

Introduction: studying employment relations

Main tasks

- **Clarify the subject matter of employment relations**
- **Outline its approaches to theorising**
- **Review the methods it uses to acquire knowledge**
- **Consider the challenges the subject faces**

Summary

Although mainly taught in business schools in the English-speaking world, employment relations' intellectual roots are firmly rooted in the social sciences and a particular academic tradition dating back to the end of the 19 century. The subject deals with an extensive list of employment-related subjects, but also has a robust analytical focus, which may be summarised as the 'governance of the employment relationship'. It sees the employment relationship first and foremost as a managerial one – with all the uncertainty, contradictions and potential for conflict that such a relationship entails: the employee receives tangible and intangible rewards in return for the employer's right to direct them to do their bidding. It pays particular regard to the complex 'multi-level governance' regime of institutions or rules involved in the exercise of the employer's discretionary rights. This embraces organisation structure and job design, personnel policies and practices, legislation that the state introduces in attempting to strike a balance between the flexibility and security intrinsic to the employment relationship, and the efforts of employees' trade unions and professional organisations to influence the rules and rule making processes. In terms of its approach, employment relations is an area of study rather than a discipline. Indeed, its distinctive feature is that it is multi-disciplinary - more concerned with developing theory' in' employment relations than developing a theory 'of' employment relations. Examples of all three approaches to theorising can be found in the employment relations literature, i.e. 'positivism', 'social constructivism' and 'critical realism'. The dominant one, however, approximates to 'critical realism'. Employment relations seeks to identify key regularities and asks why they occur as they do, what are the underlying mechanisms producing them and any variations, what effects do they have and what are the conditions under which they happen. To acquire such knowledge, employment relations has always put strong emphasis on empirical inquiry, using both quantitative and qualitative methods. In the UK, this has been reinforced with the regular undertaking of the representative Workplace Employment Relations Survey. In recent years, there has been an increasing tendency to combine induction with deduction, where the

researcher starts with a proposition or hypothesis derived from established facts or theoretical assumptions.

A core principle

Although, especially in the UK and USA, it is mostly taught in management and business schools, ‘employment relations’ does not see itself serving one particular interest group - it is relatively ‘inclusive’ or impartial in terms of the interests involved in the employment relationship that is its focus. It also does not claim to offer quick-fix solutions to the problems these groups experience. Rather it seeks to hold a mirror up to what goes on in the world of employment, its practical relevance lying in the improved quality of data and analysis that policy makers and practitioners can draw on about what ‘works’ and ‘doesn’t work’ and ‘why’. Crucially, its intellectual roots are firmly rooted in the social sciences, being grounded in a particular academic tradition that dates back to the end of the 19th century. At one and the same time, this was both theoretical and practical - it was about understanding the world of employment and drawing implications for practice and policy. In the UK, pioneers of this tradition were the likes of Sidney and Beatrice Webb, whose *History of Trade Unionism* and *Industrial Democracy* were among the first works to prioritise empirically grounded analysis; in the USA, their counterparts were John Commons and his colleagues at the University of Wisconsin - *Industrial Goodwill* and *Institutional Economics* were among the books that laid the foundation for institutional analysis more generally.

The tradition’s values are distinctive as well as powerfully grounded. As Kaufmann, the subject’s main historian, emphasises, the starting point is a core principle that is ‘both positive and normative. Stated in the affirmative, this core principle asserts that *labor is human*; stated in the negative it asserts *labor is not a commodity*’¹. He reminds us that this core principle is most prominently displayed in the Constitution of the International Labour Organisation (ILO), created by the Treaty of Paris and signed in 1919 at the end of World War I. The first of nine principles enumerated in the ILO Constitution reads: ‘Labor should not be regarded as a commodity or article of commerce’. The point is that, unlike other resources, ‘human resources’ are embodied in people and cannot be ‘commodified’. Moreover, employers do not own employees in the way they do other resources – if they did, it would be tantamount to slavery. A further consideration is that, in democratic societies, employees are citizens, who have the right to vote to determine those who govern and the way that they govern; they are also encouraged to have expectations about justice and due process.

