

**Revitalising industrial relations:
making the most of the “institutional turn”**

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Editors Foreword

The Warwick Papers in Industrial Relations series publishes the work of members of the Industrial Relations Research Unit (IRRU) and people associated with it. Papers may be of topical interest or require presentation outside of the normal conventions of a journal article. A formal editorial process ensures that standards of quality and objectivity are maintained.

Keith Sisson is Emeritus Professor of Industrial Relations at the University of Warwick and was formerly Director of the Industrial Relations Research Unit. He has written and published widely on the role of management in industrial relations and on the development of employment regulation in Europe.

In this substantial contribution to the series, he develops a series of reflections about the current theory and practice of industrial relations. A central task is to explore and synthesise a range of developing work on the role of institutions and how they condition corporate and employment relations. His argument culminates in the persuasive suggestion that ‘governance’ of the employment relationship should replace ‘regulation’ as the central focal point of our subject. The intention is to stimulate debate and to renew confidence in the conceptual and empirical contributions made by industrial relations scholars. It should be read with interest by academics, policy-makers, and practitioners alike.

Trevor Colling

Preface

This paper takes the form of a series of overviews and commentaries dealing with the institutional ‘turn’ in economics, politics, psychology and sociology. My aim is not to produce a detailed scholarly review of the institutional literature. Rather it is to share some thoughts on the potential benefits for the study of industrial relations of a number of recent contributions. In particular, I highlight the concepts and perspectives that I believe could help to enrich our ability to analyse and explain the causes and effects of the institutions with which industrial relations is centrally concerned. I also discuss the implications for issues that have tended to bedevil the subject, i.e. its analytical focus and the nature of and role for theory.

The paper, which is intended to be accessible and relevant to members of the policy community as well as colleagues who teach and research in the area, has its origins in an on-going project that I’ve labelled *Employment relations matters*. The title captures the double intention: to demonstrate the ways in which employment relations *matters* and to bring people up to date with *the matters* that the subject deals with. I decided early on to have two chapters on institutions dealing with, respectively, why institutions in general are important and which institutions in particular are important, i.e. work organisation, the structure of collective bargaining and the legal framework. I started by doing my best to bring myself up to date with the recent literature on ‘institutionalism’. The more I read, the more I reflected on the irony that I discuss at the beginning of the paper. At a time when some people appear to want to bury ‘institutions’ in industrial relations, many in the traditional disciplines have been emphasising or re-emphasising their importance.

Further encouragement to develop this theme came with the publication of Paul Edwards’ *Warwick Paper in Industrial Relations* No 80 on ‘Industrial Relations and Critical Realism: IR’s Tacit Contribution’. Here Paul develops the argument that a more explicit acknowledgement of its institutionalist heritage, coupled with a clearer recognition of the relevance of the critical realist approach, would help to confirm industrial relations’ status as a field of study. I very much share these sentiments.

An outline of the paper was presented to an Industrial Relations Unit seminar in January 2007. I'm grateful for the comments and helpful suggestions received there. I'm especially grateful to those colleagues who commented on a first draft of the written version of the paper, namely Deborah Dean, Paul Edwards and Paul Marginson, and to the editor and colleagues who refereed and commented on the final version.

Keith Sisson

Revitalising industrial relations: making the most of the “institutional turn”

Introduction

The decline in trade union membership and the reduction in the coverage of collective bargaining in the UK in recent years have had a significant impact on industrial relations teaching and research as well as policy and practice in the area. Apparently, the institutions of collective bargaining, which were a common focus for analysts, practitioners and policy makers alike, are nowhere near as permanent and therefore important as people thought they were. The impact, judged by some recent contributions, is a general lack of confidence in the subject and considerable uncertainty about future directions (see, for example, Ackers and Wilkinson, 2003). Some commentators have gone further and drawn the conclusion that talk of ‘institutions’, along with ‘power’ and ‘negotiation’, is old hat. In Emmott’s (2005: 23) words, such language has ‘echoes of a historical era that offers few insights into contemporary issues or practice’. ‘Institutions’ get in the way of flexibility. ‘People problems’ such as low morale and commitment are a matter of individual attitudes. Their resolution lies in motivation campaigns and managers’ leadership styles rather than remedying any lack of legitimacy accorded to workplace institutions.

The irony is that, at a time when some appear to want to bury ‘institutions’ in industrial relations, others in the traditional disciplines have been emphasising or re-emphasising their importance. In recent years the so-called ‘institutional turn’ - the phrase is used, among others, by Jessop (2001) - has affected economics, politics, psychology and sociology. Moreover, this interest is not just confined to developments in comparative political economy with which industrial relations scholars have tended to associate the ‘new institutionalism’ (see, for example, Godard, 2004; Heery, 2005). There have been major contributions embracing subjects as varied as organisation structure, economic

development, macroeconomic policy, public management reform and the politics of the EU. For example, there is no serious discussion of macroeconomic policy in the UK these days that fails to emphasize the critical importance of the institutional arrangements involved in the operation of the independent Monetary Policy Review Committee set up in 1997 with a remit to set interest rates within clearly prescribed rules.

Equally important, the focus on institutions has begun to encourage wider cross-disciplinary debates as scholars have found themselves grappling with not dissimilar problems. This has led some to express the hope that ‘such a conversation might lead to a re-conciliation and perhaps a new and more unified approach for studying institutions’ (Campbell, 2004: 4). The talk is also of ‘post-disciplinary’ rather than ‘inter-disciplinary’ or ‘multi-disciplinary’ approaches to understanding social and political phenomena (see, for example, Hay, 2002: 256-7).

Immediately relevant is that a number of these contributions have significant implications for the study of industrial relations. In particular, I believe that they:

- confirm the fundamental importance of the subject matter with which industrial relations is centrally concerned, namely the employment relationship and the institutions dealing with it
- offer a potentially rich harvest in terms of language, concepts and approaches that could help to enrich industrial relations’ ability to analyse and explain the causes and effects of these institutions
- help to resolve the issue that has sapped industrial relations’ confidence and drained its energies, i.e. the nature of and role for theory
- point in the direction of the robust analytical focus that industrial relations has arguably been lacking, i.e. the ‘governance of the employment relationship’, with significant implications for policy as well as teaching and research

- present opportunities to contribute to the wider debate on institutions, which would help to broaden the subject's appeal as well as sharpen its analytical content.

The paper that follows expands on these points. It is in two parts. In the first, I briefly deal with the misunderstanding that some appear to have about institutions in industrial relations. In the second I highlight the contributions arising from the institutional 'turn' that I believe could help to enrich our ability to analyse and explain the causes and effects of the institutions with which industrial relations is centrally concerned.

Part 1 Institutions and industrial relations

No 'end of institutional industrial relations'

There are references in the industrial relations literature to the 'end of institutional industrial relations' (see, for example, Purcell, 1993). Just in case there is any doubt, however, this does not mean that industrial relations runs out of the things to study, let alone that institutions are no longer important¹ - what is being talked about is a decline in collective bargaining. As Edwards (2003) and Martin (2003) remind us, even in collective bargaining's heyday in the UK, pioneering figures such as Flanders (1970) and Clegg (1979) defined industrial relations widely in terms of the study of the institutions or rules dealing with employment. An 'institution', in the words of the Concise Oxford Dictionary, is an 'established law, custom, or practice'. If a more detailed definition is required, the Penguin Dictionary of Sociology (Abercrombie et al., 2000: 180) suggests that 'institution' is 'a term widely used to describe social practices that are regularly and continuously repeated, that are sanctioned and maintained by social norms, and that have a major significance in the social structure'.

¹ As Kaufmann (2003; 2004a) makes clear, the situation is different in the USA. The wider definition of industrial relations predominated until the beginning of the 1960s. In 1928, for example, the Social Science Research Council published a comprehensive report entitled *Survey of Research in the Field of Industrial Relations*. The report states (p. 23, emphasis in original), "The focal point of the field is *the employee-employer relationship*." Since the 1960s, however, the subject has tended to be equated with trade unions and collective bargaining, despite the efforts of Kaufman, Kochan (2000) and others to argue otherwise.

In other EU countries the situation is different again. 'Industrial relations' rarely has the organisational presence that it has in the UK and USA, the subject matter being taught and researched from traditional discipline departments, notably law and sociology. Its widespread coverage, reflecting the legal framework, means that collective bargaining almost invariably tends to be a major focus.

On these definitions, institutions are the stuff of work organisations, the provisions of collective agreements and legislation being but the tip of the iceberg. The conduct of the employment relationship entails a hierarchy-based structure in which some (managers) make rules and others (employees) are expected to obey them. There are institutions that deal with the organisation of work, i.e. job design, the grouping of jobs into activities and the structures used to co-ordinate these activities. There are institutions that deal with recruitment and selection and training and development. There are institutions that deal with 'performance management', i.e. the type of payment system and the level of wages, the working time arrangements, the disciplinary arrangements and so on.

In each of these areas, there can also be informal as well formal rules. Not only do the informal norms and expected patterns of behaviour of work groups typically sit alongside the formal rules. There can also be a mix of formality and informality in the administration of the rules. Formal rules, for example, may be interpreted very differently from one unit to another in the same workplace – there may even be an informal rule that the formal rules will be ignored by managers and employees alike. In Edwards' (2003: 14) words, a rule or institution 'can comprise beliefs, ideologies and taken-for-granted assumptions as well as formal provisions of rights and obligations'².

² A fair question that one colleague asked is whether there are any clear-cut boundaries to the institutions with which industrial relations concerns itself – whether, in other words, there are institutions or rules involving the employment relationship that would not be included. My answer is that I cannot think of any whose exclusion would not be unduly restricting. Take the attempt of Streeck and Thelen (2005: 10-13) to impose such boundaries in studying institutional change in areas such as social policy or financial regulation. While recognising the need to take into account the significant amount of 'play' in the rules that actors are expected to follow as a result of 'everyday implementation and enactment', they define institutions as 'formalised rules that may be enforced by calling upon a third party', the latter's involvement indicating whether or not a rule has legitimacy. They get to this position by arguing that it is not the *obligatory* character of rules that defines them as 'institutions'. Rather it is that actors are *expected* to conform regardless of what they would want to do on their own. Moreover, such expectations are held not just by the actors directly affected, but by society as a whole.

Applying such thinking to industrial relations would mean that the rules in collective agreements and legislation would be covered; the rules that managers make in their capacity as 'agents' of the employer might reasonably be included as well. But work group norms and 'custom and practice' would not - the authors regard the sanctions available to enforce such norms as 'strictly informal'. Also excluded would be what the authors refer to as 'shared scripts' (i.e. understandings), where there is 'no gap between institution and behaviour'. Yet it is precisely the omission of these 'informal social processes' that some critics complain about in many existing industrial relations texts – these processes are regarded as being especially

If anything, recent years have witnessed a considerable increase in institutions dealing with the employment relationship in the UK. Not only has there been a swathe of largely EU-inspired individual employment rights, bringing in their wake a sizeable framework of employment tribunals and equality commissions. UK management, despite the high profile campaign against the 'burdens of regulation', has also been very actively adding to the stock. Especially noteworthy are arrangements for appraisal and target-setting, together with individual performance pay and share option schemes for senior executives (see Kersely et al, 2006: 87-9, 190-93). Supposedly, today's 'knowledge organisation' 're-engineered corporation', 'network organisation', 'boundary-less company' and the like bring greater individual initiative and local autonomy (Sparrow and Copper, 2003: 6-10). Yet, because of the nature and extent of the targets built into performance management systems, many employees complain that they have less discretion than they used to (Gallie et al., 1998; Worsely and Moynagh, 2005).

There has also been considerable emphasis on the cognitive dimension of institutions, i.e. Edwards' 'beliefs, ideologies and taken-for-granted assumptions'. The main vehicle for this has been the 'psychological contract'. In the Chartered Institute of Personnel Development's (2007) words, 'The psychological contract ... may be more influential than the formal contract in affecting how employees behave from day to day.

Why institutions are a major focus of industrial relations study

This brings me to the reason why institutions are a major focus of industrial relations study. Put simply, it is because institutions give effect to the employment relationship. There is a measure of consensus in the industrial relations literature about the *generic features* of the employment relationship (see, for example, Edwards, 2003; Blyton and

important in understanding key issues such as the gendering of work organisation (see, for example, Greene, 2003).

Turnbull, 2004; Kelly, 2005)³. As this summary suggests, it is a multi-dimensional concept involving both *market* and *managerial* relations:

- The basis of the exchange is that employees receive wages and conditions in return for selling their labour or knowledge power to be used largely at the employer's discretion.
- The nature of the exchange is, by definition, indeterminate, continuous and contradictory, with cooperation and conflict being integral features.
- The process of the exchange is essentially political involving on-going negotiation (implicit as well as explicit) at individual (e.g. the 'psychological contract') and/or group level (i.e. collective bargaining) against the background of an unequal power relationship.

The generic features of the employment relationship do not exist in a vacuum, however. They are embedded in institutions and it is these that help to explain why conduct of the employment relationship can differ from one occupation and workplace to another. A commonly employed distinction is that between 'contract' and 'status' (Streeck, 1987; Edwards, 2003). Employment relationships based on 'contract' are very close to short-term labour services agreements. Indeed, the activities involved are very often the ones that are subcontracted. Those based on 'status' involve the employee being seen more as an investment over the longer term. International differences are also fundamental. In general, the conception of the employment relationship in the UK and USA approximates more closely to that of contract, whereas in France and Germany that of status is more influential (see, for example, Block et al., 2005; Roehling, 2005).

Institutions are not studied just for their own sake, however. Rather it is because, to borrow a phrase from Part 2, they are the 'rules of the game' linking practice and performance. In formal terms, the institutions involved in the employment relationship

³ As Ackers (2005) suggests, if there is a division of opinion, it largely turns on the balance between 'institutionalism' and 'materialism', more of which later.

are both a dependent variable and an intervening or mediating one. This means that they have both causes and consequences – from individuals through organizations to national governments. Studying the causes of institutions gives us the opportunity to capture the impact of different interests and the compromises that are struck between them, while assessing the consequences directs attention to such key issues as the quality of working life and its implications in terms of health and safety, personal development opportunities, the family and the development of social capital (Coats, 2004); organizations and business performance (Ashton and Sung, 2002); and significant macroeconomic performance considerations such as the trade off between wages and employment and the links between inequality and productivity (OECD, 2006).

