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# ***International differences in employment relations: What are the relative merits of explanations in terms of strategic choice or political economy?***

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We dedicate this paper to the memory of our friend and colleague, the late Vic Taylor formerly of the Australian Graduate School of Management, University of New South Wales. We are so sorry that we will no longer be able to discuss this paper with him.

## **ABSTRACT**

In comparative employment relations (ER), there are contrasting arguments that there are: 1. international pressures leading to convergence and 2. national pressures leading to divergence. This paper aims to evaluate the relative merits of the 'strategic choice' and 'political economy' approaches in explaining national differences in ER arrangements. We identify four 'touchstones' of differentiation between ER systems: the government's role, the degree of enterprise management autonomy, the character of unionism, and the role of collective bargaining. We locate seven national ER systems in terms of the four touchstones. We argue that a political economy approach has more potential than a strategic-choice approach as a framework for comparing ER systems internationally, especially if our focus extends to a wider range of countries than the usual developed market economies (DMEs), for example, to include also developing economies of Asia and of central Europe.

## ***Introduction***

In their comparative study of ER in telecommunications and car manufacturing, Katz and Darbishire (2000) identify 'converging divergences' whereby ER systems are converging on nationally similar systems albeit with high levels of internal differentiation. Their analysis echoes many other discussions of convergence, in which the requirements of modernisation (Kerr *et al.*, 1962), or of late development (Dore 1973), or of international competition (Porter 1985), or of modernising elite strategies (Sil 2002) pull ER systems in similar directions. Such convergence pressures are reinforced by the human resource (HR) strategies of multinational corporations (MNCs) and by the influences of international agencies and supranational governments, in particular the European Union. Macro and micro level influences are leading in the same direction, towards similar patterns of ER. The 'variety of capitalisms' school has been identifying ways in which different 'business systems' are associated with different patterns of ER (Hall and Soskice 2001). Institutional arrangements, including state structures, modes of collective organisation differ between countries, leading to different forms of ER. There are international pressures leading to convergence, but national pressures leading to divergence (Locke and Kochan 1995).

Our first, substantive, objective is to give a sharper focus to this emerging consensus. Our second, methodological, objective is to evaluate the relative merits of 'strategic-choice' and 'political economy' approaches in explaining differences in national ER arrangements. Strategic choice concepts began to be used extensively in comparative ER research in the 1980s (Kochan *et al.*, 1986; Purcell 1989; Storey 1989). By 2000 the concepts of strategic management had become an accepted vocabulary of much comparative ER research. However, others were developing a broader 'political economy' approach, (Hyman 1975; Frege 2003). As the following sections show, different approaches highlighted different issues and supported different conclusions, even where empirical analyses agreed, for example in discussions of the decline in union density.

To realise these two objectives the paper is in five sections. The second section identifies four 'touchstones' of differentiation between ER systems: the role of the state, the degree of enterprise management autonomy, the character of unionism, and the role of collective bargaining. The third section outlines the strategic-choice approach to analysing ER. The fourth section outlines an alternative political economy approach to analysing ER systems, which we believe to be a more promising framework. The fifth section is a brief conclusion.

### 'Touchstones' of national employment relations systems

From Dunlop (1958) onwards, the ER literature provides several formal models of national ER systems. For example, Hall and Soskice's (2001:21-33) model of co-ordinated market economies and liberal market economies, exemplified respectively by countries like Germany and the US, provides a useful means of examining differences, such as between education, training and ER. However, instead, we identify four touchstones that represent the major elements in much ER literature.

The first touchstone is the government's role in ER. How far does the state and the broader regulatory regime determine the structures, policies, and outcomes of ER? The state's role in establishing the regulatory framework encompasses legislation (e.g. fundamental property rights as well as labour issues) and executive action (e.g. in industrial disputes), and cultural manipulation (as in the demonisation of specific groups). Crouch (1993) identifies the interpenetration between the state and the ER system. The business system may also influence ER, through legitimating different patterns of action (Whitley 1999).