One implication is that to talk of a ‘labour market’ gives a false impression of what is at stake in the employment relationship. Certainly the overall levels of employment can rise and fall, reflecting changes in the demand for specific products and services. But, as Chapter 3 explains in greater detail, nothing is automatic about the employment relationship. For example, employers are not limited to hiring and firing employees in response to changes in such demand. They can ask existing employees to work harder or smarter. To encourage them to do so, they can also pay some employees higher wages at the same time as making others redundant – something which traditional labour market analysis sees as irrational and yet which is perfectly sensible if motivation is built into the equation.

¹ Kaufman, B. 2007. ‘Industrial Relations: Core Principle and Theoretical Foundation’. Paper for the 2007 European Regional IIRA Congress, Manchester. p.2. See also Kaufman, B. 2004. ‘Employment relations and the employment relations system: a guide to theorising’, in B. Kaufman (ed). *Theoretical Perspectives on work and the employment relationship*. Ithaca: ILR/Cornell University Press.

The subject's ethical position has never been seriously questioned. It is a different matter, however, in the case of the other three inter-linked issues that any area of university level teaching has to be clear about. These are the subject matter or ontological question; the approach or epistemological question (what is knowable about the subject matter); and the methodological question (how the knowledge can be acquired).

Here there has been considerable reflection and introspection in the light of recent changes in the world of work such as the shift in employment from manufacturing to services, the increasing feminisation of the workforce and the decline of trade union membership and coverage of collective bargaining. This has often been interpreted as a sign of crisis. Arguably, however, this process has given rise to something of a consensus about the essentials for further development. The result is a pretty robust framework that any area of study needs to address if it is to have enduring status.

It is with the subject matter, approach and methods of employment relations that this opening chapter is concerned. In each case, the discussion tries to give a flavour of the current state of play, the history of developments and the key influences. It also covers the main variations and nuances that the reader will come across in the literature dealing with employment relations.

Subject matter

Employment relations deals with a 'dauntingly large and heterogeneous set of topics'² – these range from the changing composition of the labour force and the nature of work organisation, through personnel policies and practices, to the structure of collective bargaining and the national legal framework, along with the role and functioning of the many representative organisations and government agencies involved. Employment relations is more than just a collection of related topics, however. Although it may not always be made explicit, employment relations has an analytical focus, which may be summarised as *the governance of the employment relationship*. 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, together with their economic and social outcomes*.

The employment relationship: concept and conduct

The employment relationship has always been there or thereabouts in employment relations, but during the so-called 'golden age'³ of the subject (i.e. the 1950s, 1960s and 1970s) was more or less taken for granted: the main emphasis, which reflected the concerns of policy makers and practitioners, was on the role of trade unions and collective bargaining in fixing the terms and conditions of the relationship, along with the strikes and other forms of

² B.Kaufman. 2019. A theoretical framework for labour, work and employment research'. in G. Gall (ed). 2019. *Handbook of the politics of labour, work and employment*. Cheltenham: Edward Elgar Publishing.

³ In the USA, the 'golden age' is usually associated with the 1940s and 1950s. See Kaufman, B. 1993. *The Origins and Evolution of the Field of Industrial Relations*. Ithaca, New York: ILR Press. In the UK, it would be a decade later. See Winchester, D. 1991. 'The rise and fall of the golden ages: the British experience of industrial relations research and teaching', in Lansbury, R. (ed) *Industrial relations teaching and research: international trends*. Sydney: Australian Centre for industrial relations research and teaching.

industrial action that often accompanied them. In recent years, there has been a return to prioritising the employment relationship that was a feature of earlier generations. The result is the development of a very particular perspective on the employment relationship, which Chapter 3 sets out in some detail.

For present purposes, it is enough to note that the distinguishing feature of the employment relationship is that it is, first and foremost, a *managerial* one – with all the uncertainty, contradictions and potential for conflict that such a relationship entails:

- the basis of the exchange is security and flexibility - employees receive tangible and intangible rewards, in return for which employers acquire the right to direct them to do their bidding
- the nature of the exchange is, by definition, indeterminate, continuous, contradictory and exploitative, with cooperation and conflict being integral features
- Regardless of the presence of trade unions, the process of the exchange is essentially political involving on-going negotiation, implicit as well as explicit, against the background of an asymmetrical or unequal power relationship.