Part 2 Making the most of the institutional 'turn' ⁴

This part of the paper highlights the contributions arising from the institutional 'turn' that I believe could further help to enrich our ability to analyse and explain the causes and effects of the institutions with which industrial relations is concerned. It begins by looking at the two major perspectives on work organisations: the transactions costs and resource-based approaches. It follows with a discussion of the 'multi-level governance' to which EU developments have given rise. It goes on to consider some of the key 'institutional' concepts followed by a review of the major change issues institutionalists are grappling with. It concludes by discussing the implications for the nature of and role for theory in industrial relations and its analytical focus.

Some colleagues may find the choice of issues here more wide-ranging than they were anticipating. The reason is that the 'new institutionalism' is far from being a single strand.

⁴ Although rarely mentioned in the recent literature, 'institutionalism' has a long history that can be traced back to the German historical school of the 19th century (Jacoby, 1990; Hodgson, 2006). It was especially influential among economists in the USA in the first half of the 20th century, being associated with such figures as Commons, Hamilton, Hoxie, Mitchell and Veblen, some of whom, notably Commons, had a very considerable impact on the early development of industrial relations in that country (Kaufman, 2003). In many respects, it was close to today's sociological and historical institutionalism: a common core included an emphasis on custom and culture, the idea that institutions can be reconstitutive of individual preferences and actions, the importance of knowledge and other intangible assets in operating processes and an emphasis on policy relevance.

Indeed, the variety of perspectives is increasing, reflecting the cross-fertilisation taking place. Keeping things to a minimum, it is possible to identify no fewer than three main tendencies or schools and these are far from being self-contained: 'rational choice', 'sociological' (sometimes referred to as 'organisational') and 'historical' (see, for example, Campbell, 2004 Hindmoor, 2006; Schmidt, 2006⁵). I briefly summarise them here so that the later discussion does not become too congested in trying to incorporate the different starting points.

It is not unfair to suggest that there is a measure of agreement about the definitions of institution, which are consistent with those quoted earlier. Both formal and informal institutions are also covered, with the 'sociological' tendency in particular emphasising the cognitive or 'second nature' dimensions of many institutions. Most importantly, all three emphasise the importance of institutions as 'rules of the game', which not only constrain but also enable social actors in their activities. In Campbell's words (2004: 1), 'Institutions are the foundation of social life ... [they] help determine how people make sense of their world and act in it'.

The fundamental differences between the three tendencies also need to be borne in mind. These mainly revolve around the relationship between actors and institutions and reflect the different disciplinary roots. 'Rational choice' institutionalism reflects its origins in economics and 'methodological individualism'. Actors are assumed to have standardized and stable preferences defined by their personal or organizational self-interest. In Scharpf's (2000: 5) words, 'institutional rules are understood as external constraints and incentives structuring the purposeful choices of self-interested rational actors'. The logic of action is said to be one of 'instrumentality'.

⁵ Recently, Schmidt (2006) has suggested that a fourth school might be added, namely 'discursive institutionalism'. This goes beyond the increasing focus on ideas in the three quoted in emphasising the importance of the interactive processes of idea generation, deliberation and legitimation – 'who talks to whom about what when how and why' (Schmidt, 2006, 15). In a phrase, interests are constitutive 'of' ideas and discourse rather than 'by' them. She goes on, though, to recognise that, while good at explaining the dynamics of change, the approach risks appearing highly voluntaristic unless the structural constraints of the other three schools are included. Overall, she advocates exploring areas of mutual compatibility rather than promoting further fragmentation.

The approaches in ‘sociological’ and ‘historical institutionalism’ reflect their roots in organisational psychology, politics and sociology. Context is deemed to be profoundly important. The influence of institutions is seen as not just constraining and/or enabling actions, but also shaping individual preferences as well. This is especially true in the case of ‘sociological institutionalism’, where institutions are deemed to be constitutive or made up of ideas and cognitive frames of reference. In Scharpf’s (2000: 5) words again, ‘institutions ... define not only what actors can do, but also their perceptions and preferences - and thus what they will want to do’. The logic of action is said to be one of ‘appropriateness’.

These differences are also reflected in the treatment of organisations. In rational choice treatments, organisations are usually excluded from definitions of institutions. The ‘players’ have to be separated from the ‘rules’, in North’s (1990: 4) words, in order to maintain the notion of rational actors making decisions within an institutional environment. In ‘sociological’ and ‘historical’ institutionalism, there is not this clear-cut distinction⁶. Organisations themselves are viewed as structures of rules and rule-making processes. Furthermore, a community of interest is not necessarily assumed so far as these rules and the processes involved in their making are concerned.

Also affected are views about the ways in which institutions become embedded and diffused, topics considered in more detail in later sections. All three schools accord a key role to ‘path dependency’ in the embedding of institutions, albeit they highlight different mechanisms. ‘Rational choice’ institutionalists tend to emphasise the costs associated with change, while their ‘sociological’ and ‘historical’ counterparts highlight the role of vested interests in maintaining the status quo.

⁶Complicating matters is that, colloquially, the term ‘institution’ is very often applied to organisations. Streeck and Thelen (2005: 12) suggest that ‘organisations come to be regarded as institutions to the extent that their existence and operation become in a specifically way publicly guaranteed and privileged, by becoming backed up by societal norms and the enforcement capacities related to them’. Under this definition, trade unions and employers’ organisations would clearly be considered as ‘institutions’ as well as ‘organisations’.

Diffusion is also a key issue for the three schools. 'Rational choice' treatments tend to prioritise 'information contagion', 'feedback' and imitation in discussing diffusion. 'Sociological' and 'historical institutionalism' give weight to 'mimetic', 'normative' and 'coercive' processes. Learning also figures prominently.

Finally, there are significant differences in the level of analysis. 'Rational choice institutionalism' tends to focus on micro-analytic exchanges. At the other extreme, 'historical' institutionalism tends to be concerned with macro-analytic national political economies. 'Sociological institutionalism' might be said to come in between, emphasising notions of 'organizational fields' and 'populations'.

Perspectives on work organisations

There are two reasons for opening with perspectives on the work organisations. The first is that the workplace is where the employment relationship is enacted. The second, repeating an earlier point, is that the workplace has been relatively over-looked in the discussion of institutionalism in the industrial relations literature⁷.

Transaction costs – work organisations as governance structures

Although it draws on other disciplines, transaction cost economics (TCE)⁸ is firmly rooted in its parent discipline's basic assumptions of methodological individualism, rationality and efficiency. It is associated with two economists in particular. The first is Coase, who started the ball rolling with his 1937 article on the nature of the firm. The second is Williamson, whose 1975 *Markets and hierarchy* and 1985 *Economic institutions of capitalism* put TCE firmly on the map.

⁷A notable exception is the work of Ferner and his colleagues (see, for example, Almond and Ferner, 2006) on the employment relations behaviour of American multinational companies in Europe.

⁸TCE is not to be confused with the 'nexus of contracts' model of companies. This sees the organisation as little more than a 'vehicle for contracting' (Parkinson, 2003:48) for all the parties that might be involved in supplying the inputs it requires. Ownership is largely irrelevant. There is also no place for hierarchy or indeed authority relationships – employees are deemed to be obligated to perform only the activities specified in the terms of their contract.

The basic idea

In traditional economic approaches, the organisation is seen as a production function. It transforms inputs into outputs, but has little influence of its own. Indeed, such is its anonymity that the organisation has earned the label 'black box'. TCE sees the organisation as a 'governance structure' dealing with the 'handling of contractual relations' or 'exchange interfaces' (Williamson, 1985: 13,129). Its starting point is that costs are involved whenever a transaction takes place. These are incurred in securing information, e.g. about available buyers, sellers and prices; negotiating contracts; implementing contracts; monitoring contract performance; and enforcing contracts. 'Market' and 'hierarchy' are alternative governance arrangements for handling transactions. The former relies on the price mechanism with enforcement in the courts – the sub-contracting of labour services is an example. The latter depends on employment relationships and managers to manage them. Put simply, the choice between 'market' and 'hierarchy' depends on the extent to which complete contracts are possible, which largely boils down to the transaction costs involved in negotiating, drafting and, most critically, administering/ enforcing contracts. Key considerations are:

- the degree of uncertainty, complexity and availability of information making for 'bounded rationality', i.e. behaviour is 'intendedly rational, but only limitedly so' (Simon, 1961: xxiv).
- the extent to which there is a threat of 'opportunism' on the part of those making the transaction, i.e. a 'condition of self-interest seeking with guile' (Williamson, 1985: 30)
- the degree of asset-specificity or idiosyncratic investment involved in the object of the transaction - asset-specificity creates a 'small numbers problem' and so a potential bilateral monopoly situation
- the frequency with which the transaction is repeated

Other things being equal, the greater the uncertainty, asset specificity and frequency of transaction, the more difficult it is to regulate by contract because of the possibility of opportunism. In the case of labour services, the key to understanding the employment

relationship's prevalence over other forms of transacting is to be found in the 'need to regulate residual control rights and the impossibility of doing so by contract' (Wachter, 2004: 171). In these circumstances, according to Williamson (1975: 257), 'hierarchy' has a number of advantages, including encouraging 'the specialisation of decision making and economising on communication expense'; enabling 'additional incentive and control techniques to be brought to bear in a more selective manner'; and permitting 'interdependent units to adapt to unforeseen contingencies in a co-ordinated way'.

In a later expression of his views, Williamson (1985: 209) tackles head on the alternative explanation of managerial hierarchy to be found in the radical critique of Marglin (1974). This maintains that the division of labour famously portrayed in Adam Smith's pin making example was the result of a search not for a technological superior organisation of work, but one that guaranteed to the entrepreneur an essential role in the production process. Williamson's (1985: 232) disputes this. Following a comparison of a variety of different possible systems of work organisation, he reaffirms his conclusion that hierarchy is largely to be explained in efficiency terms – it leads to better product flow, task assignment and incentive attributes.

Two further sophistications of TCE are relevant. One relates to the different forms that the governance of the employment relationship can take. A key consideration here is the degree of 'human asset specificity'. In Williamson's (1985: 243) words, 'governance structures must be crafted more carefully as the degree of 'human asset specificity' increases', i.e. where there is a considerable amount of specific learning and both employer and employee have an interest in maintaining the continuity of the relationship.

The other sophistication brings in the form of the hierarchy. TCE holds that a number of major developments in organisation structure are consistent with its principles such as the distinction between line and staff management, forward integration by manufacturers into distribution, and the emergence of the conglomerate and multinational forms of corporation. Perhaps most important, though, is the emergence of the widely adopted multi-divisional (M-form) structure, along with a shift from management by task to

management by performance with budgets and targets. Reserving strategic decisions for head quarters reduces infighting over the resource allocation process, while keeping operating decisions at divisional level relieves the communication load. Internal auditing and control techniques to which the general office has access permit fine tuning controls to be exercised over the operating parts (Williamson, 1985: 296).

Commentary

TCE has had a very mixed reception in the industrial relations literature. There is no mention in the standard industrial relations textbooks such as Edwards (2003) and Blyton and Turnbull (2004), reflecting wide ranging criticisms in the 1990s⁹. Some authors, by contrast, have gone to the opposite extreme, going so far as to suggest that TCE offers the basis of an integrated framework for understanding industrial relations issues (see, for example, Kaufman, 2004b and Marsden, 1999; 2004)¹⁰.

⁹TCE is criticised for sharing many of the weaknesses of rational choice institutionalism and the mainstream economics theorising that underpins it. The approach is deductive, with hypotheses being derived from theoretical assumptions grounded in 'methodological individualism', rationality and self-interest rather than empirical enquiry. Crucially, there is no place for considerations of 'power' and a reluctance to accept that employers/managers may be motivated by control as well as efficiency objectives. Context is also ignored. Overall, it difficult to falsify, encouraging a tendency to self-fulfilling arguments – if something exists, there is a tendency to assume that it must be efficient (for further details, see Edwards, 1990; Grimshaw and Rubery, 2003; Marginson, 1993).

¹⁰The main problem here is that the very micro-analytic approach and quest for parsimony means that TCE has little to say about many of the issues with which industrial relations concerns itself. One is the role of the state and its agencies. Marsden (1998:6), who has attempted to build a theory of employment systems on the basis of TCE, explains that this role is not considered for two reasons: it is difficult to model the kind of institutions that would develop 'when firms and workers are left to free to devise their own solutions in a decentralised way'; and the state is 'not really an independent actor and its influence is only partly exogenous'. Yet it is precisely because the mix of 'private' and public' rule-making is so distinctive that the role of the state cannot be excluded.

Also, although TCE offers a very plausible explanation for managerial hierarchy and its main forms, it is of limited help in understanding the extent of the phenomenon. Williamson himself is sensitive to criticisms that decisions about managerial hierarchy do not always appear to be motivated by a logic of efficiency. In a passage that has not received the attention it deserves, he emphasises that:

The question of optimal work organisation is poorly posed when it is put in terms of hierarchy or its absence. Attention ought to be shifted instead to whether reliance on hierarchy is excessive (generates adverse side effects) and whether appointments to hierarchical positions are made in a way that promotes efficiency and commands general respect (Williamson, 1985: 239).

Although it is questionable whether it has the potential to be the basis of an integrated theoretical framework, TCE does not deserve to be ignored. To begin at the beginning, TCE offers us a coherent explanation for something that industrial relations analysis has tended to take for granted. As Kaufman (2004a: 64) rightly observes, ‘Why is there an employment relationship and under what conditions will societies choose to use an employment relationship in the production of goods and services?’ is a question that is ‘antecedent to all others’ in industrial relations. Any attempt at theorising, be it of the theory ‘in’ or theory ‘of’ variety (more of which below), has to have a robust answer to what he refers to as ‘this baseline question’. TCE does have such an answer – it is the residual control rights i.e. the ability of employers to define employees’ duties *after* rather than before they have entered into the employment relationship, that make the employment relationship preferable. Moreover, TCE helps us to identify the conditions in which the employment relationship is likely to be preferred and, equally importantly, those in which other forms of contracting for labour services may be used. It may or may not hold on every occasion, but it gives us a starting point for analysis¹¹.