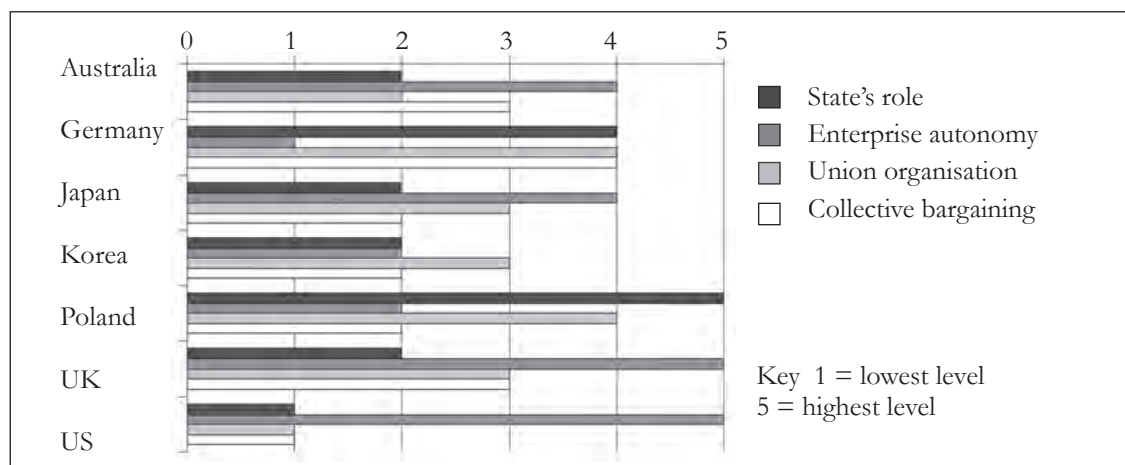
The second touchstone is the degree of enterprise level management autonomy in ER: how free is enterprise level management to develop ER according to its own perceptions of the enterprise's strategic requirements? Managers may or may not be constrained by the state, by investors, by other employers, by union power, or by public expectations.

The third touchstone relates to collective employee organisation, whether informal through workgroup action or, especially, formal, through unions. More specifically, systems differ in the density of union membership, the degree of union focus upon economic or upon broader political and social issues, and the relationship between unions and political parties.

The fourth touchstone is the role and pattern of collective bargaining. The role refers to the extent to which collective rather than individual determination prevails in job regulation. The pattern includes the level of centralisation or decentralisation in bargaining structures.

We consider seven countries (Australia, Germany, Japan, South Korea [hereafter referred to as Korea], Poland, the UK and US) against the four touchstones. Figure 1 depicts the current situation based on: Bamber *et al.* (2004); supplemented by Frege (2003) for Germany, Meardi (2002) for Poland, Edwards (2003) for the UK, and Katz and Kochan (2003) for the US. The role of the state is seen as lowest in the US, whilst at the medium level in Australia, Japan and Korea, but at a significantly higher level in Germany and still higher in Poland. The level of enterprise autonomy is highest in the US and UK and slightly less in Australia and Japan. Enterprises enjoy less autonomy in Poland and even less in Germany. Union organisation is least in the US. It is lower in Australia, Korea and the UK than in Germany or Poland, though density has declined even in Germany and Poland since 1989. Collective bargaining remains a key, but not a dominant, means of pay determination in Australia and the UK, whilst it is higher in Germany and lower in Korea, Japan, Poland and even lower in the US. The ER profiles of the four countries thus differ significantly, differences that would be even more evident if space permitted further elaboration and empirical demonstration.

**FIGURE 1**  
Four employment relations touchstones in selected countries



## **Comparative employment relations from a strategic choice perspective**

How does the strategic-choice perspective relate to the four touchstones?