Complicating matters is that, although ‘the employment relationship is by definition one between an employee and an employer’⁴, yet it is not exclusively private as much of the human resource management literature encourages us to assume. For the great majority of employees, employment is a collective activity. Employees typically work in groups. Many belong to trade unions or professional organisations. For their part, managers find it inefficient to differentiate between individual employees because of the costs and so most contracts of employment take a ‘standard form’⁵. Their behaviour also reflects the organisations in which they work, the nature and extent of the targets and controls they are subject to being especially important. These organisations, in turn, are not islands unto themselves, being typically part of a larger enterprise. Complicating matters further, as the next section emphasises, is that such enterprises operate in a complex multi-level institutional environment, where sectoral, national and supranational influences increasingly interact.

Employment relations is not just concerned with concepts, however. The employment relationship is also one of the main social institutions in a capitalist society: it is something that the great majority of us are involved in for much of our lives. As Chapter 2 demonstrates, the conduct of the employment relationship can be shown to have a considerable impact on a wide range of economic and social issues such as health, personal development opportunities, the family and the development of social capital; organisations and business performance; and significant macroeconomic considerations such as the trade off between wages and employment and the links between inequality and productivity.

Institutions: causes and consequences

Accompanying the renewed emphasis on the employment relationship has been a reaffirmation of the importance of the *institutions* involved in its governance. One reason for this has been the need to confront the argument that a decline in the institution of collective bargaining means that employment relations runs out of things to study. Certainly the causes

⁴ Edwards, P.K. 2003. ‘The employment relationship and the field of industrial relations’, in Edwards, P.K. (ed) *Industrial relations: theory and practice*. 2nd edition. Oxford: Blackwell. p.9.

⁵ Collins. H. 2007. ‘Legal Responses to the Standard Form Contract of Employment’. *Industrial Law Journal*, Vol. 36, No. 1, 2-18.

and consequences of the structure of collective bargaining (i.e. its levels, units, scope and form) have figured prominently in employment relations studies. There has also been considerable emphasis on how the structure of collective bargaining has evolved and is changing, with particular emphasis on the impact of economic globalisation (i.e. the growth of trade liberalisation and the development of a global capital market) and regionalisation (particularly in the form of greater European economic and social integration).

But collective bargaining is not the only institution that employment relations is concerned with. 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 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'⁶. Two main types may be identified – the substantive rules that cover the 'what' of the employment relationship and the procedural ones that deal with the 'how'. In each of these areas, the institutions involved can also be informal as well formal. In Edwards' words, a rule or institution 'can comprise beliefs, ideologies and taken-for-granted assumptions as well as formal provisions of rights and obligations'⁷. 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. One example is the 'psychological contract' that will be discussed in more detail in later Chapters. In the Chartered Institute of Personnel Development's (CIPD) words, 'The psychological contract ... may be more influential than the formal contract in affecting how employees behave from day to day'⁸.

On the basis of 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 coordinate 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. To put no finer point on it, without any 'rules of the 'game'', there is no organisation.

Moreover, despite their high profile campaign against the 'burdens of regulation', it is management that in recent years has been adding to the stock of institutions dealing with the employment relationship. Most obvious are arrangements for appraisal and target-setting, together with individual performance pay and share option schemes for senior executives. Supposedly, today's 'knowledge organisation' 're-engineered corporation', 'network organisation', 'boundaryless company' and the like bring greater individual initiative and local autonomy⁹. Yet, because of the nature and extent of the targets built into performance

⁶ Abercrombie, N. Hill, S. and Turner, B.S. 2000. *The Penguin Dictionary of Sociology* 4th ed. London: Penguin. p.180.

⁷ Edwards, P.K. 2003. 'The employment relationship and the field of industrial relations', in Edwards, P.K. (ed) *Industrial relations: theory and practice*. 2nd edition. Oxford: Blackwell, p.14.

⁸ Chartered Institute of Personnel Development. 2010. 'The psychological contract'. *Fact Sheet*. Latest version available at www.cipd.co.uk

⁹ Sparrow, P.R and Cooper, G.L. 2003. *The employment relationship: key challenges for HR*. Oxford: Butterworth-Heinemann. pp.6-10.

management systems, many employees complain that they have less discretion than they used to¹⁰.