As Simon Caulkin (2005), the *Observer* management editor recently pointed out, much current personnel practice also accords with TCE thinking, even if it is not always recognised. He specifically mentions its influence on the appraisal and reward of senior managers. It is because managers cannot be trusted, goes the argument, that their interests have to be aligned with those of shareholders in the form of stock options and substantial bonuses related to short-term profitability. Similarly, it is worries about essentially individualistic and opportunistic behaviour that help to account for the intensity of targets and controls that feature so prominently in performance management systems. Other examples include the ‘flexible firm’ or ‘core-periphery’ model, in which employers are

¹¹Take recent high profile cases involving the subcontracting of catering and maintenance at British Airways and Railtrack respectively. On the face of it, many of the reasons put forward for subcontracting these activities appear to accord with TCE thinking - managers need to focus their energies on the core business, non-core activities are best left to ‘specialist’ businesses and the ‘market’ will ensure that these businesses operate as effectively and efficiently as possible. Yet, as experience confirmed, these reasons pale into insignificance compared to the potential difficulties of administering/ enforcing the contracts involved in these situations, begging questions about the reasons for the management decision – whether, for example, they were following fashion or responding to government pressure.

encouraged to differentiate between different groups of employees according to their asset specificity.

TCE also has an important contribution to make to the language and concepts of industrial relations analysis. Thus it does great service in introducing the notion of work organisations as ‘governance structures’. A later section will have more to say about the significance of this for the focus of industrial relations. Fundamentally important is that, in bringing to the fore a very different and more realistic perspective on organisations and employment from within the economics profession, it gives considerable legitimacy to the issues with which industrial relations concerns itself. Traditionally, as already noted, economics has seen the organization as the notorious ‘black box’ with little or no independent role in the scheme of things. Also employment and work have been seen as being almost exclusively about the supply and demand of labour and the price their interaction supposedly sets (Block et al., 2005; Machin, 2006). In highlighting the importance of ‘residual control control’ rights, TCE emphasises that the employment relationship is as much about *managerial* as it is *market* relations. In doing so, it reminds us that wages and working time are but the tip of the iceberg of industrial relations outcomes.

By implication, and equally important, TCE emphasises that the institutions or norms involved in handling employment relationships are not the peripheral issues that they are so often dismissed as. They are absolutely fundamental to economic organisation. As Marsden (1998: 3) puts it, along with limited liability, the employment relationship is one of the ‘two great inventions [that] lie behind the rise of the modern business enterprise’.

In introducing the term ‘residual control rights’, TCE also gives us a language to highlight the defining feature of the employment relationship, i.e. the ability of employers to define employees’ duties *after* rather than before they have entered into the employment relationship. It may be objected that this is simply another way of formulating Marx’s observation that what workers ‘sell’ is their ‘labour power’ or ability to work. Arguably, though, ‘residual control rights’ highlights better the special

characteristics of institutions and rules that industrial relations concerns itself. It is also through these ‘residual control rights’ that the structured antagonism that industrial relations rightly associates with the employment relationship are most visible.

Resource-based views – work organisations as capability structures

Moving on to the second perspective on work organisations, resource-based views (RBVs) have recently come to the fore in the literature in two areas: human resource management and the development of national business systems. They mainly involve contributions from the ‘sociological’ and ‘historical’ schools of institutionalism. Their origins are much older, however, notable pioneers being Penrose (1959), Chandler (1962) and Polanyi (1962), even if they are not recognised as such. As well as being more diffuse than TCE, the contributions also rarely lay claim to the same degree of rigour.

The basic idea

In the words of a recent summary of the position, work organisations are seen as ‘capability structures’ (Morgan, 2005: 5). The focus is on how the organisation, ‘an authoritatively structured set of relationships’, creates ‘distinctive capabilities through establishing routines that co-ordinate complementary activities and skills for particular strategic purposes’ (Morgan, 2005: 1).

The starting point is the recognition that the organisation is not just a passive unit or the outcome of some autonomous logic as TCE appears to suggest. Nor do market forces limit organisations to a single model, even allowing for similar conditions - organisations are ‘heterogeneous’, to quote Penrose (1959: 74). Moreover, they are so because of the decisions taken about the institutions that comprise them. As Chandler (1962) famously suggested in his review of organisation forms, it was not the ‘hidden hand’ of market forces that helped to explain why some US companies such as General Motors had been able to out-perform their competitors. Rather it was the ‘visible hand’ of managerial decision making in developing the multi-divisional form of organisation. Similarly, Polanyi (1962) emphasised that organisational effectiveness could not be characterised in

terms of technology alone. The skills and knowledge of the workforce as a whole were a critical factor and much of this was ‘tacit’ resulting from practice rather than formal training.

In their review of the ‘human resource management’ stream of the RBV literature, Boxall and Purcell (2003: 78) observe that much of the discussion is concerned with the issues of defining and managing the organisation’s capabilities. In terms of the former, they quote Wernerfelt (1984: 172) to illustrate the range of activities:

By resources is meant anything which could be thought of as a strength or weakness of a given firm. More formally, a firm’s resources at a given time could be described as those (tangible and intangible) assets which are tied semi-permanently to the firm. Examples of resources are: brand names, in-house knowledge of technology, employment of skilled personnel, trade contracts, machinery, efficient procedures, capital etc.

Boxall and Purcell (2003: 75) go on to suggest that desirable resources are deemed to be:

- worth something competitively
- not easy to obtain
- very hard to imitate or copy
- very hard to substitute with other resources meeting the same ends
- capable of providing a better return to shareholders

They also quote Leonard (1998: 19) suggesting that core ‘capabilities’ or competences comprise four dimensions:

- relevant employee skills and knowledge
- technical systems e.g. databases and software programmes
- managerial systems, the organisation’s systems of education, rewards and incentives
- values and norms, i.e. systems of caste and status, rituals of behaviour, and passionate beliefs associated with various kinds of technological knowledge that are as rigid and complex as those associated with religion

Crucial here is the concept of the ‘learning organisation’, i.e. the idea of the organisation as an ‘active learning agency continually combining and recombining elements in its external and internal environment in order to develop the distinctive capacities that will enable it to survive’ (Morgan, 2005: 5). Senior managers recognise that ‘learning’ is not just something that individuals do. It is what organisations have to do in order to continuously improve. They therefore put ‘organisational learning’ centre stage and make it the key principle for organising business strategy and developing competitive advantage. Managing the processes involved, sometimes known as knowledge management, also looms large, the understandable implication being that these capabilities are not something that just ‘happens’¹².

The resource-base view has become a central tenet of human resource management treatments, with the link with business strategy being especially emphasized in the attempt to promote the function (Boxall and Purcell, 2003). Senior executives are encouraged to believe that an organisation’s success/failure depends not so much on thinking in terms of products or services. Rather it is in understanding what lies behind them, i.e. the unique or particular skills and ability ‘sets’ which individuals in the organisation have and which give it a measure of competitive uniqueness.

More recently, in the ‘national business systems’ literature, there has been increasing attention to ‘the relationship between national institutional contexts and firm dynamics’ (Morgan et al, 2005). This is not so much a question of the balance between internal and external influences on organisational decisions, which has long been a feature. Rather it is about the influence of the internal on the external: the extent to which change is not just

¹² Interestingly in the light of the later discussion about the ‘cognitive’ dimension of institutions, the NHS National Library for Health (www.library.nhs.uk/knowledgemanagement) suggests that the ‘ultimate aim’ of knowledge management is ‘institutionalisation’.

It is useful to bear in mind that success in knowledge management does not involve building up a big new department or a whole network of people with ‘knowledge’ in their job title. You may need to do these things to some degree in the medium-term. However the ultimate aim is for knowledge management to be fully ‘institutionalised’. Or in other words, so embedded in the way your organisation does things, so intrinsic in people’s day-to-day ways of working, that nobody even talks about knowledge management any more – they just do it.

exogenous, but also endogenous. Basically, the argument is that organisational actors do not just react to the external environment in a knee-jerk like reaction – in Morgan’s words (2005: 415), ‘they do not simply reproduce a dominant script’. They have room for manoeuvre and, in making most of the opportunities, they do not just adapt and change their organisations but also, in the process help to shape the wider environment in which they operate.

Commentary

Much of the resource-based approach speaks for itself in terms of its significance for industrial relations analysis. Several of the issues will also re-appear in the later discussion about change. Even so, it is worth emphasising here that, in introducing the notion of work organisations as ‘capability structures’, resource-based approaches offer further confirmation of two of the underlying points from TCE. The first is the fundamental importance of the management of the employment relationship in business performance. It is not just senior managers’ positioning of the organisation in the market place that makes the difference. The people it employs and the way they manage them is fundamentally important. The more scarce and inimitable their skills and abilities are, the greater the contribution they can make to competitive advantage. The second is that the management of the employment relationship depends on the rules and routines that they employ. As in the case of TCE, in other words, the institutions involved really do matter.

This second point returns me to the discussion in the Introduction. It is sometimes suggested that the coming of the ‘knowledge organization’ changes things. True, the setting changes - workplaces tend to be smaller and the boundaries of work organizations more blurred; collectivism and collective bargaining are usually less important; and there is more emphasis on culture, i.e. informal institutions, than formal rules. Even though they may be different, I think it is important to remember that ‘rules of the game’ there undoubtedly are. ‘Knowledge organizations’ have hierarchies; recruitment and selection processes; job descriptions; training and development routines; posting and transfer arrangements; performance management systems; disciplinary processes; and so on – all of which have a significant influence.

The issue of ‘heterogeneity’ is also worth stressing. Organisations may come under considerable pressure to adopt common solutions to the same or similar problems as the later discussion will argue. RBV approaches remind us that there is nonetheless considerable scope for differences between operations, which can be significant. There are no grounds for taking work organisation for granted any more than there is organisational structure.

This links to a final point, which raises the issue of the role in change. On the face of it, the resource-based approaches offers the key to explaining not just how organisations can adapt and change but also, in the process, influence as well as be influenced by external (national) institutions. It is a point to which later sections will return.

Multi-level governance

The next issue highlighted, ‘multi-level governance’ (MLG), takes us to the other extreme from the workplace. It has largely risen to prominence as a result of the debates over the EU’s development, although the issues it deals with have deeper roots in earlier discussions of federalism (Peters and Pierret, 2002) and is associated in particular with Hooghe and Marks (2001). The term is not only to be found in academic discourse, however, but is increasingly used by policy makers. Here it is understood both descriptively and normatively. Thus the European Commission’s 2001 *White Paper on Governance* (2001, 34-5) characterises the EU as being ‘based on multi-level governance in which each actor contributes in line with his or her capabilities or knowledge to the success of the overall exercise’.

The basic idea

At first sight, MLG appears to be little more than a statement of the obvious. Most nation states comprise several levels of decision making - for example, the commune or parish council, the town and the region. Some, such as Germany, are formally constituted as federations. Many are also members of groupings that involve supra-national levels of decision making such as the EU or NAFTA.

Closer inspection, however, suggest that there is more to the usage of the term than this. For example, in trying to capture the essence of the EU, Olsen (2001: 329) suggests that:

The current institutional configuration is complex, ambiguous and changing. It is multi-levelled, multi-structured and multi-centred, characterized by networks across territorial levels of governance, institutions of government, and public-private institutions.

Peters and Pierret (2002: 6-8) develop some of these nuances in stressing the key features that have come to be associated with MLG:

- it refers to a ‘process through which public and private sector actions and resources are coordinated and are given common directions and meanings’
- it relates to circumstances where ‘actors, arenas, and institutions are not ordered hierarchically but have a more complex and contextually defined relationship’
- it denotes a ‘negotiated order rather than an order defined by a formalized legal frameworks ... The negotiated nature of MLG reflects the "nested" nature of the institutional arrangements; the break-up of traditional hierarchies has disrupted the previous more distinct patterns of command and control (Pierre and Stoker, 2000: 31).
- it is frequently conceptualized as a 'political game' in as much as 'relaxing regulatory frameworks provides opportunities for strategic and autonomous behaviour by the actors involved in governing'.

Note that, here, a different meaning is being attached to 'governance' than in the earlier discussion of TCE. There 'governance' is an umbrella term embracing different arrangements for handling transactions, the full list of such arrangements including the ‘state’ or ‘government’, 'market', 'hierarchy', 'association', 'community' and 'network' (Crouch, 2005; Hollingsworth et al., 2000). In discussions of MLG, 'governance' is typically *contrasted* with 'government'. Jessop (2004), for example, suggests that the implication of ‘government’ is top down hierarchy, whereas ‘governance’ suggests ‘more

diffuse and multi-party' arrangements. In his words, 'government is the 'quintessential expression of hierarchy (imperative co-ordination) because it is, by definition, the political unit that governs but is not itself governed ... Whereas 'governance' is based on reflexive self-organisation (networks, negotiation, negative co-ordination, positive concerted action) ... [and concerned with] 'managing functional interdependencies rather than with activities occurring in a defined and delineated territory'.

The reference to 'networks' and 'negotiation' also highlights the typically contested nature of MLG arrangements. Olsen's (2001: 335) portrayal of the EU's development is again very apt: the result of a history of 'informal and gradual institutional evolution' as well as 'founding acts and deliberate institution building'. It is also a process that has been far from straightforward. 'It is a history where desired policy outcomes and preferred institutional development have not necessarily coincided' (Olsen 2001: 335). At each step, developments have been highly contested and the outcome is best imagined as the complex consequence of the acts of multiple political and economic agents with differing views about the speed and direction of development and also the destination. There is 'no shared vision of a future Europe and how the EU should be governed ... There is no shared understanding of the institutional requirements and possibilities, and no single central reorganisation authority' (Olsen, 2001: 337).

