sharing

This type of arrangement typically involves employees being temporarily loaned from one employer to another then returned to their original employer. Beginning several years ago with the boom in dot-com employment, Mercer Management Consulting began losing a larger than usual number of their experienced, non-partner consultants to the
companies for which they provide consulting services. To prevent the costs and bad publicity associated with lawsuits filed against clients and former employees, the company created what they call the Extern Program. If requested by a consulting client, this programme allows select consultants to take full-time operational positions in these organizations for six to twenty-four months. The client firm, the consultant and Mercer agree the person will return to Mercer after their externship. According to programme participants, all three partners benefit. The consultant supplements his/her consulting skills with operations experience inside top corporations. Borrowing companies are able to fill short-term hiring needs with persons whose skills have been observed and who are knowledgeable about the company's culture. These companies also benefit from the knowledge and networks of the borrowed consultant. Mercer, though temporarily losing a talented consultant, reduces the likelihood they will lose the consultant permanently and benefits from their outside experience (Silverman, 2000).

Co-training and development

Typically called training consortiums, these arrangements involve two or more firms establishing a formal agreement to share training resources, course content or both. Frequently, but not always, participating firms' employees are trained together. Such arrangements reduce per employee costs of training and improve the quality of content and instruction. Once a training package is developed it can be delivered to a large number of employees relatively easily. Thus firms with similar training needs will join together to hire a training consultant or purchase a training package. The per employee cost of delivering the training is reduced when multiple firms join together to pay for a shared training facility and instructor. Finally, poaching risks are reduced. If the collaborating firms are labour market competitors, as is likely if they have highly similar training needs, the increased training will decrease the need to hire each others' trained employees (Bosworth, 2000; Filipczak, 1994; Porter and Fuller, 1986). A good example of a training consortium is the San Francisco Hotels Partnership Program. Twelve large hotels in the San Francisco area banded together in 1994 to provide employees training in basic work skills, English as a second language, critical thinking, team building, food service and craft-specific skills (refrigeration, service, maintenance, etc.) (Lynch, 2000).

Quasi-internal labour markets

A third example of an inter-organizational relationship between firms to manage employees is similar to the employee-sharing arrangements described above except that the employees go from one firm to another and do not return to their original firm. The most commonly reported example of this practice is the collaboration between Burger King of Western Michigan and Cascade Engineering in Grand Rapids Michigan. Persons with no or limited work experience work at Burger King for six months to a year to develop such work skills as arriving to work on time, receiving and implementing work orders and maintaining personal hygiene. Work training is supplemented with reading and technical training. If employees successfully complete their six to twelve months at the fast-food restaurant, they are then eligible to take a job at Cascade Engineering, a plastic moulding manufacturer, for better pay, benefits and job security. The Burger King (BK) chain benefits by recruiting employees with a desire to work, who will stay at least six to twelve months (longer than the average BK employee) and maintain higher performance levels to achieve the desired 'promotion'. Cascade Engineering benefits by hiring employees with tested work skills and performance and has less turnover (Naughton, 1998). This
arrangement is similar to the prototypical internal labour market (Althauser, 1989) only the structured labour market is between firms rather than within firms.

**Theoretical origins of human resource alliances**

The concept of independent firms co-operating in the management of their human resources is counter-intuitive and contrary to the fundamental tenets of human resource management. One review tracing the history of the academic study of human resource management shows that, since the emergence of the personnel office in the late 1800's, firms had managed their human resources unilaterally (Marciano, 1995). A review of a number of recent and older human resource texts finds no mention of the human resource alliances or the practice of employees systematically moving between organizational boundaries. Heretofore, the underlying assumption has been that employees are temporarily captive and proprietary assets not shared with other firms (Cappelli, 2000).

Although not previously examined in the academic literature, these arrangements are not altogether unexpected from the perspective of resource dependency theory and transaction cost economics (TCE). Resource dependency theory assumes that organizations must engage in exchanges with actors in the external environment to obtain needed resources. When there is a scarcity of resources, insufficient information about needed resources or unstable supplies of needed resources, organizations will form co-operative relationships with external actors to increase supply, increase information about resource quality or reduce volatility of quality or supplies of resources (Aldrich, 1979; Child and Faulkner, 1998; Galaskiewicz, 1985). As human resources are a critical input factor to the production process of manufacturing and service firms, it is not unexpected that firms will form co-operative arrangements to ensure the availability and quality of its supply.