**ROLE OF THE STATE:** In view of its focus on enterprise-level business strategy, it is not surprising that those working in a strategic-choice perspective have devoted little attention to the role of the state. The focus of strategic-choice research on ER at the enterprise level is represented in Boxall and Purcell (2003) where the close link between HR management (HRM) and business strategies is the major theme. Sources which appear to give greater weight to the role of the state see it as part of the 'external context' of the firm, rather than an integral element in the ER system (Mabey *et al.*, 1998; Newell and Scarbrough 2002).

The increases in management power were themselves a reflection of changes in state policies, at least in part. In the US the deregulatory policies adopted by successive administrations undermined the commitment to collective bargaining originally based on the New Deal legislation of the 1930s, resulting in a 'representation gap' (Towers 1997). In the UK the post-1997 New Labour government continued many of the industrial relations policies initiated by the earlier Conservative governments. In Germany, the combination of enterprise level codetermination and industry wide collective bargaining is buttressed by legislation (Mückenberger 2003). In Poland the state's approach to privatisation determined the shape of the ER system. National level state influence is reinforced in Europe by the EU's role, where the regulatory regime has sponsored social partnership. In Australia and other Asian countries the state continues to intervene significantly in ER in recent years.

The state's actions were fundamental to changes in enterprise level management's capacity to undertake ER initiatives. The strategic choices of senior managers and HR directors were thus not the inevitable outcome of competitive market conditions, but fundamentally influenced by political conditions.

**DEGREE OF MANAGEMENT AUTONOMY:** The strategic-choice perspective underlines the role of management initiative: (Kochan *et al.*, 1986:237). Corporate business strategy determined HR strategies, which in turn determined individual ER policies and practices. Researchers with a descriptive approach and, especially, those with a prescriptive one emphasised the integration between HRM and business strategy, with HR differences associated with differences in business strategy, typically analysed using Porter's (1985) generic competitive advantage models (Storey and Sisson 1993). Strategies for ER are seen as third-order, functional strategies (Purcell 1989). The descriptive literature has documented the decline of collective bargaining and the enhancement of managerial authority through HRM initiatives, whilst the prescriptive literature has outlined the ER policies and structures appropriate for the achievement of business objectives, as articulated in the early Harvard manifesto on HRM (Beer *et al.*, 1984; Dowling and Welch 2004).

A strategic-choice perspective emphasising increased management autonomy may not provide the most helpful analytical framework, for at least four reasons. First, enterprise strategies are founded upon structures of property relations, themselves determined by state structures. Second, management initiative is constrained by the structure of international competition. Third, there are differences in national business systems and the range of acceptable ways of conducting ER, the templates of acceptability, making some strategic choices more likely than others (Scott 1995). Fourth, public-sector ER is usually bound more tightly by political considerations, including state traditions and public expectations.

**ROLE OF UNIONS:** Writers in the strategic-choice perspective tend to see unions as having only a limited role. The assumption of unity of interests embedded in strategic management thinking became visible in ER research (Kamoche 1998:287). The justification for union organisation became contributing to the effectiveness and efficiency of the enterprise through the development of mechanisms of 'voice' - articulating, aggregating, and ordering employee grievances. Union effectiveness became interpreted as contributing to the firm's market performance, not interest representation. Whereas industrial relations research in the 1970s, especially in the UK, may have neglected management, the 1990s focus on managerial strategic-choice and the linkage between business strategy and HRM strategy marginalised consideration of unions.