MLG also identifies and makes propositions about some of the key issues and problems that practitioners and policy makers have to grapple with. The advantages of MLG include 'adaptability, openness to experimentation and innovation, and the facilitation of commitments' (Hooghe and Marks, 2001). Set against these are the transaction costs involved in co-ordinating multiple jurisdictions and the difficulties in articulating relationships between the different levels. Subsidiarity helps, i.e. deciding matters at the lowest feasible level. Nonetheless problems remain – for example, specifying 'framework agreements' that do not merely shift the problem from one level to another; balancing 'top-down' with 'bottom-up' initiatives; combining different methods; balancing/combining different issues, levels *and* methods. The result is that tensions abound, with complexity, uncertainty and instability typically the defining characteristics.

Commentary

Arguably, MLG very accurately describes the industrial relations situation. Certainly, Paul Marginson and I found it a very useful framework for organising our analysis of the impact of European integration on industrial relations (Marginson and Sisson, 2004). Crucially, it reminds us that no work organisation is an island unto itself, but is embedded in several layers of institutions. Even the SME has to take on board the impact of the national as well as the local level. The large MNC can be involved in both multiple levels and multiple sites. Typically, there are four internal levels – the parent company, the national company, the international division and the workplace. Additionally there are the legislative arrangements in each of the countries where the business has a presence, together with EU regulations. Coming in between is the sector level, which European trade unions are increasingly targeting.

In emphasising the importance of ‘governance’, MLG takes us back to TCE. Additionally, it draws attention to the uncertainty, unpredictability and contested nature associated with the institutions involved. Olsen’s quote could be used equally well to describe the development of industrial relations systems: a combination of ‘informal and gradual institutional evolution’ and ‘founding acts and deliberate institution building’. Also appropriate to such systems is his overall conclusion. There is ‘no shared vision’ and ‘no shared understanding of the institutional requirements and possibilities’.

More fundamentally, there are the wider implications of MLG situations that have yet to be fully explored. Much industrial relations analysis prioritises *either* the national level *or* the workplace level. In the first instance, there is what might be described as a ‘government’ or ‘top-down’ view of arrangements. In the second, the concern is with the labour process and its implications. Very rarely do these approaches come together, with attention focused on the interaction between the levels and/or the complexities involved. Morgan’s (2005: 416) comments on the national business systems literature apply equally to its industrial relations counterpart: there is a need to take into account ‘the layered nature of social space, the simultaneity of the context and the consequences of action and

institutions at the local, regional national and international levels'. Here further analysis of the interaction of 'top down' and 'bottom up' pressures on industrial relations institutions (for further details, see Marginson and Sisson, 2004) could be illuminating in helping us to understand what is driving the relationship between levels.

Such understanding could be highly significant for the policy and practical issues that MLG raises. Essentially, these revolve around striking a balance between heteronomy and autonomy, i.e. central regulation, on the one hand, and local responsibility, on the other. For example, there are important implications for the form of legal intervention that is possible in MLG situations, helping to explain the tendency towards 'reflexive law'¹³. In multi-divisional organisations, the heteronomy-autonomy issue is mirrored in debates about the responsibilities of the different levels of management, the nature and extent of the autonomy of individual business units and the 'tightness' and 'looseness' of head office controls¹⁴.

Key concepts

The next group of issues highlighted address the key roles that institutions play and involves contributions from all three schools. Four concepts are singled out for special attention: the significance of institutions as the 'rules of the game'; their importance in

¹³ In Barnard and Deakin's (2000: 341) words: The essence of reflexive law is the acknowledgement that regulatory interventions are most likely to be successful when they seek to achieve their ends not by direct prescription, but by inducing 'second-order effects' on the part of social actors. In other words, this approach aims to 'couple' external regulation with self-regulatory processes. Reflexive law therefore has a *procedural orientation*. What this means, in the context of economic regulation, is that the preferred mode of intervention is for the law to underpin and encourage autonomous processes of adjustment, in particular by supporting mechanisms of group representation and participation, rather than to intervene by imposing particular distributive outcomes.

¹⁴ The public services are perhaps the obvious case. Not only are practitioners being asked to cope with many issues at the same time, leading to an increasingly complex linkage problem, where the danger of failure in one area puts everything else at risk. There are also difficulties in articulating relationships between the different levels – for example, specifying 'framework agreements' that do not merely shift the problem from one level to another; balancing 'top-down' with 'bottom-up' initiatives; combining different methods; balancing/ combining different issues, levels and methods. There are also problems of monitoring and control – it is difficult to be informed about, let alone control, developments at workplace levels. Attempts at co-ordination also have to be handled extremely sensitively. Enforcing coercive comparisons, if overly transparent, can expose headquarters management to demands from employee representatives for matters to be resolved in higher-level negotiations.

promoting ‘path dependency’; their role in explaining why there is such a strong tendency towards imitative behaviour on the part of those who run work organisations; and the issue of ‘complementarity’ i.e. the extent to which institutions reinforce one another.

The ‘rules of the game’

Three ‘pillars’

The phrase ‘rules of the game’ is increasingly used to capture the significance of institutions. Institutions are regarded so because they establish both rights and obligations - from one point of view they constrain behaviour; but from another they enable it (North, 1990). They also do so both directly and indirectly - even if individuals do not always strictly obey the rules, the way they adapt their behaviour is affected by them. Moreover, rules are deemed to be especially important in situations where actors are involved in co-operative endeavour involving uncertainty and concerns about agreement enforcement.

It is not just a case of institutions determining a standard response, however, or of being able to read a standard behaviour off from a particular rule. Much depends on the way that people relate to rules. Here, following Scott (1995; 2001), there is a measure of consensus about the three main dimensions or ‘pillars’ of institutions.

- *‘Regulative’*. In this case, institutions cause individuals to make certain choices or perform certain actions largely because they fear punishment if they do not conform. Such institutions tend to be associated with bodies with formal ‘authority’ such as the state or the employer.
- *Normative’*. In Hay’s (2003: 105) words, ‘institutions are normalising in the sense that they tend to embody shared codes, rules and conventions, thereby imposing ... value systems which may constrain behaviour’. Professional organisations offer a good example, many years of training and involvement in processes of autonomous rule making being especially significant in bringing about shared codes and so on.
- *‘Cognitive’*. In this case, the reaction to rules may be largely unconscious. Essentially, the norms are shared conceptions that individuals have internalised. In Scott’s (2001, p. 57) words, ‘Compliance occurs in many circumstances because other types of

behaviour are inconceivable; routines are followed because they are taken for granted as 'the way we do these things'. Not only that. Such is the force of the routines and associated ways of thinking that people may be unable to think outside of the proverbial 'box'. In Hay's (2003: 105) words, 'Institutional creation may be constrained by a reliance upon existing institutional templates'.

Important nuances take us back to the different approaches of the three schools. To paraphrase Morgan (2005: 420-7), there has been a strong tendency for the 'rational choice' school to see institutions from the point of view of economic functionalism, in which the 'rules of the game' are regarded as an 'equilibrium solution' to a coordination problem. Given 'bounded rationality', the rules emerge from the interaction between actors and represent a balancing of their interests. There are two stages: origins, which typically involve first mover advantage; and reproduction, where actors become 'locked in' and alternatives 'selected out'. The alternative view takes an essentially political perspective. The 'rules of the game' emerge from conflict, negotiation and compromise¹⁵. The apparent 'equilibrium' that emerges is illusory, with the process of change being ongoing as actors seek to take advantage of shifts in the balance of power to test the opportunities for improving their relative position.

Commentary

Its widespread currency might be thought reason enough for industrial relations to adopt the language of 'rules of the game' and the three 'pillars'. This would be an unnecessarily cynical response, however. The three 'pillars' framework has considerable merits that could help to revive the very active and far-reaching debate about workplace institutions in industrial relations in the 1960s and 1970s (see, for example, Fox, 1970, 1974; Brown, 1972). One line of enquiry might be the legitimacy of institutions, reflecting the different 'pillars'. Self-evidently, rules that are obeyed simply because of the fear of sanctions tend

¹⁵It is sometimes suggested that 'institutionalism' and 'interest-based' approaches offer competing accounts (see, for example, Wailes et al., 2003). Arguably, though, as the authors go on to recognise, 'interests' are integral to understanding both the origins and the development of institutions under what is described in the text as a political perspective. It is the different approaches to institutionalism that offer the main contrasts.

to enjoy less legitimacy in the eyes of those subjected to them than those that are 'normative' and 'cognitive'. The result, very often, is that employees do what they have to and no more. It is this reaction that many managers are identifying when they refer to a lack of engagement – the reluctance to go the extra mile. The very considerable potential for conflict between the 'regulative' pillar, on the one hand, and 'normative' and 'cognitive' pillars, on the other, could also be a fruitful line of enquiry, especially in the public services. So too could be the potential conflict between different forms of 'regulative' institution - for example, between 'good practice' codes in areas such as bullying and harassment and the targets built into performance management systems.

'Path dependency'

The basic idea

The second key concept, which each of the three schools emphasises, anticipates some of the later discussion about change. Most immediately, it helps to explain why there is so much attention to historical development in institutional analysis. In Hindmoor's (2006: 10) words, 'Those asserting the existence of 'path dependency' are simply claiming that what happened in the world yesterday will affect what happens in the world tomorrow'¹⁶. It is widely assumed that not only do actors have considerable 'strategic choice' in what they do, but also that their decisions reflect the demands of the immediate situation – it is as if they take a snapshot of the 'market' and technological situation confronting them. More often than not, however, these considerations take second place. Much more important is the evolution of institutions, which are seen to 'lock' actors into a particular course from which they find it difficult to deviate. Institutions matter because history matters. Müller-Jentsch's (2004: 34) puts it like this:

¹⁶Linking to Morgan's reference mentioned earlier, Thelen (2005a: 26) reminds us that 'path dependency' has its origins in economic historians' discussions of technological change and offers a strong alternative to functional explanations of institutions. These tend to attribute institutions to the functions they perform and so tend to be backwards looking, whereas path dependency encourages us to distinguish between the origins of institutions and the processes responsible for their reproduction. As she very clearly demonstrates in her comparative study of the training systems, the functions that an institution performs today can be very different from the ones it was originally intended to serve.

The evolution of institutions is conditioned by path dependency. This implies that the way the actors once chose to 'freeze' their settled interest compromise into institutions also regulates their future interactions. In other words, the institutional system that emerged from the actors' interactions further negotiation processes in the dual sense of 'limiting and 'enabling'. And these, in turn, affect the institutional framework by contributing to its further development'.

A critical implication, which takes us back to the 'normative' pillar, is that actors may not even consider the full range of options available to them, even if the situation demands it.

Three considerations are regarded particularly important in helping to explain the enduring features of institutions:

- *Costs*. These are emphasised by 'rational choice institutionalists', who emphasise the importance of 'increasing returns' and 'positive feedback' (see, for example, Hindmoor, 2005). The most celebrated example is that of the QWERTY keyboard. Although the development of electronic keyboards allows more effective layouts, QWERTY remains the standard because of the costs that would be involved in changing.
- *Density of the institutional framework*. This phrase, which is taken from Hay (2002: 105), draws attention to the fact that institutions very rarely exist in isolation from one another. Changing one institution may have little or no effect if others are left to remain more or less the same. Or it can have damaging unintended consequences. Either way the prospect of change is made to appear even more daunting.
- *Vested interests*. The process of institutional development gives some a position of privilege and strength to fight for the maintenance of the *status quo*. Scharpf (2001) puts it nicely in discussing the immense difficulties of changing long-established pension and social protection arrangements in EU countries. In understanding why things happen or do not happen, it is the 'path-dependent constraints of existing policy legacies' and the 'institutional constraints of existing veto positions' that deserve our attention.

A further implication is that the ‘natural selection of market forces’ does not necessarily weed out ‘inferior institutions’ as it is often assumed (see the discussion in Traxler et al., 2001: 5).

Commentary

I think that it is fair to say that, although the term ‘path dependency’ has only recently entered into the industrial relations vocabulary, the underlying concept has been part of the fabric of the subject from its very beginnings. It is an extremely powerful explanatory tool as evidenced in accounts of the structure of collective bargaining¹⁷ (Marginson and Sisson, 2004; Sisson, 1987; Traxler et al, 2001) in particular and in the ‘varieties of capitalism’ literature (Hall and Soskice, 2001) more generally.

I suggest that ‘path dependency’ is useful not just in understanding national level frameworks, however. To illustrate its wider potential, a strong case can be made for suggesting that ‘path dependency’ is fundamentally important in helping to explain what has been described as one of the great ‘conundrums’ of industrial relations (Cully et al., 1999), namely why, despite the evidence and exhortation, there has been so little movement in the direction of high performance working in the UK. Each of the three considerations regarded as particularly important in explaining why people can become

¹⁷The argument goes like this. The structure collective bargaining cannot just be read off of long-standing institutional arrangements such as the ‘varieties of capitalism’ sometimes appears to suggest. In each country, it reflects the compromises struck at times of great political and social, as well as economic, crisis. Thus, although there was a common logic to the multi-employer bargaining that prevailed in European countries, the specific origins and early development were critically important in the evolution of the institutions that emerged. In the UK employers were confronted with craft unions that were firmly entrenched in the workplace. The collective agreements were rooted essentially procedural in character. It was also difficult to make them into legally enforceable contracts. In most other countries, the challenge came from trade unions that were more politically inclined and relatively weak in the workplace. Multi-employer agreements were both legally enforceable contracts and statutory codes. Roll forward and the development of workplace bargaining, which also had a common logic, had a very different impact. The status of collective agreements has been a major factor in the process of decentralisation – ‘disorganised’ in the UK and ‘organised’ in other European countries (Traxler, 1995). This, in turn helps to explain the very different approach to ‘social pacts’ in the introduction to Economic and Monetary Union. By the time the pressures leading for a renewal of concertation elsewhere in western Europe emerged, path reversal in the UK appeared not only politically impossible, but also undesirable, to the incoming Labour administration in 1997. Unlike in other countries, government and employers did not have to weigh up the costs as well as the benefits of multi-employer bargaining’s demise – the machinery was broken and no significant interest group was pushing for its re-instatement (for further details, see Sisson, 1987; Traxler et al., 2001; Marginson and Sisson, 2004).