Transaction costs include the expenses associated with arranging, monitoring and managing the transactions within organizations and between organizations and markets (Barringer and Harrison, 2000). Transactions were originally conceived as taking place within hierarchies (organizations) or within open markets. Alliances are understood as hybrid arrangements for transactions with costs too high for exchange within a market but not high enough for exchange within a hierarchy (Faulkner and De Rond, 2000; Gulati, 1995a). Human capital differs in its degree of value in the marketplace and degree of firm specificity (Lepak and Snell, 1999; Stevens, 1994b), suggesting TCE as a theoretical lens useful for understanding HR alliances (Kariya and Rosenbaum, 1995).

**Extent of usage of human resource alliances**

As mentioned above, organizational theorists have hinted at the possibility of the existence of human resource alliances. However, to date no study has examined this practice in depth. Only one empirical study provides indirect evidence of the scope of this practice. Brush and Chagani (1997) surveyed a convenience sample of ninety-seven high-tech firms in central New Jersey. The study focused on co-operative activities used by small firms. Of the ninety-seven companies, fourteen (14.4 per cent) indicated that they shared personnel with other employers. It is obviously quite difficult to make generalizations from these findings due to geographic, industry and sampling restrictions but this survey does suggest that the practice of forming HR alliances is not especially unusual and worthy of systematic study.

**Types of employees managed using inter-organizational relationships**

For firms using collaborative relationships to improve the management of human resources, it is unlikely this practice will be used to manage all types of employee groups. In fact, theory
and research suggest firms are more likely to use alliances to improve the management of some types of employee groups than others. This section develops propositions that predict what type of employee groups are most likely to be managed in this way.

An individual’s human capital consists of a combination of judgement, skills, intelligence and experience (Barney, 1991; Becker, 1964). Theoretically, human capital can be decomposed into firm-specific elements that are valuable only to individual firms and general elements valuable in the broader labour market (Becker, 1964; Stevens, 1994b). An example of a specific component would be the knowledge of a firm’s merchandise return policies. An example of a general component would be the ability to use spreadsheets to summarize production information.

Although the idea of human capital was originally conceived as an individual construct, human resource strategy scholars have also considered human capital as a group- or firm-level variable and human resource practices as the tools used to manage a firm’s human capital pool (Wright and McMahan, 1992; Huselid et al., 1997). Lepak and Snell (1999) extended this discussion by noting that a firm’s human capital pool is not homogeneous but human capital differs across employee groups and that different employment relationships and HR practices are appropriate for different groups within a firm. In particular, they noted that the value and firm specificity of human capital will determine how the firm manages different groups of employees. This section will explore how these attributes affect a firm’s likelihood of using inter-organizational relationships (IORs) to manage various employee groups.

Value

Lepak and Snell (1999: 35) defined human capital value as the ratio of benefits (valued by and marketable to customers) derived from a skill set relative to the costs incurred in managing and retaining the employees with these skills. It is unlikely that employee groups at the very high and very low end of the value-creating spectrum are managed in co-operation with other firms. Employees at the high end of the value spectrum include top management and top technical employees. These high value-creating employees are likely to have inside information about customers and the firm’s value creation processes that would be too valuable to risk losing through collaborative activities with a partner firm through information sharing or employee poaching (Northrup and Malin, 1985). Second, as the human capital for this group is likely to be highly firm specific, there would be few overlapping activities with which to collaborate with another organization (Oliver, 1990; Porter and Fuller, 1986). Finally, by definition there are likely to be too few high value employees to reap economies of scale in sharing the costs of managing them (Contractor and Lorange, 1988).

Low value-creating employees are also unlikely to be managed by partnering with another firm. This category of employee includes low wage, low skill employees performing non-essential duties. By definition, firms can create only limited additional value through more effective management and development of such employees. For instance, in a firm where janitorial services are not critical to the production process, it is unlikely that improving the performance of these employees from ‘adequate’ to ‘good’ provides additional value relative to the costs of this performance improvement. Thus the human resource and supervisory management systems are likely to be structured to prevent such employees from destroying value through mistakes, theft and sabotage (Jacobs, 1994). Such highly firm-specific activities are best co-ordinated through internal policies and practices and not in collaboration with other firms (Ryan, 1980). Second, low value-creating employees are likely to be readily available in the spot market or through such labour market
intermediaries as temporary service firms (Abraham, 1990; Cappelli, 1999; Pfeffer and Baron, 1988) thus negating the value of collaborating with other firms for their acquisition or retention.