The second consideration behind the renewed emphasis on institutions reflects developments in the social sciences more generally. The irony is that, at a time when some people appear to want to bury ‘institutions’ in employment relations, many in the traditional disciplines have been emphasising or re-emphasising their importance. Economics is perhaps the best example. To paraphrase Stiglitz¹¹, until recently there was little or no discussion of institutions and their interactions simply because they were deemed not to matter: institutions were ‘superficial’. To understand resource allocations (including income distribution), one simply studied the laws of supply and demand. In recent years, however, especially following the experience of ‘neo-liberalism’ discussed later, all the standard model’s assumptions have been challenged - and so too the belief that institutions do not matter. Indeed, says Stiglitz, the standard competitive equilibrium model is no longer the ‘right’ model for thinking about much of what goes on in the economy. Rather it is the insights of game theory that are most helpful: it is the rules of the game, i.e. institutions, that matter.

There is a growing literature dealing with what has come to be known as ‘new institutionalism’. This means that employment relations is increasingly able to draw on a potentially rich harvest in terms of language, concepts and approaches that is helping to analyse and explain the causes and effects of these institutions; to clarify the nature of and role for theory, more of which below; and to contribute to the wider debate on institutions, which is helping to broaden the subject’s appeal as well as sharpen its analytical content.

At the risk of over-simplifying matters, three main tendencies or schools of ‘new institutionalism’ may be identified: ‘rational choice’, ‘sociological’ (sometimes referred to as ‘organisational’) and ‘historical’. 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. In Campbell’s words, ‘Institutions are the foundation of social life ... [they] help determine how people make sense of their world and act in it’¹².

The differences between the three tendencies, which Chapter 4 deals with, mainly revolve around the relationship between actors and institutions and reflect their different disciplinary roots. ‘Rational choice’ institutionalism reflects its origins in economics and ‘methodological individualism’. Actors are assumed to have standardised and stable preferences defined by their personal or organisational self-interest. The approaches in ‘sociological’ and ‘historical institutionalism’ reflect their roots in organisational psychology, politics and sociology. Rather than being standardised and stable, preferences are seen to be time and context-dependent

¹⁰ Worsely, R. and Moynagh, M. 2005. *Working in the 21st century* jointly published by the Economic and Social Research Council and The Tomorrow Project. Further details are available at www.leeds.ac.uk/esrcfutureofwork and www.tomorrowproject.net; Gallie, D., White, M., Cheng, Y. and Tomlinson, M. 1998. *Restructuring the Employment Relationship*. Oxford: Oxford University Press.

¹¹ G. Stiglitz. 2017. ‘[Market, States and Institutions](#)’. *Roosevelt Institute Working Paper*.

¹² Campbell, J. 2004. *Institutional change and globalisation*. Princeton: Princeton University Press. p.1.

One implication of 'new institutionalism' deserves particular emphasis: it has encouraged the adoption of 'governance' as employment relations' analytical focus. The subject's long-standing focus, i.e. 'job' or 'employment regulation', had come to have little meaning for most people - it is something that even employment relations scholars rarely made a central focus of their work. Complicating matters is that the term 'regulation' has come to be viewed very negatively, being narrowly associated with individual employment rights. Perhaps not surprisingly, in the absence of a widely recognised focus, many of the myths and misunderstandings about employment relations highlighted in the Preface have been allowed to perpetuate: for example, that it was essentially concerned with 'problem' issues such as strikes, which had been 'dealt with'.

'Governance' is an umbrella term embracing different arrangements for handling exchanges and transactions such as the employment relationship. Initially, two main types of governance structures were proposed, 'markets' and 'hierarchies' (i.e. organisations), the choice between the two boiling down to the transaction costs involved in negotiating, drafting and, most critically, administering/ enforcing contracts. Increasingly, however, it is accepted that there are other forms of 'governance' as well. Most obviously in the area of employment relations, there are the activities of 'government' and 'association' in the form of collective bargaining between groups of employers and trade unions. Other forms, which will be discussed in Chapter 3, include 'community' and 'network'.

'Governance' is not just a matter of language or fashion. First, and fundamentally important, it helps us to answer what has been described as the 'baseline question ...antecedent to all others' in employment relations, i.e. '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?'¹³. Essentially, as Chapter 3 will explain in more detail, the employment relationship is preferred over a contract for labour services because it gives employers residual control rights over employees in exchange for employees enjoying a measure of employment security. Second, it reminds us that the hierarchy entailed in exercising these rights is an intrinsic feature of the employment relationship – however extensive collective bargaining and legal enactment may be, management remains responsible for the basic parameters of the 'governance' regime in the form of the organisation structure, job design and personnel policies and practices. Third, 'governance' is more encompassing than 'regulation'. At one extreme, it embraces organisation structure and work organisation. At the other, as well as highlighting the multi-level character of the arrangements involved in the employment relationship, it enables us to make much better sense of the 'softer' governance instruments that have come to prominence in recent years such as 'benchmarking' and 'coordinated bargaining', the EU's 'social dialogue' arrangements and the Lisbon strategy's 'open method of coordination'. Fourth, it offers a much more realistic and potentially fruitful paradigm for policy making. 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 their involvement.