'locked' into a particular path are in play. A major consideration is the costs associated with change in terms of training and learning, which are typically like to be considerable. The existing institutional framework also represents a major problem. For example, the introduction of 'serious' team working has significant implication for almost every aspect of personnel policy, ranging from recruitment and selection, through training and development to appraisal and reward. Finally, there is the importance of vested interests. Very often its managers themselves who represent the biggest barrier to changes in work organisation. Major changes in direction of team working, for example, not only have implications for skills of managers, but also their numbers, privileges and status¹⁸. Arguably, this also helps to explain why most major examples involve crisis situations and/or 'greenfield' situations.

'Isomorphism'

The basic idea

The language and concepts of the third concept come most immediately from the 'sociological' school of institutionalism. Basically, the argument is that, because organisations operate in an environment made up of institutions, survival does not just depend on being successful economically, but also on the legitimacy and credibility of the ways in which they conduct their business. One key way in which those in control seek to achieve legitimacy is to adopt 'accepted' practice, i.e. behave like other organisations undertaking similar activities. The more people expect organisations to behave like others, the more the pressure to do so - in Marsden's (1998: 68) words, 'Predominance feeds on itself'. The result is that particular institutions come to be seen as the 'best' or, indeed, the 'only' way of doing things, comparable in effect to that of an 'iron cage' (DiMaggio and Powell, 1983) from which it is difficult to break out.

¹⁸As the GMB (2005) has argued, everyone appears to want to be a manager in the UK, fuelling the pressure to maintain the status quo. According to Office of National Statistics, more than four million employees in the UK – one in seven of the workforce – are classified as 'managers and senior officials'. International comparisons suggest that more employees in the UK appear to be involved in supervision than in comparable countries – according to the 'Future of Work' programme, the UK has 13 per cent of employees involved in 'supervision', whereas Sweden has only three per cent, i.e. a four-to-one ratio.

‘Isomorphism’ is the term used to describe this tendency. In the words of DiMaggio and Powell (1983), there are two types – ‘competitive’ and ‘institutional’. The first type, ‘competitive isomorphism’, is informal and assumes a system of economic rationality presupposing market competition. The second, ‘institutional isomorphism’, is what concerns us here. Essentially, it involves three political mechanisms, which can be formal or informal:

- ‘coercive’, in which actors come under pressure to conform to particular policy or practice;
- ‘mimetic’, in which there is a strong tendency for actors faced with common constraints to respond to uncertainty by copying others; and
- ‘normative’, in which policies and practices become ‘professionalised’ and assume the status of accepted standards.

Underpinning the processes of isomorphism is information and learning. National level institutions are important here, but are not the only influence. Both the sector and company are seen as ‘organisational fields’ comprising more than a set of ‘objective conditions’, such as market structures and technology. They are ‘cognitive arenas’, where ideas about ‘accepted’ and ‘best’ practice are generated. They are ‘collaborative networks’, offering a wide range of opportunities, formal and informal, to acquire and diffuse the information and experience going to make up shared understandings (Smith et al., 1990; Arrowsmith and Sisson, 1999). International bodies such as the EU, OECD and UN are also increasingly important sources of widely accepted beliefs about what the appropriateness of goals and technologies.

Commentary

As in the case of ‘path dependency’, the underlying ideas of isomorphism have long been a feature of industrial relations analysis, even if the language is relatively recent. Whereas isomorphism has been primarily concerned with organisations (i.e. employers), however, industrial relations has focused on employees. The emphasis has also been on ‘fairness’, which is seen to play a key role in shaping expectations, along with the critical role of

comparisons in influencing employees' sense of what is 'fair' and 'unfair' (see, for example, Behrend, 1957; Hyman and Brough, 1975; Brown and Sisson, 1975). It was also Ross (1948) who introduced the term 'orbits of coercive comparison' to emphasise the importance of institutions in wage determination. Following the 'pattern', Ross (1948: 52) explained, enables employers and trade unions to reconcile the former's competitive constraints with the latter's need to achieve fairness:

The ready-made settlement provides an answer, a solution, a formula. It is mutually face-saving ... it is the one settlement which permits both parties to believe that they have done a proper job, the one settlement which has the best chance of being 'sold' to the company's board of directors and the union's rank and file'.

Such thinking can be linked to DiMaggio and Powell's 'mimetic' and 'coercive' forms of isomorphism to help to understand the increasingly important role that management benchmarking plays in industrial relations (Marginson and Sisson, 2004). The designation 'good practice' or 'best practice' gives the comparisons legitimacy akin to 'normative' status. Such legitimacy can be important not only in helping to persuade employees and their representatives of the course of action being proposed, but also in winning over uncertain managers. The widespread promotion of Japanese 'lean production' methods is an example of the use of benchmarking to justify change to both managers and employees and their representatives (Delbridge, et al, 1995).

Similarly, the thinking is helpful in understanding the increasing public policy promotion of 'good practice' standards associated with bodies such as *Investors in People*, which is able to award a kite mark to qualifying organisations. In effect, this approach seeks to give particular policies and practices 'normative' status, putting considerable pressure on managers to adopt them as a way of demonstrating their corporate social responsibility credentials.

There are also links to be made with TCE and the diffusion of institutions discussed later. Marsden (1999: 269) is very helpful here in offering us an explanation for why similar

ways institutions can become accepted and established even in sectors where collective representation is absent:

... even though each decision by a firm and its workers may be taken individually, there are strong pressures to conformity ... These pressures do not necessarily arise from direct constraints on the parties, but ... from the benefits that stem from using commonly applied rules. It is important that people trust the rules by which they bind themselves. ... As they diffuse across an economy, the transaction rules are transformed from being techniques for solving the problem of opportunism in employer-employee relations into a social institution.

Marsden adds the important rider that an institution may be adopted 'even though it may not be the one best suited to a particular type of service, because people prefer a rule with which they are familiar and which they trust'.

'Complementarity'

The basic idea

The fourth concept I single out has its origins in the literature of the 'sociological' and 'rational choice' schools – in the former case, there are links with 'isomorphism' and, in the latter, with the emphasis on incentive structures and returns or value that particular institutions are able to generate. It has come to particular prominence, however, in the recent 'national business systems'/'varieties of capitalism' literature (for further details, see Crouch, 2005; Deeg, 2005; Morgan, 2005).

Of the terms considered, it is perhaps the one that is the subject of the most lively current debate, with different labels such as 'coherence' and 'ensembles' being used. This is because the concept has come to be seen as incorporating two different principles or logics that have not been distinguished in the literature until recently.

One of the principles is *similarity*. Here the implication is that institutions in different areas of activity that are similar will tend to be reinforcing. A fundamental tenet of the

'varieties of capitalism' literature is that 'coordinated market economies' and 'liberal market economies' each have sets of institutions that are broadly similar and therefore mutually supportive. A further implication is that hybrids that involve or mix ingredients from the two will under perform the 'pure' types. The other principle is 'contrast'. Here the term 'complementarity' is used in the stricter sense to mean that one institution makes up for the deficiencies of the other (i.e. provides a missing ingredient), this raising the returns to actors from the first institution' (Deeg, 2005: 24). One of the examples Crouch (2005: 171-2) gives is the highly portable skills qualifications of the German vocational and training system, which offsets the tendency of some other institutions to encourage low labour mobility. Another is the role of the big institutional investors in the USA – such is their potential impact on a company or sector that they are led to act more strategically than they might otherwise do, thereby offsetting the 'short termism' bias of some other financial institutions.

The debate looks as if it far from being over, bringing in several of the issues touched on in earlier sections, notably different conceptions of the nature of and role for institutions. In Crouch's (2005: 168) words, working out how the opposed principles of 'similarity' and 'contrast' fit together is the 'major challenge' for neo-institutionalist analysis'.

Commentary

There are several areas in industrial relations where the debate has relevance, with significant implications not just for theory but also practice and policy. One, which is closely allied to national business systems literature, is the structure of collective bargaining, where the links between form and status of collective agreements is an issue. A second is the legal framework, where the compatibility of specific interventions with legal traditions looms large. A third is work organisation and, in particular, the high performance workplace model. Most approaches assume that the practices involved need to be 'complementary' (Ashton and Sung, 2002). There is nonetheless considerable debate over the 'complementary' of some of the practices, in particular, whether or not reward systems that link pay to performance are required being an especially open question (see,

for a example, European Foundation for the Improvement of Living and Working Conditions, 2005).

Change issues - dealing with institutionalism's Achilles heel?

Change looms increasingly large in institutional analysis and, again, involves contributions from all three schools. In part, this reflects criticism that institutional analysis does not 'do' change very well – concepts such as 'path dependency' and 'isomorphism' may be useful, say critics, at explaining why institutions endure, but they do not help very much in explaining why they take the form they do and how they change (Przeworski, 2004¹⁹). In part, it reflects the rapid changes apparently taking place. This is especially true of the particularly rapid and destabilising change associated with developments in globalisation (Rubery, 1996). A central task, suggests Morgan (2005: 415) is to 'investigate more deeply how institutions evolve, complement one another, and change'.

Four major issues predominate:

The 'dimensions problem'

The issue in outline

Campbell (2004: Ch. 2) is especially helpful here, listing the key dimensions of change that too often fail to be specified in institutional analysis:

The dependent variable. Institutionalists are often criticised for failure to specify the critical dependent variable for their work. In Campbell (2004: 31) words, 'What is institutional change? How do we know it when we see it? What does it look like when it occurs? Is it evolutionary or revolutionary?' In the absence of answers to these kinds of

¹⁹Thelen (2005a: 28) suggests that 'path dependency' seems to encourage people 'to think of institutional change in of two ways: as *either* very minor and more or less continuous (most of the time) *or* major but then abrupt and discontinuous (rarely). She goes on to suggest that do not conform to a model characterised by periods of extreme openness and radical innovation followed by stable, faithful reproduction or "stasis"; rather they exhibit a pattern of incremental change though periodic political realignment and renegotiation'. Reiterating the earlier point made by Morgan (2005), she goes to emphasises that change is generated endogenously as well as exogenously.

questions, it is very difficult to have a meaningful debate about, for example, the impact of globalisation.

The type of institution. A criticism here is that very often the focus is exclusively on formal institutions, with little or no attention centring on actual practice. To put this another way, a change in the formal institution may affect the regulate ‘pillar’, but have little impact on the ‘normative’ or ‘cognitive’.

The time frame. Change takes time to unfold. Events that may appear to be important in the short run may turn out to have little or no consequence in the longer run. The reverse is also true.

The level of analysis. Change can appear very differently, depending on the level of analysis. Something that may appear to be very significant at the national level – for example, a change in legislation - may look very different at the local level. A failure to take into account the inter-connections between the different levels can also lead to inappropriate conclusions.

Commentary

It is not difficult to think of examples from industrial relations where there have been failures to specify the dimensions under consideration with significant adverse implications for our understanding of developments. Take the types of institution. Confusion here is one of the reasons for writing this paper. It has become an article of faith that recent years have witnessed the ‘end’ of institutional industrial relations in the UK. As the Introduction emphasised, however, although there has been a decline in collective bargaining, along with reduction in membership of trade unions and employers’ organisations, this does not mean that institutions are unimportant. Far from it. There has been a very substantial growth in individual employment legislation (i.e. institutions) covering many aspects of the employment relationship. It must not be forgotten either that there have also been very significant developments in the institutions

that management has unilaterally introduced – there has been a very considerable increase, for example in the institutions of performance management.

An example of the importance of time frames might be the rise of workplace bargaining and the decline of multi-employer bargaining in the UK. In the short run, this was largely seen in terms of the power of trade unions and the weakness of management. In the longer run, the development has turned out to have implications that suggest the exact opposite of this judgement. Not only does the decline of multi-employer bargaining mean that large sections of the workforce no longer enjoy the benefits of the additional standards that come from sector agreements. It has also led to a workplace-based recognition process that presents trade unions with a ‘catch 22’ situation: they have to have members before they can reach collective agreements, but it is difficult to recruit members unless they can show the benefits of collective agreements.

As for the level of analysis, different emphases continue to bedevil debates about the impact of seemingly major developments such as European integration. Viewed from the national level, there appear to have been few changes in trade union membership or the structure of collective bargaining to suggest any significant impact (Visser, 2003: 194). Viewed from the sector and multinational company level, things can look very different - there have been significant changes in the level, form, content and status of collective bargaining (Marginson and Sisson, 2003; 2004).

The ‘agency-structure’ problem

The issue in outline

Here renewed interest in institutions has revived what has been a long standing philosophical debate across the social sciences. It involves a question that is crucial in developing a better understanding of change, i.e. how much choice do actors have. Following Hay (2002: 55), two extreme positions can be identified. At one extreme is *intentionalism* i.e. the tendency to account for outcomes purely in terms of the agency of actors. At the other is *structuralism* i.e. the tendency to reduce outcomes to the operation of institutions or structures beyond the control of actors.

As the debate has developed, the key issue has become how structure and agency are connected and how they influence each other. As Hay (2002: 61) emphasises, the debate has become 'not so much a problem' that can be settled empirically, but 'a language by which ontological differences between contending accounts might be registered'. Hay suggests that critical contributions include Giddens' (1979; 1984) theory of 'structuration', where structure and agency are seen as 'two sides of the same coin' that may only be separated *analytically* and Archer's (1995) 'morphogenetic' approach, which views structure and agency distinct with different properties and powers. Also influential has been Jessop's 'strategic-relational' approach (see, Hay, 2002: 126-9), where the emphasis shifts from structure-agency to the interaction of strategic actors and the strategic context in which they find themselves.

In terms of application, the actor centred institutionalism associated with Scharpf (1995; 2000) and his colleagues (Mayntz and Scharpf 1997; see also Müller-Jentsch, 2004) has been particularly influential with some Dutch and German industrial relations scholars. In this, actors and their preferences and perceptions are treated as:

a theoretically distinct category - influenced, but not determined by the institutional framework within which interactions occur ... [Actors' *preferences* are also seen as having] at least two dimensions, individual and organizational self-interest on the one hand, and (internalized) normative obligations and aspirations on the other ... the "goals" of corporate and collective actors are strongly influenced by the institutional rules to which they owe their existence and by institutional and cultural norms which define the criteria of their success or failure. For that reason, they will vary greatly between different types of actors - political parties, government ministries, unions, central banks, etc. -, and in time and place. By contrast, the "maintenance" or survival interests in assuring adequate organizational resources, defending organizational autonomy, and (where institutionally relevant) achieving competitive success, are likely to be more uniform and constant - which allows fairly general and reliable

predictions of organizational responses to institutional incentives (and hence useful suggestions for institutional design) (Scharpf, 2000: 5).