Let us call the employee group between the low and high value-creating employees *medial value-creating employees*. Such employees are not merely at the very centre of the value creation spectrum but form the large majority of employees not at the two extremes. This group should not be confused with 'core employees’, defined as the largest group of non-supervisory, non-managerial workers directly involved in making the firm’s products or providing the firm’s services (Osterman, 1994: 175). Medial value-creating employees include core employees, but also professional, sales, clerical, production and supervisory employees that support the value creation process. Firms are more likely to manage these employees in co-operation with other organizations for a number of reasons. First, there are a larger number of these employees, thus increasing the potential economies of scale associated with management through collaboration (Child and Faulkner, 1998; Aldrich, 1979). Second, as these employees contribute to the value-creating process there are benefits associated with investments to improve and/or maintain their performance (Jacobs, 1994). Third, since these employees have a mix of general and specific skills, there is an increased likelihood of finding overlapping HRM needs with partner organizations (Oliver, 1990). Finally, as will be discussed in more detail below, medial value-creating employees have a non-trivial proportion of firm-specific skills, making the use of the spot market or labour market intermediaries less likely (Abraham, 1990; Davis-Blake and Uzzi, 1993).

**Proposition 1**: Firms are less likely to use HR alliances to manage employee groups with very high or very low value-creating capabilities. Firms are more likely to use IORs to manage employee groups with intermediate value-creating capabilities.

**Firm specificity of skills**

Lepak and Snell (1999) suggest that, in addition to value creation capability, the degree of firm specificity of a group of employees’ skills will affect the choice of which employees are managed using IORs. Transaction cost economics (Williamson, 1981) provides some insights as to how the firm specificity of skills may affect these choices. In the sphere of human resource management, a variety of transaction costs are incurred at all stages of the human resource ‘value chain’, including recruiting, selecting, hiring, training, managing and separating (Faulkner and De Rond, 2000; Williamson, 1981). Under some conditions, the benefits of establishing an employment relationship exceed the transaction costs associated with a market-mediated employment relationship. For example, jobs that entail a great deal of learning by doing are more likely to be embedded in an organizational hierarchy. Conversely, jobs for which it is very expensive to maintain long-term employment relationships, for example college professor, are more likely than other occupations to be filled with employees from temporary firms or by utilizing contingent employees (Pfeffer and Baron, 1988; Williamson et al., 1975).

Williamson (1981) suggests that a variety of factors affect transaction costs and thus affect whether a firm will internalize a transaction in an organizational hierarchy (i.e. make rather than buy), externalize a transaction (i.e. purchase in the open market) or manage through a hybrid of make and buy (i.e. an alliance) (Gulati, 1995b; Williamson, 1981). Two relevant factors particularly applicable to HRM are asset specificity and opportunism. Asset specificity refers to the degree of specialization of the use of an asset
thus limiting alternative uses. Opportunism is the tendency for individuals, agents and other organizational decision-makers to behave opportunistically (i.e. in a self-interested manner) with guile (Barney, 1990).

Williamson’s notion of asset specificity parallels the notion of firm specificity of skills. TCE suggests the greater the firm specificity of the skill set of a group of employees, the greater the hazard for both the group of employees and the employer. As firm specificity of a group’s skill set increases, these employees have fewer options in the outside labour market, thus increasing their dependency on the employer and reducing the overall value of their human capital (Williamson, 1981; Williamson et al., 1975). Similarly, the greater the firm specificity of a group of employees’ skills, the greater the risk to the employer due to the costs associated with the time and expense required to hire and train replacements (Williamson et al., 1975). Thus TCE suggests that, as employees’ skills become more firm specific both the employer and employee will seek to reduce the risks of asset specificity through the use of a stronger employment relationships (Bills, 1987; Bridges and Villemez, 1991; Kalleberg et al., 1996; Lepak and Snell, 1999; Williamson, 1981).

On the flip side of specificity, there are also hazards from opportunism for the firm if employees’ skill sets are very general. This notion can be traced back to Becker (1964) who noted that employee training, like skills, can either be general or specific. If training is general, i.e. valued by firms in the broader labour market, recipient employees will act opportunistically and seek to capture the full value of this training either through leaving the training firm for another firm willing to pay higher wages or through negotiating for higher wages with the training firm (Heimer, 1986; Lynch, 2000; Oatey, 1970; Stevens, 1994a). Similarly, labour market competitors will seek to cherry-pick or poach employees with general skills (Gardner, 2002). The costs associated with these opportunistic threats can be quite high. In addition to the costs of recruiting, hiring and orienting replacements there are costs associated with the lost productivity while replacements are brought into the organization and the lost returns from formal and on-the-job training invested in lost incumbents (Cascio, 1991; Lynch, 2000; Thomas et al., 1969). Thus firms managing employees with highly transferable skills face the possibility of opportunistic actions of the individual employees and the potential competitors in the labour market.