A closely associated term is 'multi-level governance'. At first sight, 'multi-level governance' appears to be little more than a statement of the obvious: most organisations, like nation states, comprise several levels of decision making – department, workplace, company, division and so on. There is more to the usage of the term than description, however.

¹³ Kaufman, B. 2004. 'Employment relations and the employment relations system: a guide to theorising', in B. Kaufman (ed). *Theoretical Perspectives on work and the employment relationship*. Ithaca: ILR/Cornell University Press. p.64.

Typically, ‘multi-level governance’ situations involve public and private sector actors and are negotiated rather than defined by a formalised framework. Relationships are also very fluid and often contested. Olsen’s portrayal of the EU’s development could just as well be applied to the development of the ‘governance’ arrangements involved in the employment relationship: a history of ‘informal and gradual institutional evolution’ as well as ‘founding acts and deliberate institution building’¹⁴. 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. Tensions abound, with complexity, uncertainty and instability typically the defining characteristics.

‘Multi-level governance’ also raises highly significant policy and practical issues revolving around the balance between ‘heteronomy’ and ‘autonomy’, i.e. central regulation, on the one hand, and local responsibility, on the other. There are important implications, for both public and private sector organisations, relating to 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 controls. At national and EU levels, the ‘heteronomy-autonomy’ issue is mirrored in debates about ‘subsidiarity’ (the balance between and national level decision making) and the form of legal intervention. Noteworthy here are the debates about ‘procedural’ and ‘reflexive law’, i.e. the extent to which ‘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’¹⁵.

As in the case of the employment relationship, the focus on institutions is not just for their own sake, which is a criticism that has been made in the past. Rather it is because, to repeat a phrase already used, they are the ‘rules of the game’ linking practice and performance. In formal terms, the governance structures involved in the employment relationship are to be seen as an intervening or mediating variable as well as a dependent one. This means that they have both causes and effects. The generic features of the employment relationship do not exist in a vacuum. Not only do they find expression in institutions that are deeply embedded in the many ‘varieties of capitalism’, reflecting the interplay between internal performance issues and external market, technological and political developments, but they also have a very significant effect on the key economic, social and political outcomes that are the subject of Chapter 2.

Variations on a theme: ‘materialists’ and ‘institutionalists’

Hardly surprisingly, there are different emphases to be found in employment relations studies. Historically, there was a tendency to talk in terms of two main ideal-typical positions: ‘radical’ and ‘pluralist’. Much more meaningful is to see employment relations studies

¹⁴ Olsen, J. 2001. ‘Organising European institutions of governance ... A prelude to an institutionalized account of political integration’, in Wallace, H. (ed) *Interlocking Dimensions of European Integration*, 323-354. Basingstoke: Palgrave. p.335. See also P. Marginson and K. Sisson. 2004. *European integration and industrial relations: multilevel governance in the making*. London: Palgrave-McMillan. See, too, R. Lansbury 2018. ‘The changing world of work and employment relations: a multi-level institutional perspective of the future’. *Labour & Industry*. Volume 28, Issue 1.

¹⁵ Barnard, C and Deakin, S. 2000. ‘In search of coherence: social policy, the single market and fundamental rights’, *Industrial Relations Journal*, 31(4), 331-45. p.341.

involving ‘materialists’ and ‘institutionalists’¹⁶. Although to be a ‘materialist’ is not necessarily to be a ‘Marxist’, the starting point is Marx’s analysis of capitalism. ‘Materialists’ hold that the ‘material’ or productive base of society is the dominant consideration in accounting for a society’s institutions. Thus, they argue that it is the prevailing ‘market capitalism’ that gives rise to the main features of the employment relationship discussed earlier along with the associated institutions and modes of thought. Blyton and Turnbull put the point like this: “It is these features of the employment relationship – *the creation of an economic surplus, the coexistence of cooperation and conflict, the indeterminate nature of the exchange relationship, and the asymmetry of power* – not the institutions of trade unions, employers’ associations or government agencies, that makes the subject of employee relations distinctive”. (*their emphasis*)¹⁷.