The strategic-choice literature has viewed union decline as an enabling condition for the development of HRM. Research has documented the decline in union membership, bargaining power, and institutional strength. The decline has been noticeable in Australia, Japan, Korea, Germany the USA and the UK. It is also evident elsewhere in Western Europe (with the general exception of Scandinavia) and Eastern Europe. However, the focus on declining levels of union membership as a measure of declining union significance can be misleading. Even where management adopts individualised HRM policies, this is partly in response to perceptions of the threat of union organisation, HRM strategies are more likely to be adopted in establishments with union representation than in non-unionised ones (Legge 1995). The coverage of collective agreements remains wider than the scope of union membership in all of our countries, except Japan. In some countries (e.g. France) the application of the terms of collective agreements may be legally required even where employees are not union members. In Korea in enterprises with 50 percent or more union density, collective agreements cover non-union members. Such arrangements can reduce the incentive for union membership, but extend union influence. The political influence of union organisations exceeds their membership levels, especially in political systems in which union density is low, as in parts of Western Europe (including Germany), Asia (including Australia, Japan and Korea) and in Eastern Europe (including Poland). Unions also perform wider social roles, in association with other types of social organisation. In Socialist and former Socialist countries unions formed ancillary organisations to political parties and in Poland the Solidarity movement began as a union.

**SCOPE OF COLLECTIVE BARGAINING:** In the strategic-choice perspective, ER are determined either by unilateral management decision making or by collective bargaining (Locke and Kochan 1995). In Australia, the US and UK managers' strong ideological commitment to a broad definition of managerial prerogatives undermined collective bargaining, although elsewhere, especially in Germany and Scandinavia, there was less ideological opposition to collective bargaining (Poole *et al.*, 2001). The survival of collective bargaining depends upon government action, the legal framework, and the unions' ability to maintain their institutional strength, itself partly dependent upon product and labour market conditions in their recruitment territories. The decline of collective bargaining has been documented by writers in the strategic-choice tradition. Kochan *et al.* (1986) documented the collapse of the New Deal settlement that underpinned collective bargaining in the USA in the 1980s. In the UK there was a significant contraction in the proportion of workplaces covered by collective bargaining as well as a narrowing of the range of issues addressed (Millward *et al.*, 2000). In place of supporting collective bargaining, US labour policy has been increasingly concerned with the substantive rights of individual employees, but the level of substantive rights has been set low. A similar trend is evident in UK, where the post-1979 Conservative governments weakened the power and limited the roles of unions. The post-1997 New Labour governments have established individual entitlements, including a minimum wage, rather than providing legislative support for collective bargaining. In Australia, the post-1996 Conservative government has increasingly undermined the roles of unions, arbitration and collective bargaining.

### ***Comparative employment relations: A political economy perspective***

The strategic-choice approach to ER discussed above was developed in the 1980s and the early 1990s. Therefore, it does not fully take into account trends in the international political economy since then that have significant implications for convergence-divergence in ER. Three trends are especially relevant. First, the intensification of international competition manifested as globalisation, especially in manufactured goods (international competition in most services remains less intense) (Giles 2000). This was intensified further with the growth of China as a major industrial competitor, increasingly displacing Japan and the newly industrialising economies (NIEs). Textiles initially provided China's leading edge into world markets, followed by a wide range of basic manufactured goods (Moore 2002). India is another 'awakening giant,' competing successfully with developed and then, NIEs, for instance, in providing call centres. The economic ascent of China, India, and other developing economies has at least two implications for ER theory. Directly, their rise draws attention to a wider range of political/economic models of ER. Indirectly, their impact on the product markets for manufacturing and to a lesser extent for services in other economies undermines the viability of other systems.



The second trend is the wide spread of 'deregulation' policies. Deregulation impacts directly and indirectly on ER. Directly, governments (e.g. Thatcher UK and Howard Australian) have initiated moves to deregulate aspects of labour markets and many such policies have had significant implications for ER. (Although many deregulatory policies have legitimised re-regulatory practices rather than promoting fundamental deregulation.) Deregulation of product markets has less direct implications, but nevertheless can still have profound implications for ER, as in telecommunications and aviation (Katz 1997; Calder 2003) - in both sectors deregulation led to increased competition between traditional, bureaucratic organisations and new, more agile competitors. The new competitors were generally less bureaucratic, more flexible, following HRM strategies involving more individualised ER policies, leaner and more flexible work organisation, and lower pay levels, and were unionised to a much lesser extent than their older competitors.