Figure 1 illustrates how firm specificity of skills affects the likelihood firms will either internalize or externalize the employment relationship. As illustrated in the figure, firm specificity and generality of skills act as contravening forces in the firm’s choice to employ or rent employees (Bridges and Villemez, 1991). The greater the generality of the skills the greater the likelihood the firm will externalize the employment relationship.

Highly General Skills

A

Increased likelihood firm will externalize the employment relationship

B

Increased likelihood firm will manage employees using an HR alliance

C

Increased likelihood firm will internalize the employment relationship

Highly Specific Skills

Figure 1 Impact of generality/specificity of skills on firms’ decision to internalize or externalize the employment relationship
The greater the firm specificity, the greater the likelihood the firm will internalize the employment relationship. TCE would suggest these countereacting forces would result in the use of alliances to manage employee groups with nearly equal components of firm specific and general skills. Section B in Figure 1 illustrates this type of skill composition.

Two examples illustrate this dynamic. Biotechnology firms will frequently form alliances or joint ventures with other biotech firms to undertake fundamental R&D activities. Such activities are too costly or too sensitive merely to contract out yet may involve activities that do not fit with core competencies for either firm (Barringer and Harrison, 2000). Similarly, Boeing has established co-operative arrangements with Japanese aircraft manufacturers because merging would be unwieldy and a pure market relationship would involve excess asset specificity risks neither party is willing to undertake (Contractor and Lorange, 1988). The proposition below summarizes firms' propensities to form HR alliances.

Proposition 2: The proportion of firm specificity and generality of a group of employees' skills interact to affect the likelihood a firm will use IORs to manage them. The closer the employees' skill set is to being composed of equal proportion of firm-specific and general skills, the greater likelihood the firm will use an alliance to manage them. As the composition of the skill set includes a greater proportion of either general or firm-specific skills, the lower the likelihood the firm will use an alliance to manage them.

Factors influencing the likelihood of a firm forming an alliance to manage human resources

The decision to form any type organizational alliance is a complex process affected by a number of environmental and organizational contingencies (Barringer and Harrison, 2000). The factors that affect the likelihood of a firm engaging in co-operative strategies to manage human resources are the supply of human resources in the external environment, the volatility in the demand for an organization's products and services, and the size of the organization. The following sections develop theory and specific hypotheses that explain why a firm may be inclined to form an inter-firm partnership to manage human resources.

Scarcity of human capital

Since organizations are unable to internally generate all the resources necessary to survive and grow, they must engage in exchanges with environmental elements to secure necessary resources. Organizations thus depend on the external environment for information, human resources, money, physical resources and customers (Aldrich, 1979; Barringer and Harrison, 2000; Van de Ven, 1976). Organizations facing scarcity or uncertainty in the supply or quality of a critical resource will seek to change the internal demand for the resource or attempt to influence the external environment (Pfeffer and Salancik, 1978). Internal responses to shortages of persons with needed skills include adjusting human capital requirements by changing technology (Cappelli, 1999), investing in the training of currently employed workers (Stevens, 1994b), instituting apprenticeship programmes (Ryan, 1980) and utilizing labour market intermediaries such as temporary service firms (Abraham, 1990; Pfeffer and Baron, 1988). Actions directed towards influencing the external environment include attempting to influence the quality of training provided by educational institutions.
Gardner: Human resource alliances

(Kariya and Rosenbaum, 1995), increasing recruiting efforts and increasing wages to attract a more steady supply of necessary workers (Rynes and Barber, 1990). Resource scarcity/uncertainty may also prompt organizations to form co-operative agreements with other organizations (Oliver, 1990; Pfeffer and Salancik, 1978; Van de Ven, 1976). Thus it is expected that under conditions of low unemployment firms will form HR alliances to improve their access to needed skills.

Proposition 3: Firms are more likely to initiate IORs to manage human resources when there is a shortage of people with necessary skills in the external labour market.