In the ten years since the 2010 edition, this view has found increasing expression in *regulation theory*. There are two central concepts in the approach: the ‘accumulation regime’ (AR) and ‘mode of regulation’ (MR), made up of institutions, norms and state policies paradigms. Discussion revolves around the way production, circulation, consumption, and distribution organize and expand capital to stabilize the economy over time. Under industrial capitalism or ‘Fordism’ large vertically integrated firms are held to have been the dominant force, playing a key role in the development of what has come to be known as the ‘standard employment relationship’¹⁸. Institutions such as trade unions and collective bargaining linked production and distribution by transmitting productivity increases into real wages and aggregate demand. But industrial capitalism has proved to be but a temporary phase: financial capitalism (‘financialisation’) has replaced it as the dominant ‘accumulation regime’ with wide ranging implications for employment and employment relations. More details of what is involved in ‘financialisation’ will be found in Table 1.1.

There are important implications for the both the level of and the approach to analysis. The focus on the employment relationship or, to use the preferred term, the ‘labour process’, makes the workplace itself the centre of attention and case studies the favourite research method. ‘Materialists’ also operate within a predominantly deductive paradigm. In their research and writings, the main activity is involved in demonstrating how the ‘structured antagonism’ they associate with the employment relationship works out in practice.

A further implication is that many ‘materialists’ do not see it as their job to tease out the policy or practical implications of their work. Indeed, some do not see their role to be that of empirical researchers at all. Rather they see their main task to be one of ‘demystification’ - developing critiques of the prevailing managerial and government ‘wisdoms’, for example, about ‘flexibility’ or ‘partnership’ or ‘high performance working’ or the links between ‘globalisation’ and employment relations. Their starting point also leads them to question the likely effectiveness of what they would regard as ‘institutional engineering’ designed to manage the conflict that they see as intrinsic to the employment relationship in a ‘market capitalist’ society.

The second group, the ‘institutionalists’, historically embraced the mainstream and their work is the dominant influence on this text. As the label suggests, ‘institutionalists’ tend to concentrate on the ‘rules of the game’, the organisations that make and administer them, and the rule making processes involved. They recognise that the employment relationship is

¹⁶ Ackers, P. 2005. ‘Theorising the employment relationship: materialists and institutionalists’. Book review. *British Journal of Industrial relations*. Vol 43, No 3, September.

¹⁷ Blyton, P. and Turnbull, P. 2004. *The Dynamics of employee relations*. Basingstoke: Palgrave.

¹⁸ *Ibid*, p.20

fundamentally important and that it is what distinguishes the field of employment relations from others. They do not accept, however, that the nature of the employment relationship is a 'given' in the way that some 'materialists' see it - it differs from occupation to occupation as well as from country to country. Just as the activities of institutions cannot be understood in isolation from the employment relationship, so the employment relationship cannot be understood in isolation from the arrangements that govern it. The 'governance' arrangements can and do make the difference.

Again, there are important implications for the both the level of and the approach to analysis. 'Institutionalists' tend to focus as much on the wider institutions of employment relations as they do on those to be found inside the workplace. This helps to explain the focus on trade unions and the structure of collective bargaining, along with the nature and extent of the legal regulation.

'Institutionalists' can also be said to be 'pluralist' in their approach. They accept that conflict is endemic to the employment relationship. They do not go so far as some 'materialists' tend to, however, in denying the possibility of seeking a better balance of interests between employers and employees to the mutual advantage of both – the balance between cooperation and conflict is an empirical question. They therefore tend to go further than 'materialists' do in considering the implications of their research for policy and practice. Not surprisingly, the emphasis tends to be on institutional reform.

Approach: theory 'in' rather than theory 'of'

If subject matter is about the nature of a study, approach is about its purpose, raising the fundamental issue of the role for and nature of theory or *epistemology*. Here too 'new institutionalism' has proved to be a breath of fresh air. 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'¹⁹.

Three main perspectives on theorising can be found in institutional literature. As Table 1.2 outlines, one is 'positivism', which is closely associated with the 'rational choice' institutionalism introduced earlier. The other two are 'constructivism' and 'critical' or 'scientific realism', which more loosely reflect contributions from the 'sociological' 'historical' and schools of institutionalism. Following Hay, 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.
- *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.