The third trend is the collapse of Communism. The collapse had three direct consequences for ER. First, in post-Socialist economies it led to new systems of ER that combined new institutional forms with remnants of Socialist practice. Second, the collapse of Communist internationalism weakened support for left-wing unionism, especially in the developing world. Moreover, third, the collapse of Socialism boosted the confidence of capitalist ideologists, particularly liberal ideologists in Australia, the US and UK, with the impending 'end of history' reinforcing neo-liberalism and the anti-collectivist and deregulatory policies mentioned above.

Viewing ER as a socio-political process makes it feasible for international ER research to reflect the full variety of ER systems. This variety is broader than the range of countries traditionally covered by comparative research. Although most researchers have considered the Japanese system, few include the full range of European and Asian systems. It is appropriate to take into account the former Socialist state systems in Europe, as well as the Indian and the Chinese ER systems. To widen the range of systems covered by an adequate comparative model an approach linking ER to the wider political, economic, and social environments is required. It should be dynamic, incorporating endogenous and exogenous change. It should be capable of handling the diversity of international, national, and sub-national institutions. It should recognise the plurality of interests, the duality of co-operation and conflict within the enterprise, and the dialectic between interests and institutions. The focus should include the bargaining power of participants in ER and the factors that influence the exercise of such power, inside and outside enterprises.

In the integrated perspective we suggest here the focus of analysis is the distribution of power within the enterprise and in the larger society - a form of pluralist political economy approach that links ER to the broader polity and economy, but does not reduce ER to merely an aspect of class struggle. An integrated political economy perspective thus links systems of production, the role of government, the broader social and economic environment, and ER institutions at the enterprise, industry, national, and international levels. The approach advocated is similar to Wilkinson's 'production systems' approach, if with a different, more political emphasis (Burchell *et al.*, 2003). The perspective is generally applicable and is especially helpful for exploring ER in NIEs, such as China, India, and South Korea, and in transitional former Socialist economies in Eastern Europe. The approach draws upon a non-Marxist (as well as Marxist) political-economy tradition, involving an analysis of the interaction between interests and institutions (Smith and Meiskins 1995; Pontusson and Swenson 1996; Murray *et al.*, 2000; Wailes 2000). Interests and institutions are influenced, in different ways and to different degrees, by national modes of integration into the international political economy (Wailes and Lansbury 2003).

An integrated political economy approach moves beyond the debates on convergence and divergence (Van Ruyseveldt 1995; Budhwar and Debrah 2001). International developments may have different effects upon ER, depending upon the mode of integration of the national economy into the international system. Hence the effects of globalisation are likely to be different in a country heavily dependent upon exports, such as Sweden, from a large country with a large domestic market, such as the US, and ER will be influenced accordingly. In the former the pressures of international competition may require a dual system, with a 'sophisticated modern' HRM strategy in the internationally oriented export sectors, whilst the domestically insulated service sector may retain more traditional structures. In the latter ER may be expected to remain a more coherent system. In Eastern Europe, including Poland, the changes since 1989 have resulted in highly-segmented ER systems, with foreign owned companies following HRM policies, but with limited spill over between segments. Using such an approach, let us reconsider the four issues we identified as touchstones.

**ROLE OF THE STATE:** The state was central even during the period of dominance of Dunlop's (1958) functionalist systems approach, since the political consensus of the 1950s provided the necessary enabling conditions for the relatively smooth functioning of the collective bargaining in Australia, the US, UK and several other countries. The role of the state retains its significance for all varieties of political economy. The vital role of the state in Socialist and ex-Socialist economies is evident. The Chinese Communist Party's decision to adopt a more reformist and open approach in 1978 was fundamental for subsequent developments, whilst political events have been crucial for former Socialist states in Eastern Europe. In developed market economies (DMEs) too the role of the state is fundamental, at both the macro and the micro levels. The state plays the major role in perpetuating national business systems, which provide the context for ER. As Whitley (2002:xviii) has argued, core national institutions, primarily the state, structure 'the environment of economic actors so that distinctive economic logics become established that are associated with particular kinds of production systems.' At the micro level, labour legislation continues to proliferate, for ER practitioners. While recognising the importance of national regulatory regimes, the EU reserves major issues of employment regulation to national regulation, under the principle of subsidiarity. The state provides the legal and institutional arrangements whereby ER processes are conducted. The nature of such arrangements has significant influence on the outcomes of ER processes in most work situations. This influence is of course usually more direct in the case of public-sector employers.