Volatility in demand for an organization's products or services

Resource dependency theory suggests that organizations facing uncertainty or volatility in the supply of necessary resources will form IORs to stabilize or absorb the uncertainty (Alter, 1990; Oliver, 1990; Auster, 1994). Uncertainty in the supply of human resources is most commonly manifest as volatility in the demand for employees forcing firms continually to hire and release employees into the open labour market. The cycle of hire and release of employees is usually the result of non-trivial volatility in a firm's revenue stream as a result of either the stochastic or seasonal demand for an organization's products and services (Schuh and Triest, 2000). Stochastic or seasonal product demand may require firms to absorb these fluctuations through the use of lay-off/recall cycles and/or utilizing labour market intermediaries to handle the fluctuating demand for employees. To avoid developing a poor reputation in the external labour market and to maintain better relationships with core employees, firms frequently choose to fill cyclical positions with contract or temporary employees (Abraham, 1990; Davis-Blake and Uzzi, 1993; Mangum et al., 1985).

Davis-Blake and Uzzi (1993) found that jobs with firm-specific skills were less likely to be filled with temporary employees. The authors interpret the findings that employment variability increases the use of temporary employees and firm specificity of skills decreases the use of temporary employees as evidence confirming what has been suggested by other scholars: core employees are managed through the use of stable internal labour markets and non-core jobs are more likely to be managed through contractual arrangement (Abraham, 1990; Baron and Beilby, 1980). What is left unanswered by this and related studies is the tactics firms will use when there is employment volatility for jobs with employees with a non-trivial component of firm-specific skills. The transaction cost paradigm suggests that repeating the process of recruiting, selecting and training employees at each lay-off/rehire cycle would force firms to exclude such employees from lay-offs and rehiring and maintain their employment within the internal labour market. Resource dependency theory would suggest firms seek to maintain the flexibility to adjust to stochastic or seasonal employment variability by maintaining a contingent workforce in such jobs. A third option, particularly appropriate when both market-mediated and hierarchical employment relationships are costly, is to use human resource alliances to facilitate the management of such employees under conditions of employment variability.

Thus, while it is expected that it is somewhat uncommon to use IORs to manage employees, firms with volatile product or service demand will be more likely to manage employees with this arrangement than firms with more stable product demand.
Proposition 4: Firms with stochastic or seasonal demand for products or services are more likely to use IORs to manage employees than firms with more stable product or service demand.

Firm size

The average size of American firms grew substantially from the late 1800s to the 1980s (Loveman et al., 1990). Correspondingly, there has been an enormous shift in the proportion of US employees working for larger firms. However, the size of the establishments where employees perform their work has changed little since the beginning of the twentieth century. Over the last 100 years, approximately 70–90 per cent of all employees have been employed in establishments with 100 or fewer employees (Granovetter, 1984). Furthermore, in the last fifteen years there has been a steady growth in the number of smaller service and manufacturing firms (Loveman et al., 1990). Small firms face human resource challenges different from large firms that warrant theoretical and empirical investigation.

Smaller firms and establishments face greater challenges than larger firms in hiring, managing and retaining employees. These challenges may increase the likelihood that small firms relative to large firms will use IORs to manage employees. The reasons for the increased use of these techniques among small firms include less organizational slack, higher costs of training and the higher risks associated with training.

The first reason small firms and establishments may be more likely to use IORs is addressed in the previous section. Small firms are more likely than large firms to have stochastic or cyclical demand for employees. In addition, small firms are less likely to have the organizational slack to protect employees from temporary downturns in the demand for products and services (Schuh and Triest, 2000; Winter-Ebmer, 2001). Use of IORs may be a means to protect against the skill losses associated with lay-off/recall cycles.

One of the key factors driving the growth in the number of smaller firms is the rapidly changing product and service demands of business and individual consumers. On a per employee basis, small firms must make investments in employee development similar to those of large firms in order to respond effectively to these trends (Loveman et al., 1990). Training and developing employees involves a number of fixed costs, including the costs of developing the training, wages or fees for training staff, training materials, employee wages while participating in training and facility costs. Unlike larger firms, small firms cannot spread these fixed costs over a large group of employees, making the per employee cost of training much higher (Lynch, 2000; Schiller, 1983; Westhead and Storey, 1996). This cost differential increases the likelihood small firms relative to large will engage in one particular type of alliance, collaboration in the development and delivery of employee training (Bosworth, 2000). The primary benefit of these co-operatives is to reduce the fixed costs of training but, as will be discussed below, they may also reduce the risks associated with training.