Scharpf (2000: 11) also draws on this distinction to identify what he believes to be ‘our best hope for building a body of generalizable knowledge about the causal relations between types of policy challenges, types of institutional structures, and actor orientations’. This involves combining rational-choice working hypotheses with structured comparisons within varying subsets of cases. Moreover, switching between overlapping subsets of cases defined by either common challenges, or common actor orientations or common institutions’, should enable us ‘to increase our confidence in the explanations discovered in each of these dimensions’.

Commentary

I think it is fair to say that most industrial relations analysis is to be found at the extremes of the *structuralism-intentionalism* continuum. Historically, there was a strong tendency towards ‘structuralism’. There were two main types. The mainstream tendency, following Dunlop (1956), was to see actors as members of an interlocking system of institutions, processes and rules shaped by technology, markets and the distribution of power in the wider society, but working to its own internal logic. Side by side, there also developed a strong materialist tendency. This sees the employment relationship deeply rooted in a capitalist labour process that is the dominant force in shaping the institutions surrounding it.

In the 1980s, the focus shifted towards the other end of the spectrum with the emergence of the ‘strategic choice’ approach championed by Kochan (1986) and his colleagues. According to this, industrial relations actors were to be seen as ‘agents’ who help to shape the environment in which they operate. There was also a shift in emphasis from the role of trade unions and the state to that of management, with the latter being seen as the key ‘strategic actor’, challenging and promoting change in the institutions of the employment relationship in the light of business pressures. Much writing about management’s role,

particularly that appearing under the HRM label, continues to adopt the approach, albeit it does not always acknowledge it.

As the rare example of its application in industrial relations shows, i.e. Visser and Hemerijck's (1997) analysis of industrial adjustment, social protection reforms and labour market management changes in the Netherlands, 'actor-centred institutionalism' offers considerable advantages over the prevailing approaches. It does not just open up issues that both the systems approach and materialism often ignore or down play, e.g. the importance of differences in institutions or the role of ideas considered in the next section. Crucially, it focuses on the interaction between agency and structure. It reminds us of the importance of understanding the motivation of actors. At the same time, it forces us to recognise the importance of context and its influence in shaping preferences. Above all, perhaps, it draws attention to the fundamental importance of the 'learning' that arises from the interaction of the parties – the extensive social dialogue framework in the Netherlands more or less obliged the parties to express their arguments in a 'public regarding way' that was sensitive to people's understanding of the problems.

Additionally, actor-centred institutionalism brings to the fore the question of methods. It opens up the possibility of embracing deductive as well as inductive methods along the lines of Scharpf's suggestion – for example, emphasising outcomes and the extent to which they differ from intentions and/or what might have been expected from a rational choice approach. It also implies that research needs to be not only comparative but internationally comparative – the key significance of institutions is unlikely to be fully captured in single country studies.

A final thought takes me back to the emphasis of recent writing on the agency-structure relationship. I believe that it is this kind of approach that needs to be promoted in considering the relationship between the generic features of the employment relationship and the institutions that give effect to them. At the moment there is a similar tendency to think in terms of emphasising one or the other. Thus, from a materialist perspective, Blyton and Turnbull (2004: 41) insist that institutions such as collective bargaining 'arise

from the employment relationship and cannot be understood in isolation from it'. It is the features of the employment relationship they suggest that make the subject of industrial relations 'distinctive', i.e. *the creation of an economic surplus, the co-existence of co-operation and conflict, the indeterminate nature of the exchange relationship, and the asymmetry of power* [their emphasis]. Yet, to paraphrase Ackers (2005: 540), these features tell us little about why outcomes can be very different from one workplace, sector and country to another. It is the *conduct* of the employment relationship that is important, which brings in the institutions and the organisations involved in shaping them. Just as the key issue in the agency-structure debate has become how the two are connected and how they influence each other, so too should the relationship between the employment relationship and institutions such as legal regulation or collective bargaining.

The 'ideas' problem

The issue in outline

This issue, which is closely related to the previous one, concerns the role of ideas. This is highly relevant in understanding the main drivers of change, in particular the balance between economic and political forces. Here, again, Hay (2002: 205-8) is helpful in summarising the main positions. In the first, *idealism*, ideas are held to have an independent influence on outcomes. In the second, *materialism*, ideas are accorded little or no influence and/or are regarded themselves as a product of material conditions. In the third, *constructivism*, it is the interaction between ideas and material conditions that is emphasised. Outcomes cannot be read off of the ideas or material conditions. Instead, they are 'a product of the impact of the strategies actors devise ... to realise their intentions upon a context which favours certain strategies over others and does so irrespective of the intentions of the actors themselves' (Hay, 2002: 208).

Campbell (2004: 93-100) is also helpful in clarifying the different types of idea and their effects in the context of policy making. Ideas, he suggests, can be 'background' or 'foreground' and 'cognitive' or 'normative'. By combining these distinctions, he identifies four main types: 'paradigms', 'public sentiments', 'programmes' and 'frames'.

Campbell goes on to emphasise the need to take into account a number of considerations in understanding the impact of ideas. These include the importance of identifying the main actors, understanding how institutions affect ideas as well as being affected by them and appreciating the conditions under which ideas are most likely to affect institutional change. In this last instance, Campbell observes that most accept that ideas are more likely to be influential in times of great uncertainty. The response of actors can differ, however, depending on their interpretation and/or definition of the problem they are faced with. It is here that institutions are critical.

To illustrate, Campbell quotes an industrial relations example that anticipates much of the more recent discussion about the impact of globalisation. In the 1970s and 1980s, British and Danish governments experienced recession, inflation, low productivity growth and unemployment. British policy makers defined the problem in terms of inflation and pursued monetarist ideas. Their Danish counterparts saw unemployment, labour market rigidities and poor technology innovation as critical and embarked on a series of industrial policy initiatives. The difference largely reflected institutional arrangements. Danish policy makers, with a long tradition of social dialogue, took for granted that unemployment was the priority. Their British equivalents, against the background of a much stronger adversarial tradition and the bitter legacy of industrial conflict in the 1970s, did not. Reinforcing these positions were the electoral arrangements. In Denmark, proportional representation helped to promote a more deliberative approach to problem solving. In the UK, a first-past-the-post system, coupled with the concentration of unemployment in Labour held constituencies, meant that there was less pressure on Conservative Governments in power from 1979 to adopt such an approach.

Campbell (2004: 119-122) is also helpful in offering us an overview of the different methods for analysing the effects of ideas on institutions and vice versa. The predominant approach is 'process tracing', which involves detailed or 'thick' description focused on explaining how ideas have affected decision making in specific cases. More ambitious approaches involve different forms of 'counter-factual' method. These can be

‘deductive’, where outcomes are compared to what might have been expected if the parties had pursued their structurally given interests, or ‘inductive’, where actual outcomes are compared to empirically-based accounts of actors’ interests and preferences.

Commentary

Although neither the systems approach nor materialism has been very conducive to considering the role of ideas in industrial relations, the subject is not without examples. Perhaps the most significant is that of ‘voluntarism’ – the proposition that ‘free collective bargaining’ was the most effective form of rule making virtually became an ideology in the hands of influential commentators such as Kahn-Freund (1955). More recently, examples include studies on the impact of globalisation/neo-liberalism or the third way (see, for example, Wood, 2000; Howell, 2004). There is also an increasing acceptance of the significance of the role of ideas on the part of key thinkers. Ackers (2005) makes the point that Richard Hyman, one of the UK’s most prominent Marxist industrial relations scholars, appears to be accepting that ideas and institutions play a key role in his 2004 article discussed later. Similarly, Paul Edwards, who brought materialism into the mainstream of industrial relations in his 1986 *Conflict at work: a materialist analysis of workplace relations*, could be said to be doing the same with ‘justice’ (Edwards, 2005) and ‘critical realism’ (Edwards, 2006).

The scope for further analysis of the role of ideas in industrial relations is considerable. Most obviously, there are the situations where ideas that have clear implications for the widespread diffusion of practice referred to in the earlier discussion of isomorphism seemingly become second nature. The classic example is performance management. Despite the over-whelming evidence that it has been more a hindrance than a help, especially given that it is so often difficult to measure individual contribution, British management continues to believe that individual performance pay is a ‘must-have’ element of the employment package (Kessler, 2005; Edwards and Wajcman, 2006). Similarly, there is what can only be described as the obsession with target setting in the public services. As authoritative bodies such as the Audit Commission (2003; 2006) and

the House of Commons Public Administration Select Committee (2003) have recognized, this has been a key consideration in the difficulties faced in the management of change. Highly centralized and extremely detailed targets, very often reflecting short-term political pressures, have considerably distorted management priorities as well as riding roughshod over local consultative processes.

This also reminds us that ideas play a key role in the 'negotiated order' that characterises the institutional framework of industrial relations. As Walton and McKersie (1965) make very clear, negotiation is not just about exchange. It is also about seeking to influence relationships, change attitudes and shape preferences. In their phrase, it is about 'attitudinal structuring'. Specific examples include the debates about whether recent years have witnessed the end of institutional industrial relations, which was the starting point for this paper, and whether there has been a fundamental shift from collectivism to individualism, where the opposing views of CBI and TUC are on record (Cridland, 2005; O'Grady, 2005). More generally, there is the use of the concept of globalisation to justify a neo-liberal economic policy regime. In Kay's (2003: 310) words, the principles of what is otherwise known as the 'American business model' or 'Washington consensus' (because of the association with the Washington-based International Monetary Fund and World Bank) are deemed to be 'unavoidable', 'because global business will migrate to the jurisdictions closest to them'. As well as improving our understanding of the role of ideas in shaping the 'negotiated order', there is also an important job to do in seeking to unpick the rhetoric from the reality.

The mechanisms problem

The issue in outline

In Campbell's (2004: 62) words, institutions are held to 'enable, empower, constitute, constrain, and exert path dependent and other effects'. Yet the detail of the mechanisms involved in institutional change are often 'poorly specified'. The result, he suggests, is that the theoretical and empirical arguments institutionalists put forward to account for such change are 'incomplete and unconvincing'. He goes on to list the main processes he believes deserve attention:

The role of 'entrepreneurship'. This is getting at the question of who are the 'movers and shakers' of institutional change. It is not so much concerned with the qualities of particular individual or organisations, however. Rather it is about uncovering whether actors are able to appreciate their position within a set of social relationships and institutions and whether or not they make the best use of it.

The role of 'bricolage'. By 'bricolage' is meant the tendency for actors to build on or borrow from the repertoire of existing institutional principles and practices to 'craft new institutional solutions that differ from but also resemble old ones' (Campbell, 2004: 69). Both substantive and symbolic elements may be involved. An existing institution or organisational form that has been set up or evolved to deal with one set of issues may be adapted to deal with others²⁰. Or resort may be had to key elements of the language and rhetorical devices consistent with traditional culture to support the initiative. The important implication is that the unaware observer may be lulled into a false sense of continuity, significantly underestimating the extent of the change that has taken place. Or they may assume that the change represents little more than Thelen's (2005a: 30) "faithful reproduction", when there has been a considerable shift, reflecting her 'periodic realignment and renegotiation'. Only by delving into the details of the changes and the processes involved is the observer likely to be able to judge.

Translation and enactment. This issue focuses on implementation and diffusion. Essentially, it is about recognising that implementation is not automatic – it depends very

²⁰ In her comparative study of the evolution of training systems, Thelen (2005a: 35-6) suggests that there are two main mechanisms through which institutions are transformed. One is 'institutional layering', which involves the 'grafting of new elements onto an otherwise stable institutional framework' – she instances the extension of German training arrangements from the artisanal sector to the developing manufacturing industries. The other is 'conversion', where the 'adoption of new goals or the incorporation of new groups into the coalitions on which institutions are founded can drive a change in the functions these institutions serve or the role they perform' – here she quotes the example of the incorporation of the German trade unions, who initially saw the arrangements as the major threat they were designed to be. In her joint work with Streeck (Streeck and Thelen, 2005: 31) she adds three further mechanisms: 'displacement', where change occurs because of the 'rising salience of subordinate relative to dominant institutions'; 'drift', where change happens largely because of a 'neglect of institutional maintenance'; and 'exhaustion', where institutions wither away over time.

much on local circumstances. There is also a ‘strong possibility that the principles and practices will be ‘transformed, modified and otherwise altered as they are translated into local practice. It depends, crucially, on ‘local institutional contexts, power struggles, leadership the considerations that influence whether or not is implemented into local practice’.

Commentary

Although some of the language and the types of change is useful, I believe that this is an area where industrial relations analysis has at least as much to ‘give’ as it does ‘receive’. If there is a lesson here, it is that the relative detachment of the subject from the mainstream, coupled with the different language used, means that its contribution has rarely been appreciated.

Examples of industrial relations’ contribution can be found at the workplace, national and international level. At workplace level, as well as the many investigations into the impact of legislation on practice, there is Flanders (1964) classic study of the Fawley productivity agreements in the 1960s, Batstone and his colleagues’ study (1977) of shop stewards in the 1970s, Ferner’s (1988) study of privatisation in the 1980s and, more recently, Edwards and his colleagues’ study of the impact of the National Minimum Wage in SMEs (Arrowsmith et al, 2003; Gilman et al, 2003). Issues of ‘entrepreneurship’, ‘bricolage’, ‘translation’ and ‘enactment’ are prominent throughout these studies even if the language and starting points are usually different. At the national level, the same is true of Visser and Hemerijck’s (1997) study of developments in the Netherlands mentioned earlier. In particular, Visser and Hemerijck identify three main types of ‘bricolage’: ‘patching up’, where additional rules and procedures are grafted onto existing institutions and processes; ‘transposition’, where institutions established for a particular purpose are put to different use; and ‘social learning’, where actors are exposed to a range of fresh influences whose implications they have to discuss and debate in a ‘public regarding way’. Finally, at the international level, there is Falkner’s (1998) study of the development of the EU social dimension. In particular, Falkner highlights and

analyses the key 'entrepreneurial' role of the European Commission and the directorate in charge of social affairs (DGV).