The linking role of the state in national business systems is particularly evident in research in the continental European tradition. For example, co-ordinated market systems such as Germany involve a close linkage between enterprises, the educational system, sector-level arrangements for industrial training, the ER system, and public policy (Hall and Soskice 2001). Similarly, although the sector-level arrangements of the classic Swedish model weakened in the 1990s, the social contract survived (Hammarström *et al.*, 2004). The EU remains committed to tripartism, involving the state, unions, and employers' in joint decision-making over the issues covered by the Social Chapter, and has fostered the growth of tripartite institutions in the former Socialist states of Eastern Europe, including Poland. (Although, the impact of tripartite decisions upon business has been the source of much controversy, with unionists in Eastern Europe regarding tripartite institutions as largely symbolic (Martin and Cristescu-Martin 2002:178-9).) Detailed national Labour Codes continue to seek to regulate ER even at enterprise level in some parts of Eastern Europe.

**DEGREE OF MANAGEMENT AUTONOMY:** An integrated political economy approach suggests limitations to the degree of management autonomy. Management autonomy is constrained by state action and by the *modus operandi* of the national business system. It is also constrained by the structure of international competition in product markets and on occasion by the bargaining power of employee organisations, especially in the public sector. Using an integrated political economy approach, we view managers as pursuing strategies shaped and constrained by the enterprise's political and economic environments at international, national, industrial sector, and enterprise levels. There is no *a priori* assumption about the strength or the location of the constraints. Hence enterprise level managers have greater autonomy in Australia, Japan, Korea the US and UK than in Germany or Poland. In Germany the state and industry-level associations limit enterprise level autonomy, whilst in Poland the state and unions, often operating *via* political linkages, constrain enterprise management.

**ROLE OF UNIONS:** The first major dimension of differentiation between types of union movement is the degree of focus on limited economic or broader political concerns. By using an integrated political economy approach we can see unions as a means of exercising economic power and as a means of political mobilisation. The emphasis of the strategic-choice perspective has been on specific economic objectives, with 'business unionism' prevailing in the US and providing the model for other movements. In the political economy approach unions are both economic organisations and a means of political mobilisation, whether on the shop floor or through the ballot box, or both. As Hyman (1989:221) argues, 'the most successful of the European union movements examined are those which have sustained a close articulation between the politics of production and the politics of politics.' Union organisers may aim to mobilise workers for

political objectives, even if the incentives for potential individual union recruits to join unions may be economic (Undy and Martin 1984:186-9). Union leaders and activists are disproportionately influential in the development of union strategies because rank-and-file union members have few incentives to participate in collective decisions and members' participation rates are low, except in decisions on pay awards and strike action. Political mobilisation may be an intended outcome of union organisation, as the early Socialists in UK unionism in the late nineteenth century, or may be an unintended consequence of union organisation. Hyman (2001) shows the close association between political movements and union organisation in France, Germany, and Italy.