In addition to greater fixed costs, small firms face greater risks than large firms when making investments in employee training and development. As discussed above, all employers who invest in employee training and development risk losing their investment to employees who negotiate for wage increases commensurate with increases in skills or risk losing their employees to labour market competitors who poach trained employees to avoid the costs of training (Becker, 1964; Schiller, 1983). Large firms are able to reduce these risks through the use of employment practices that encourage retention. Known as ‘internal labour markets’, these practices include higher wages, work rules protecting employee rights, promotion ladders, discrete job groups, generous fringe benefits and
policies that favour promotion and transfer from within (Althauser, 1989; Jacobs, 1994; Lynch, 2000; Schiller, 1983).

Small firms are less likely to have the financial or organizational resources to offer the wages, benefits and work opportunities offered by larger firms (Lynch, 2000; Pfeffer and Cohen, 1984; Schiller, 1983). Human resource alliances may offer small firms an alternative to internal labour markets for reducing the risks associated with employee training and development. HR alliances can reduce these risks in at least two ways. First, employers who participate in training consortia are much less likely to attempt to hire each other's employees. Beyond the trust and co-operation that develop among firms in IORs (Ring and Van de Ven, 1994), training co-operatives provide all participating employers with a pool of similarly trained employees, lessening the need to recruit from labour market competitors (Filipczak, 1994; Silverstein, 1997).

Second, HR alliances can function as quasi-internal labour markets protecting employees from external labour market competition (Bills, 1987; Cappelli, 1999; Jacobs, 1994). Like ILMs, inter-organizational relationships used to manage employees may offer: (1) a variety of work experiences; (2) incentives to stay with the alliance of firms; and (3) systematic promotion and development opportunities. IORs allow small firms to offer the developmental and economic opportunities to compete for talent against their better endowed rivals.

Proposition 5: Small firms are more likely to use HR alliances to manage employees than medium or large size firms.

Factors that affect a firm's choice of partner(s) in forming an alliance to manage human resources

The previous section outlined a set of factors that may affect a firm's propensity to use IORs to manage human resources. If a firm chooses to engage in co-operative activities, they must find a partner or partners with which to collaborate. The broader alliance literature suggests at least two factors, one economic and one non-economic, that may affect a firm's choice of partner in collaborating to manage human resources (Saxton, 1997). First is trust. Although trust is usually considered a factor affecting interpersonal relations, firms engage in preferential, stable relationships that imply trust between super-individual entities (Gulati, 1995a). Firms are more likely to partner with other firms to manage human resources when there is trust between the two entities. The second factor is what is known as domain similarity. Broadly defined, domain similarity is the degree of operational and resource similarity between firms (Van de Ven, 1976). A third factor, unique to human resource alliances, is geographic proximity to potential partners. The sections that follow explore these propositions in more detail.

Trust

Inter-organizational relationships, whether a joint venture, a learning alliance, supply agreement or collaborative arrangement to manage human resources, are risky. Partners may have different goals for the arrangement, their original goals may change, they may behave opportunistically by securing more benefits than other partners or they may free-ride and offer less than equitable contributions (Gulati, 1995b). As discussed previously, inter-firm collaborations to manage human resources frequently involve moving employees across partners' organizational boundaries. Thus, the greatest risk of these types of partnerships is that a partner firm will offer long-term employment to the shared employee(s) rather than return them to their original employer. An alliance participant that
loses employees potentially loses the training and development investments and trade or company secrets (Flynn, 1998; Schiller, 1983). If the poaching partner is a product market competitor, their gain of a valuable employee is a competitive loss to the employee’s original employer (Gardner, 2005). Another risk is that one or more partner firms may not reciprocate in providing benefits or may refuse to reciprocate at a critical time. For instance, if two seasonal firms agree to share employees during slack work cycles, one firm may decide not to transfer their employees temporarily, forcing the alliance partner to hire necessary employees from the spot market. Trust between potential partners can reduce the riskiness of these types of collaborative relationships (Gulati, 1995b).

Trust in the alliance literature is conceived as the expectation that one’s exchange partner will not act opportunistically (Gulati, 1995a). This expectation, or trust, emerges through prior inter-firm interactions or relations between key managers of the participating firms (Gulati, 1995a; Ring and Van de Ven, 1994). First, through repeated interactions among firms or managers, each party to the interaction builds knowledge about the partner’s reliability and propensity to act opportunistically (Saxton, 1997). Second, a series of interactions can result in friendships among the persons who span organizational boundaries and/or trading relationships between the two organizations. Thus, parties with a history of positive interactions may be able to sanction one another interpersonally or through breaking off other ties, further deterring the likelihood of opportunistic behaviour (Gulati, 1995a, 1995b).