Theory questions

As well as offering many specific insights, the institutional 'turn' has also been a considerable stimulus to thinking about theorising more generally. In particular, it has encouraged a rich variety of positions leading to an increasing acceptance that it is inappropriate to think in terms of one universal standard. Rather theorising can be variable, reflecting 'different assumptions about the nature of the ... reality being investigated, the extent of the knowledge we can hope to acquire of it, and the strategies appropriate to its analysis' (Hay, 2002: 37).

As Thelen (2005b) reminds us, theorising is not just about theory testing. It also embraces theory refinement, concept development and exploring causal relationships that appear to lie behind observed correlations. In the last instance, she quotes the perceived wisdom that strong trade unions help to bring about large welfare states and centralised collective bargaining. Theoretically informed empirical enquiry suggests that the reverse order is the case: it is centralised collective bargaining that brings about large welfare states and strong trade unions.

Three perspectives

Three main perspectives on theorising can be found in the institutional literature. One is 'positivism', with which the 'rational choice' approach can be bracketed. The other two are 'critical' or 'scientific realism' and 'constructivism', which more loosely reflect contributions from the 'historical' and 'sociological' schools.

Following Hay (2002: 29, 49), these perspectives can be contrasted on a number of dimensions:

- *The role of theory.* The main distinguishing feature involves expectations about the type of explanation and whether or not the aim is the discovery of laws dealing with empirical regularities, i.e. whenever X, then Y.
- *Theoretical assumptions.* Especially important here is the extent to which the world is seen as characterised by regularities; whether the main actors are thought to be individuals and/or groups; whether rationality is regarded as universal or context and time dependent; the degree to which social systems are thought to be closed or open; and the causal role for ideas.
- *Analytical approach.* The critical consideration here is the balance between induction and deduction. The first privileges evidence and observation and, on the basis of these, tries to draw some generalisable conclusions. The second starts with a proposition or hypothesis derived from established facts or their theoretical assumptions. It then uses empirical enquiry to confirm, reject or modify the initial proposition.
- *Methods.* The main contrast is between, on the one hand, comparative and historical analysis and, on the other, modelling, i.e. developing idealisations that seek to portray the essential features of a situation.
- *Values.* Especially important here is the relative priority accorded to the complexity or parsimony (i.e. simplicity and succinctness) of the assumptions that are made, together with the emphasis placed on their realism.

The following summaries of the three main perspectives reflecting these dimensions draw on Hay, (2002), Edwards (2006) and (Hindmoor, 2006, ch 9).

Positivism. This holds that the role of theory is to simplify our understanding of social phenomena. It equates explanation with the identification of general laws along the lines of the natural sciences. The analytical approach is essentially deductive, with hypotheses being derived from theoretical assumptions grounded in ‘methodological individualism’, rationality and self-interest. Methods typically involve modelling with mathematics and econometrics playing an increasingly important role. The approach especially values parsimony in its theoretical assumptions and predictive capacity in its explanations. It is criticised for working with unrealistic assumptions, giving limited attention to preference

formation, ignoring context and addressing empirical regularities rather than the underlying causal mechanisms. Its more or less exclusive reliance on ‘methodological individualism’ also tends to prevent it from asking *why* things occur as they do. Even so, its attractions, above all to policy makers, are significant - in Machin’s (2006: 182) words, ‘What may be lost from what some people think of as rather simplistic modelling of individual behaviour is gained by the clarity of predictions’.

Social constructionism. This holds that the role of theory is to inform and sensitise analysis to the complexity of social phenomena. It equates explanation with identifying the beliefs and desires that lead people to act in particular ways. A core assumption is that there can be no objective social or political reality independent of our understanding of it. The method is essentially comparative and historical, i.e. inductive rather than deductive, with a focus on the social processes through which people create meaning. It especially values complexity and realism in making assumptions. It is criticised for working with untestable assumptions, stressing generic processes over causal explanation and ignoring the influences of structures that lie outside the processes. It also rarely asks why construction takes a *particular* form under given conditions.

Critical realism. This holds that the role of theory is to understand the empirical regularities of social phenomena and to determine when they occur/do not occur. It equates explanation with the identification of the causal mechanisms behind these regularities. Although the social world is seen as being different from the natural in that it involves human intervention, institutions nonetheless develop with logics independent of the choices of individual actors. The method is essentially comparative and historical involving a mix of deduction and induction with a focus on institutions. It especially values complexity and realism in making assumptions; it is also stresses the importance of context. It is criticised for its lack of predictive capability, a tendency to description for its own sake, proneness to structuralism and difficulty in adequately accounting for change.

Theory ‘in’ rather than theory ‘of’ industrial relations

There has yet to be a widespread engagement in industrial relations with these different perspectives and the debates surrounding them. Arguably, this is largely because industrial relations has not resolved a prior question. Essentially, to borrow a phrase from Hyman (2004: 267), this boils down to whether the aim is to produce a theory ‘of’ industrial relations or theory ‘in’ industrial relations. This, in turn, is bound up with sentiments about two issues that continue to bedevil thinking about the subject: whether industrial relations is to be seen as a discipline or an area of study; and, notwithstanding my comments in the Introduction, whether its concern is to be with trade unions and collective bargaining or the institutions dealing with the conduct of the employment relationship more generally.

Although they are rarely stated explicitly, it is possible to identify two main positions. The first is that the subject is a discipline primarily concerned with trade unions and collective bargaining. Very often this position goes hand in hand with the view that the ambition should be to develop an integrated theory ‘of’ industrial relations that seeks explanation in terms of the law-like and predictive regularities associated with the positivist perspective. Kaufman (2000a; 2004b) in the USA is perhaps the most notable proponent. Indeed, he believes that it will be possible to develop *both* a theory of industrial relations, based on Dunlop’s (1959) *Industrial relations systems*, and a theory ‘of’ HRM, drawing on the TCE framework.

The second view, also rarely spelt out, sees industrial relations essentially as an area of study concerned with not just trade unions and collective bargaining but the conduct of the employment relationship more generally. It recognises that better theoretical integration is needed, but believes that a self-contained theory ‘of’ is inappropriate. Hyman (2004) usefully summarises the main criticisms: the systems approach that is the starting point is fundamentally flawed because of the contested nature of the field; it is not realistic to expect to be able to give such theoretical coherence to a study that has evolved in an ad hoc fashion; and it is a mistake to treat industrial relations as a ‘largely

self-contained sphere of social life' (267). Hyman also goes on to emphasise the need to be 'sensitive to difference' (271). His conclusion is that, while theories are needed, these will 'necessarily be drawn from the wider spectrum of social understanding ... they will not be theories *of* [his emphasis] industrial relations but applications of more encompassing theoretical insight' (289).

I find it is very difficult to come away from the institutionalism literature without being confirmed in the belief that it is theory 'in' industrial relations rather than theory 'of' industrial relations that makes the more sense. To begin with, the discussion of TCE suggests that the levels of abstraction that would have to be involved in a theory 'of' would render the exercise pretty meaningless. It is difficult to escape the same conclusion in the case of Dunlop's industrial relations systems framework, however useful it may be as a device for organising material. It is surely not for want of expertise that several generations of scholars have now passed by with little or no movement in the direction of a theory 'of'. It is rather that the context-dependent phenomena that industrial relations deals with do not easily lend themselves to such an approach.

A critical point to emphasise is that this judgement holds true even if the field is narrowed making possible more parsimonious assumptions. Restricting industrial relations to the study of national institutional frameworks of collective bargaining still means grappling with the interaction between state traditions, the timing and pace of industrialisation and the origins and early development of the labour movement. Moreover, going down this route means that the subject becomes detached from the employment relationship, putting at risk any claim to distinctiveness, especially as these variables also figure prominently in the study of national business systems²¹. Similarly,

²¹ For example, Godard (2004) sets himself the task of establishing 'both the need and basis for a "new institutionalist" IR, one that accounts for the broader institutional environments within which work and employment relations are embedded and their implications for the interests, orientations and actions of the parties' (2004: 229-30). Yet he focuses almost exclusively on explaining cross-national variation in national level institutions, believing that 'it is national-level institutional environments and traditions that primarily define IR systems' (2004: 230). Somewhat quixotically, he concludes by emphasising the limitations of his own approach:

... although the new institutionalism [*that he is advocating*] has a great deal to contribute to the field, its main contribution has to do with broader issues of economy and society. It may have less to offer to

however valuable TCE is in illuminating key aspects of the employment relationship, it is asking a great deal to expect it to come up with a theory 'of' 'HRM', even if the subject area is defined very narrowly in terms of the 'human resource function' as it is in Kaufmann's proposition. Such an approach presents us with the same dilemma confronting Marsden's attempt to develop a TCE-based theory of employment systems – a major factor in accounting for the demand for such a function is likely to be the impact of state regulation, which means making connections with the wider institutional framework. The next section emphasises the importance of an analytical focus that embraces *both* the conduct of the employment relationship in the workplace *and* the wider institutional framework.

A moment's reflection on the debates taking place in institutionalist analysis also confirms that there is nothing to be ashamed about in abandoning the quest for a theory 'of'. There is certainly no need to feel that the absence of such a theory makes a subject's students second class citizens. The situation in industrial relations is very similar to that in other fields such as international relations. The difference is that most commentators in these areas seem to have come to terms with the incompatibility between understanding the significant realities of their subject matter, on the one hand, and the demands of a theory 'of', on the other. The result is that they have not suffered the continuous drain on confidence and diversion of energy that a fixation with theory 'of' has led to in industrial relations. Even rational choice theorists, it needs to be emphasised, are rarely in the business of seeking a theory 'of' an entire subject area. Rather the emphasis is on showing how the perspective illuminates specific issues, such as bureaucracy or coalitions or collective action (for further details see Hindmoor, 2006: Chs 3, 5 and 6).

with regard to many of the narrower, more focused topics that continue to form an important part of the field (e.g. grievance arbitration). But it could at a minimum help to broaden the field's scope and relevance and, ideally, frame on-going research on narrower topics, encouraging greater sensitivity toward broader institutional conditions and how they matter (2004: 255).

Arguably, Godard's difficulties largely stem from more or less equating the 'new institutionalism' with the 'varieties of capitalism' literature. In any event is surely mistaken in suggesting that institutionalism has little to say about his 'narrower' issues such as grievance arbitration. Hyman's (1972) use of Walton and McKersie's (1965) framework to study the operation of the UK's engineering industry's disputes procedure is a classic example showing what can be done.

Much more positively, I think that on the basis of the review there are significant opportunities to exploit the freedom that abandoning the quest for the ‘holy grail’ of a theory ‘of’ would bring. For example, in line with the theory ‘in’ approach, Edwards (2006), has suggested that there is much to be gained from explicitly adopting a critical realism perspective in industrial relations analysis given the contested nature of the institutions industrial relations deals with and the need to be sensitive to the context and the contingency of events. This involves highlighting key issues and asking why things occur as they do, what are the underlying mechanisms producing any regularities, what effects do they have and what are the conditions under which they happen. He instances team working and pay determination and the causal powers of legislation, where progress can be shown to have been made using a distinctive industrial relations approach that is sensitive to the importance of institutional arrangements as well as the contradictions and tensions inherent in the employment relationship²².

It may be objected that the multi-disciplinary approach that critical realism implies is at odds with the need for greater integration (Kaufman, 2004a). Yet multi-disciplinarity and coherence are not incompatible if there is a distinctive approach and a shared focus (more of which below) - Walton and McKersie’s *Behavioural theory of labor negotiation* (1965) is an excellent example confirming the point. A multi-disciplinary approach is also inescapable if the focus is to be on issues as opposed to methods. The alternative single disciplinary approach, if anything, leads to even greater fragmentation. As Flanders (1970: 85) insisted many years ago, the problem is that the essentially methods-based approaches of the traditional disciplines ‘tear the subject apart by concentrating attention on some of its aspects to the exclusion or comparative neglect of others ... a partial view of anything, accurate as it may be within its limits, must of necessity be a distorted one’.

Moreover, as the review also confirms, a preference for one perspective need not be to the exclusion of others. The benefit of multi-disciplinarity is that there is space for rational choice and constructivism as well critical realism – the implied criticism in an

²² Some of the contributions in these areas have also had a strong cross-national focus. See, for example, Rubery and Fagan, 1995; Rubery, 1998.

earlier section of Marsden's (1998) attempt to develop a TCE based theory 'of' employment systems is not to deny the valuable insights that this work has produced. There is also considerable opportunity to combine approaches as in the case of Scharpf's (2000) suggestions discussed in an earlier section²³.

The crucial point needing emphasis in the light of the review is that, to be effective, developing theory 'in' industrial relations means a 'progressive' research agenda, i.e. one that 'builds on what has gone before to improve conceptualization of the phenomenon in question and to advance explanation of its causes and consequences' (Edwards, 1993; 2006). Ideally, to make the most of industrial relations' heritage, this should also be rooted in theoretically-informed empirical enquiry that engages with institutionalist analysis more generally, more of which below. Such an agenda is fundamentally important if industrial relations is to fulfil its capabilities. It is not just that industrial relations has tended to be ad hoc in its choice of issues for attention, very often reflecting immediate policy maker and practitioner concerns. As previous sections have intimated, it has too often in the past developed analysis that has wider significance, only to allow it to lie fallow and see a very similar approach or idea emerging much later in another field²⁴.

Further reflections – from 'regulation' to 'governance'

In my view, the contributions arising from the 'institutionalist turn' offer a set of concepts and range of theoretical perspectives that could help considerably in re-energising industrial relations. No less importantly, they point in the direction of the robust

²³A recent example blending TCE and power considerations in the analysis of large companies' approach to sector bargaining arrangements is to be found in Arrowsmith, Marginson and Sisson (2003).