**SCOPE OF COLLECTIVE BARGAINING:** Collective bargaining is usually one of the essentials of organised industrial relations. ER systems differ in the levels at which bargaining occurs, the participants in the bargaining process, and the scope of the agreements or contracts made, as well as in the outcomes of the bargaining process. There have been major changes in the institutions of collective bargaining since the 1980s in many countries, including those included in Figure 1. Katz and Darbshire (2000) have identified an international trend towards a reduced role for industry-level bargaining and towards decentralised enterprise-level collective bargaining. Many employers' organisations in Australia, the US and UK have redefined their roles to focus on providing consultancy, advice, technical support, and professional development for personnel professionals within enterprises rather than the conduct of multi-employer collective negotiations, whilst in Germany employers' industry level organisation retains significance and in Poland industry level bargaining has not developed. Although collective organisation remains a cornerstone of unionism, the growth of services-oriented unionism, whether based on providing individual benefits such as shopping discounts or insurance against arbitrary exercise of employer power, has tended to place relations between unions and their members onto a more individualised basis.

These and other changes have led researchers in the strategic-choice tradition to emphasise the decline of collective bargaining alongside a broader de-collectivisation. However, many have exaggerated the extent of the decline by focusing research on English-speaking countries: the US, UK and Australia. In their study of ER in 20 countries Traxler *et al.* (2001:197) concluded that between 1980 and 1996 the coverage of collective bargaining increased in five countries (Finland, France, the Netherlands, Portugal, and Spain - it also increased in Korea), declined in five (Australia, UK, Germany, Japan, and the US), stayed the same in two (Belgium and Sweden), with incomplete data for three (Austria, Canada, and Denmark). Levels of collective bargaining remained high in the public sector, whilst even in the private sector the mean coverage of collective bargaining over all of these systems changed only from 69 to 61 percent of employees, with the largest changes being in the US and UK. The International Labor Organisation remains committed to collective bargaining, whilst the EU's social partnership arrangements institutionalise collective organisation. The growth of collective bargaining in former Socialist systems has increased the extent of collective bargaining internationally. It is also easy to exaggerate the extent of changes in the level of collective bargaining. Of 27 countries examined in 2002 only six (the Czech Republic, Hungary, Japan, Poland, the UK, and the US) had company level bargaining as the dominant mode, despite the presumed universal trend towards decentralised bargaining structures (Carley 2004).

## Conclusions

This paper had two objectives. The first objective has been substantive - to indicate variations in ER systems between countries by focusing upon four touchstones for comparison. From the literature the four comparators identified were the role of the state, the degree of enterprise level management autonomy, the role of unions, and the scope of collective bargaining. We do not claim that the touchstones are the only possible ones, nor are they independent of each other - for example, if union density is low, then there is likely to be little collective bargaining. But they are amongst the key ones in most systems. This was illustrated by a brief analysis of seven ER systems. The comparison showed continued differences between national ER systems, with different profiles. There is probably a broader range of systems internationally in the 2000s than in the 1980s, due to the collapse of Socialist systems and their replacement by different types of post-Socialist systems.



The second objective has been methodological - to outline two alternative perspectives on ER systems, and the contrasting emphases to which they give rise. The first, the strategic-choice perspective highlights the role of employers' initiatives, especially in developing ER responses to international product market competition. The role of the state is seen as limited, unions as having declining significance, and collective bargaining marginalised. We have argued that this framework does not provide the basis for a comprehensive analysis of the dynamics of comparative ER, especially if a wider range of countries is examined than the usual OECD English-speaking countries. To provide a more comprehensive approach we have begun to sketch an integrated political economy approach.

An integrated political economy approach provides a framework for analysing international, national, sector and enterprise level influences on ER. The paper has sought to incorporate economic and political factors. But in reaction against deterministic approaches we have emphasised the 'political' in the political economy approach, in three senses. First, political refers to fundamental social relationships, of which the most important are property relations, and their importance for ER. The significance of such influences is especially evident once comparative ER research moves beyond developed market economies to focus also on developing economies. Second, the approach is political in its emphasis on the relationships between specific participants in ER and political actors, for example in the relationships between employers, unions, and political institutions. Third, it is political in that the relationships between participants in the ER system are based on power relations as much as on market relations.

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