Although the role of trust has not been explored with human resource alliances, the great potential for opportunism and free-riding would suggest firms will not collaborate in these activities unless they have information about their partner’s past opportunistic behaviour and/or the ability to sanction them for non-collaborative behaviour.

**Proposition 6:** Firms are more likely to choose partners for inter-firm management of human resources if there is a previous history of positive interaction between the two firms and/or a previous history of positive relations between members of the top management team.

*Domain similarity*

Case and empirical studies have demonstrated that firm diversification and acquisitions are more successful when the new business is similar to the core business in terms of technology, products and culture. Scholars suspect the similarity—success relationship is due to managers’ better understanding of the new business operations and improved decision-making with similarly structured firms and similar organizational cultures (Porter and Fuller, 1986; Saxton, 1997). Similarity may allow firms contemplating forming an alliance to evaluate the risks and opportunities of alliance partners better (Saxton, 1997). To date, there has been only one empirical test of the similarity hypothesis under this theoretical perspective for collaborations between firms. Saxton (1997) showed that similarity was unrelated to alliance outcomes and had a mixed relationship with the initial satisfaction of alliance partners.

Although there is a lack of strong empirical evidence, these findings suggest domain similarity is likely to play an important role in a firm’s choice of collaborators to manage human resources. Firms collaborate when they each have resources the other needs or when combining resources results in synergistic gains (Doz and Hamel, 1998; Faulkner and De Rond, 2000; Gulati, 1998). For employers to collaborate by sharing employees (horizontally or vertically) or offering joint training, there must be strong similarity in the skills of the firms’ employees and similarity in the timing of the need for the employees’ skills.
For all three types of HR collaboration arrangements, co-operating firms must have substantial overlap in the skills of their respective pools of employees. For example, the agricultural producer Duda and Sons shares summer picking crews with other growers that require fall picking crews. Although there are a number of growers that have compatible growing seasons for employee sharing, Duda’s core employees are tree pickers, limiting potential collaborators to growers with fall tree picking needs (i.e. apples) (Laabs, 1993). If firms plan to work together to fund and offer joint training, the participating firms must have employees with similar current skills and similar skill development needs for the collaboration to be useful for all participants. As these examples suggest, firms are more likely to collaborate in the management of human resources with firms where the skill sets of employees overlap.

HR collaborations also require either a high degree of synchronicity or asynchronicity in the timing of the needs of employees. For firms vertically or horizontally sharing employees, collaborating firms’ needs must be asynchronous. Employees can only be in one place at a time, thus firms are likely to partner with firms whose need to loan out employees temporarily coincides with firms needing to borrow employees temporarily. A good example of this similarity is the Duda and Sons company mentioned above. After the summer harvest, Duda does not need its picking crews until the following spring and can easily loan employees to growers with late summer and fall picking needs (Laabs, 1993). Summer and winter tourist resorts are also known to share employees (Frazee, 1996). Asynchronicity is not limited to seasonal sharing. Collections of firms that have formed manufacturing or service networks will temporarily share employees with other firms as matching opportunities are identified (Bosworth, 2000).

Unlike employee-sharing arrangements, training collaborations require synchronicity in labour usage and needs for employee development. Collaborating firms must need skill improvements at similar times and must be able to take employees away from their positions at similar times. A good example of this is a regional group of manufacturers that joined together to offer training for machine operators. All participating firms were constantly hiring new workers and thus had synchronous needs for employee training and development (Bosworth, 2000).

Proposition 7: Domain similarity plays an important role in determining a firm’s choice of partners for collaboration in the management of human resources. Firms are more likely to choose firms with which to collaborate when there is a high degree of overlap in the skills of the firms’ pools of human capital. Firms are more likely to choose employee-sharing partners whose labour needs are asynchronous and are likely to choose partners for joint training and development when labour and skill development needs are synchronous.

Geographic proximity

Human resource alliances involve firms engaging in concurrent or sequential activities to manage employees. Actual people must move back and forth across organizational boundaries or meet at a common location for common training. The cost and difficulty of temporarily or permanently relocating employees would suggest that firms are more likely to partner with firms in their own geographic vicinity than firms outside their vicinity. Anecdotal evidence supports this assertion. Of the examples of human resource IORs reported in the public domain, almost all involved collaboration between
employers in the same geographic area. Exceptions included the WearGuard–Cross Country alliance, which used technology to route calls to each others’ phone service employees (Dowling, 1997), and Duda and Sons, which transported their fruit pickers to other growers several states away (Frazee, 1996).