²⁴Perhaps I can be forgiven for quoting a personal example. Coming recently to Kathleen Thelen's 2005a *How institutions evolve: the political economy of skills in Germany, Britain, the United States and Japan*, I didn't expect to see any reference to my own *Management of collective bargaining: an international comparison* published in 1987 and so wasn't surprised that there was none. I was very pleasantly struck, though, to find that the central thrust of her argument was more or less identical to the one I developed to explain differences in the structure of collective bargaining – even down to emphasising the critical importance of developments in metalworking. I can excuse my failure to relate my findings to wider debates by saying that the institutional architecture that Thelen was able to draw on wasn't available to me in the early 1980s. A more honest answer would be that I was insufficiently attuned to the need to make such links.

analytical focus that, arguably, industrial relations has been lacking. The subject has had a long-standing analytical focus, i.e. job or employment regulation. Arguably, though, that this is a term with little meaning for most people - it is something that even industrial relations scholars rarely refer to, let alone make a central focus of their work.

Complicating matters is that the term 'regulation' has come to be viewed very negatively – it is narrowly associated with individual employment rights, which critics say add to the costs of operations and make for inflexibility. Perhaps not surprisingly, in the absence of a widely recognised focus, many of the myths and misunderstandings about industrial relations have been allowed to perpetuate: for example, that it is essentially concerned with 'problem' issues such as strikes, which have seemingly been 'dealt with'. Also hardly surprising is that there has been a fragmentation of approach, in particular, between treatment of the institutions dealing with the individual and collective dimensions of the employment relationship. The very unfortunate result, notwithstanding talk of the 'knowledge economy', is that the overall significance of the area - not just for business performance, but also personal development, the family, anti-social behaviour, crime and participation in civil society - has increasingly been lost sight of.

In the light of the foregoing, I believe it is time to follow Edwards' (2005) suggestion and adopt 'governance of the employment relationship' as the analytical focus of industrial relations. Moreover, I suggest this holds regardless of whether the preferred title of the subject is 'employment relations', 'employee relations' or 'human resource management'. If a more encompassing statement is required, it might be *the institutions involved in governing the employment relationship, the people and organisations that make and administer them, and the rule making processes that are involved*.

At the risk of repeating some of the things said earlier, it is worth spelling out the attractions that come from adopting 'governance' as the focus of industrial relations studies:

1. Like regulation, it is capable of dealing with both practice and performance. In formal terms, the institutions involved in the governance of the employment relationship

are an intervening or mediating variable as well as a dependent one. This means that the central tasks of industrial relations studies are to explain the causes and assess the consequences of the institutions involved.

2. It is fully consistent with long-standing emphasis on job regulation, making it possible to promote a 'progressive' research agenda that builds on what has gone before. At the same time, it connects with the study of 'governance' in other environments, enabling engagement with a much wider body of institutional analysis.

3. Its' language is more meaningful than that of 'job regulation', inviting comparisons in terms of its significance with 'corporate governance'. It draws attention to industrial relations' focus on the 'handling of contractual relations' or 'exchange interfaces'. It also captures, in the words of MLG quoted earlier, some of the very special features of the employment relationship: a 'complex and contextually defined relationship', a combination of 'public-private institutions', a mix of 'informal and gradual institutional evolution' and 'negotiated order rather than an order defined by a formalized legal frameworks'. In Olsen's 'no shared vision' and 'no shared understanding of the institutional requirements and possibilities', there is even some capturing of Edwards' (1986) 'structured antagonism' associated with the employment relationship .

4. It helps to emphasise that the employment relationship involves 'managerial' as much as it does 'market' relations (i.e. the 'visible' as opposed to the 'hidden hand'). Critically important here is the defining feature of the employment relationship, i.e. the 'residual control rights' that enable employers to define employees' duties *after* rather than before they have entered into the employment relationship.

5. It helps to put the employment relationship into context. The *conduct* of the employment relationship depends on the institutions involved in its governance and the organisations shaping them. These institutions in turn reflect the interplay between

internal performance issues and external market, technological and political developments (Grimshaw and Rubery, 1998).

6. It sets clear boundaries in as much it focuses on the employment relationship. At the same time, it is comprehensive or encompassing in its coverage of the issues involved. It highlights the different types of institution or rule that are involved (substantive and procedural, formal and informal, public and private); the different sources of rule making (unilateral, collective bargaining, government and the court system); and the different levels of at which rules are made (workplace, company, sector, national and international).

Just in case there is any doubt, I also see its coverage embracing the following:

- the institutions of work organisation, i.e. job design, the grouping of jobs into activities and the co-ordination of these activities - some kind of hierarchy may be intrinsic to work organizations, but its nature and extent can and do differ, even allowing for very similar technology and market conditions
- the individual and collective dimensions of the employment relationship - it reminds us that industrial relations is not just concerned with trade unions and collective bargaining, while 'human resource management' is not just about individual attitudes and preferences
- gender, work-life balance and family links – even if it may not make the links automatically, in emphasising informal as well as formal institutions, the institutions of work organisation and the individual and collective dimensions of the employment relationship, it goes towards making it possible to meet the criticisms levelled at many industrial relations studies (see, for example, Ackers, 2002; Greene, 2003; Wajcman, 2000).

7. It is relatively impartial or 'inclusive' in terms of the interests involved in the employment relationship²⁵. The term 'governance' denotes a measure of order and stability; it can also embrace the management interest and concerns for efficiency. At the

²⁵ I'm conscious here of Kelly's (1998) argument that industrial relations has tended to put too much emphasis on the employer's need for control and co-operation to secure work performance.

same time, many of the rules involved are rights with links to issues of quality of working life, citizenship and industrial democracy. It is difficult, for example, to see how it is possible to operationalise the 'justice' that is rightly being promoted as a key issue (see, for example, Budd, 2004; Edwards, 2005) in the absence of an over-arching governance' paradigm. The same goes for employee 'voice', trust and legitimacy (Coats, 2004).

8. It is also 'inclusive' in that it encourages disciplinary openness. Here it maintains a longstanding tradition - industrial relations has always been multi disciplinary and issue rather than method driven. Clearly there are dangers in an ad hoc approach. 'Ad hocery' is not necessarily a feature of multi-disciplinarity, however. A framework can be both multi-disciplinary and coherent if the subject area is held together by a shared focus and distinctive approach in terms of the questions it poses and the methods it uses.

9. It is open to deductive as well as inductive approaches. An inductive approach is necessary to ensure that teaching and research are empirically grounded and based on realistic assumptions. At the same time, greater use of the deductive approach would help to ensure that facts are not just accumulated for their own sake.

10. Finally, it offers a realistic and potentially fruitful paradigm for policy making²⁶. It not only accurately portrays the issues policy makers have to consider– much more so than the currently dominant labour market paradigm – but also gives greater legitimacy to

²⁶A recent report for the European Foundation for the Improvement of Living and Working Conditions on *New structures, forms and processes of governance in European industrial relations* (Leonard et al., 2007), recognises that governance is a vague concept. It also acknowledges that it is one that practitioners are unfamiliar and/or uncomfortable with. Yet in the current European context, the authors suggest that it is useful for three reasons:

- It captures policy makers' interest in policy instruments that actively involve the social partners or even leave socio-economic governance entirely in their hands.
- It allows the changing nature of industrial relations to be considered within the context of the multiplication of levels of governance, from the local, through regional and national, to the European and international levels.
- It draws attention to the evolution of the 'softer' governance instruments of industrial relations over the past decade – especially developments in social dialogue such as voluntary agreements and the Lisbon strategy's 'open method of coordination'.

their involvement. Given the wider implications, the quality of working life cannot be left to the vagaries of the ‘hidden hand’ of market forces. Crucially, policy makers should not have to apologise for seeking to balance fairness against flexibility. As Edwards (2005) has pointed out, the grudging approach to employment rights that the labour market paradigm encourages is counter-productive - the more such rights are presented in terms of ‘burdens’, the less likely there will be a realisation of the benefits.

Implications - not just a one way street

A fair question to ask is what differences a ‘governance’ focus would make, especially taking into account the earlier comments and suggestions. In terms of teaching, I suggest it would mean greater emphasis on the employment relationship itself – the industrial relations perspective on this remains misunderstood (see, for example Coyle-Shapiro et al., 2005); more attention to the institutions directly involved in its ‘governance’, i.e. work organisation and managerial policies and practices; and more space for the concepts and methodologies of institutional analysis²⁷, including more explicit and more comprehensive treatment of ‘negotiation’ and ‘power’. Overall, there is a more substantial role for politics in the disciplinary toolkit that industrial relations draws upon.

In terms of research, it would mean emphasising the causes and consequences of the institutions involved in the governance of the employment relationship. Here, arguably, it is not so much a question of subject matter – bearing in mind the importance of developing the ‘progressive’ research agenda, it might make sense to concentrate initially on those areas where Edwards (2006) suggests progress can be shown to have already been made using a distinctive industrial relations approach, i.e. work organisation and pay determination and the causal powers of legislation. Rather it is a matter of methodology, where there are two major challenges. One is to develop the multi-level

²⁷To take just one example, Paul Marginson suggested that comparative institutional analysis might be singled out here and its role emphasized for comparisons between firms within a sector, sectors within a country and national systems etc. Especially relevant would be debates around whether to compare institutions or the functions that institutions play or the relationship between institutions. Also important would be the different insights to be obtained from comparisons based on the ‘method of agreement’ (close ‘similars’) or the ‘method of difference’ (‘dissimilars’). For further details, see Djelic (1998).

perspective that is necessary to improve our understanding of 'institutional creation, reproduction and development' (Thelen, 2005b). To say that this requires more internationally comparative work is itself a measure of the task. The other is to unravel the links between practice and performance, where the task is also immense. For this is not just a matter of 'big science' comprising large-scale surveys and the collection of detailed data using sophisticated instruments (Wall and Wood, 2005). It also means contextualized inquiry reflecting the complexity and variability of relationships (Edwards, 2006; Hesketh and Fleetwood, 2006). It is also not just a matter of business performance, but also economic, political and social outcomes more generally.

For policy makers, a 'governance' focus not only gives greater legitimacy to their involvement in the workplace, but also brings opportunities for a fresh approach. Individual employment rights, which have been the main form of intervention in recent years in the UK, are fine as far as they go. The downside is that they are not automatic in effect and costly to enforce. They also deal only with basic standards rather than the continuous improvement that is needed. A 'governance' focus would mean being able to capitalise on the 'coercive', mimetic' and 'normative' opportunities that the increasing interest in corporate social responsibility offers. For example, making provision for the compulsory reporting of policies and practices in key areas such as equal opportunities, health and safety, information and consultation, and training and development would enable policy makers to set a strong sense of direction without laying themselves open to the charge of imposing a 'one-size-fits-all' approach. At the same time, regular social audits would enable the many benefits of benchmarking to be realized, which should appeal to businesses already pursuing high quality policies and practices. The spotlight could also be on learning and continuous improvement rather than conformity as an end in itself. Crucially, too, there is scope to build in greater downwards as well as upwards accountability - requirements for programmes to be developed in consultation with employee representatives could give a considerable stimulus to much-needed dialogue. Likewise, there could be provision for greater local community involvement on relevant issues.

Considerable though the potential of recent developments in institutional analysis is, making the most of the opportunity presented does not just mean industrial relations borrowing from the work of contributors from the traditional disciplines. Arguably, industrial relations has much to offer to the developing cross-disciplinary debate on institutions. Moreover, there would be considerable advantages from doing so. Greater engagement would help to re-enforce the cross-disciplinary nature of industrial relations. It would help to focus attention on analysis and to sharpen its content. It would help to ensure that industrial relations received due credit for any advance in thinking it made that had wider significance. It would help to broaden industrial relations' appeal. Here, perhaps most importantly, it would help to encourage a continuous flow of high quality young people to join and promote further progress in this exciting area of study.

Arguably, there is a substantial contribution to be made at three levels. At the first, there are a number of very specific areas where this could be done, an excellent model being Jacoby's renowned 1990 article showing how the 'new institutionalism' could benefit from many of the insights of the 'old'. For example, the previous discussion suggested that industrial relations had much to 'give' to the discussion of the mechanisms of change. Especially relevant here is Morgan's (2005: 415) comment: 'The institutionalist argument ... needs to develop a stronger 'theory of the firm' that pays great attention to firm-level dynamics and particularly the power of firms to innovate in and unexpected ways'. Here, more particularly, industrial relations has much to contribute to the debate about the UK productivity record (Grimshaw and Rubery, 2003; Edwards, 2006).

Another area ripe for engagement, linking MLG, institutional concepts and change issues, is public management reform. Not only does much of the debate, both scientific and policy, fail to take into account the inherent tensions involved in MLG systems outlined earlier, but also shows little awareness of the key problems that have to be faced in major change programmes involving employees.

At a second, and more fundamental, level, there are considerable opportunities to draw on industrial relations' empirically-grounded knowledge of negotiation, power and conflict, all considerations that very often receive no more than token attention. An excellent

example of what might be done here is Edwards and Wajcman's *The politics of working life* (2005), which is organised round three inter-linked sets of ideas. These are *connections and contradictions*, i.e. the mix of competing objectives, such as control and commitment, that shape work organisations; *structures and choices*, which picks up the extent to which people are not just passive victims of the structures in which they work but also capable of influencing them for the better; and the *economic, political and ideological processes* that are involved in managing organisational life – emphasising how ideas interact with economics and politics to account for the particular 'hegemony' of some ways of thinking over others. In my view, the argument and illustrations help to clarify more than ever before the links between developments in the workplace, the national business system and the wider world of globalisation.

Thirdly, and finally, there are the wider effects of the 'governance of the employment relationship' to be emphasised, bearing in mind the very large number of people involved (i.e. more than 25 million or six out of ten of the population above the age of 16 in 2006 according to the Office of National Statistics) and the significant amount of time they spend in employment. The areas affected range from health and safety, though personal development and the family, to business performance, and key macro-level considerations such as productivity and social capital development. Much of the discussion of these topics either ignores the effects of people's experience at work altogether or, at best, makes assumptions about them based on national institutional frameworks rather than knowledge about what is happening in workplaces.

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