Proposition 8: Firms are more likely to collaborate in the management of human resources with proximal firms than non-proximal firms.

Concluding discussion

The factors that influence the propensity of firms to manage employee groups using HR alliances deserve further systematic study. A number of scholars have noted that the level of knowledge about a particular phenomenon should determine the type of research design (Wallace, 1983). As we know so very little about human resource alliances I will propose a variety of research designs to examine this practice.

At the lowest level of knowledge about a phenomenon, exploratory designs are most appropriate. This includes collecting articles from the business press, talking with persons familiar with the phenomenon and reading related research streams. These were the primary methods used to write this paper.

As knowledge about a particular phenomenon grows, cases studies become a useful tool for developing an understanding of the antecedents and consequences of the phenomenon. In one sense, case studies were used for this paper. However, all the examples cited drew information from press reports about HR alliances. Future case-study research should involve face-to-face interviews with human resource alliance participants. This should include the organizational members who founded the partnership, persons currently involved in administering the programmes, employees managed by the practice and top managers who fund and support the alliance activities. It would also be important to collect archival data other than newspaper reports. Sample alliances could be identified through press reports or through informal surveys of human resource or business associations.

Following case studies, Wallace (1983) suggests taxonomic research designs. Such research designs can serve a number of purposes. First, the three archetypes of HR alliances described in the paper above emerged from a grounded theory-type analysis of a large number of press reports of HR alliances (Strauss and Corbin, 1990). Extensive case studies, additional qualitative and quantitative research methodologies will serve to validate and improve on this classification system. Taxonomy-type research can also be used better to define the variables that predict and describe HR alliances. Take, for instance, opportunism. Presumably there are a finite number of ways in which partners to an HR alliance can act opportunistically. Case studies and surveys of HR alliance founders and administrators can define this concept in more depth and make it easier to measure in future quantitative research. Many of antecedent variables outlined above would benefit from taxonomic-based research methods.

The next appropriate stage of inquiry into HR alliances should be descriptive research. The data on the percentage of firms currently in HR alliances or considering forming such an alliance is wholly inadequate as a foundation for quantitative or even qualitative research. At the most basic level it will be important to develop an understanding of how frequently this practice is used, by what type of firms (industry, size, geography, age, diversification) and the frequency of alliance type. These data could be collected by the inclusion of a few additional questions in the National Survey of Organizations (Kalleberg et al., 1996) or even in the broad-based SHRM surveys (Becker and Huselid, 1998).
The final stage of research appropriate for this phenomenon would be associative designs. The information collected in the previous steps combined with the propositions presented in this paper could be used to develop antecedent and consequence theories about HR alliances. The above set of questions used to study case-study research could be used to structure the development of these theories. Thus one study could examine the antecedent factors of HR alliances (type of employees, decision to form alliance, etc.) while another could examine factors that predict the consequences of these alliances (success of alliance, performance of participating firms). Although its focus was not HR alliances per se, Olson and Schwab’s (2000) study of the minor league baseball system demonstrated that firms that were early adopters of the innovation performed better than later adopters of the innovation. More broadly based research may show that HR alliances have tangible benefits for participating firms.

Managerial implications

This paper suggests several important implications for managers. First, managers should recognize the potential for HR alliances to improve the management, selection, retention and training of employees. The costs and risks associated with managing a workforce can be reduced through collaborative relationships with partner firms. Second, this paper identifies contextual issues practitioners may consider when deciding to form or continue an HR alliance. Companies faced with difficulties in finding employees or with layoff/recall cycles may want to consider the possibilities of an HR alliance. Finally, this paper provides managers with guidelines for choosing alliance partners. The role of trust cannot be overemphasized. Alliance partners may use such arrangements to screen and hire high-performing employees. Furthermore, if a partner fails to reciprocate in the expected manner, the benefits of the original arrangement may be lost.

The changing employment relationship and shifting organizational demographics are forcing firms to change their relationships with employees. This paper suggests that the shift is more complex than once supposed. Clearly firms are having to reduce the amount of job security they can offer their employees and correspondingly suffer a loss of human and social capital. Human resource alliances offer firms a means of reducing the risk of investments in employees and a way to build better relationships with their employees and competitors at the same time. These trends make it increasingly important to develop and test theory to explain the antecedents and consequences of this new and interesting form of human resource management.

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