¹⁹ Hay, C. 2002. *Political Analysis. A critical introduction*. Basingstoke: Palgrave. p.37.

- *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 realism²⁰.

All three perspectives can be found in the employment relations literature. Here again, though, it is possible to identify two main positions. The first holds that employment relations should aspire to be a discipline and develop an integrated theory ‘of’ employment relations that seeks explanation in terms of the law-like and predictive approach of the ‘positivist’ perspective. In most cases, the starting point is Dunlop’s seminal *Industrial Relations Systems* published in 1959²¹. Put briefly, this sees employees, employers, trade unions, employers’ organisations and governments as members of an interlocking system of institutions, processes and rules working to its own internal logic, but shaped by technology, markets and the distribution of power in the wider society.

The second, and dominant, view is that the subject should focus on developing theory ‘in’ employment relations²². One concern is the systems approach underlying Dunlop’s framework does not reflect the contested nature of the field. Another consideration is that, although the subject can claim a specialist focus in the employment relationship, it does not make sense to see it as a ‘largely self-contained sphere of social life’²³ – the financial crisis has shown the weaknesses of doing this in the case of the traditional disciplines. Another concern is the level of abstraction that would have to be involved in a theory ‘of’: the context-dependent phenomena of employment relations do not easily lend themselves to such an approach as the difficulties in developing Dunlop’s framework confirm.

In a much-used phrase, employment relations is multi-disciplinary. Roughly translated, this means two things: first, building on and seeking to integrate the often contending insights from the traditional disciplines of economics, sociology, psychology, law and politics; and, second, focusing on what is sometimes described as ‘middle range’ theorising, i.e. achieving greater understanding of the causes and consequences of the key institutions involved in governing the employment relationship – for example, the enduring features of work organisation or the structure of collective bargaining.

²⁰ Hay, C. 2002. *Political Analysis. A critical introduction*. Basingstoke: Palgrave. pp.29, 49.

²¹ For the most up-to-date exposition, see B. Kaufman. 2019. ‘A theoretical framework for labour, work and employment research’. in G. Gall (ed). 2019. *Handbook of the politics of labour, work and employment*. Cheltenham: Edward Elgar Publishing.

²² Hyman, R. 2004. ‘Is industrial relations theory always ethnocentric?’, in B. Kaufman (ed). *Theoretical Perspectives on work and the employment relationship*. Ithaca; ILR/Cornell University Press.

²³ Hyman, R. 2004. ‘Is industrial relations theory always ethnocentric?’, in B. Kaufman (ed). *Theoretical Perspectives on work and the employment relationship*. Ithaca; ILR/Cornell University Press. p.265.

In the language of Table 1.2, the dominant approach approximates to ‘critical realism’. Employment relations does not seek to derive general laws or predict outcomes. Rather it seeks to identify key regularities and asks why they occur as they do, what are the underlying mechanisms producing them and any variations, what effects do they have and what are the conditions under which they happen. In doing so, it is also very careful to emphasise the contingency of events and the importance of context.

Thus, a more or less common concern is with the why and wherefore of the changes taking place, helping to account for the subject matter of Chapters 8, 9 and 10. In Chapter 8, the focus is on the nature, extent and direction of change in management’s approach, carefully distinguishing between the differences at workplace and company level in the light of developments in ‘financialisation’, i.e. the shift in the basis of competition from products and services to financial results in the form of current and projected cash returns on investment. In Chapter 9 it is on the decline in trade union membership and collective bargaining and the reasons for them. In Chapter 10, it is on the role of the state and its seemingly changing agenda. On the one hand, most governments seem to have been withdrawing from some of their traditional activities: there is also talk of the ‘hollowing out’ of the state and the delegation of duties and responsibilities to other social actors or executive agencies²⁴. On the other, there has been a very considerable increase in legal enactment (‘juridification’).

Tackling these issues is requiring employment relations scholars to engage with wider debates about theorising in the social sciences, reinforcing the importance of a multi-disciplinary approach. This is because accounting for diversity and change involves a number of ‘big’ knowledge questions that are to a greater or lesser extent common across the social sciences, i.e.:

- structure and agency - how much choice do actors have?
- the relative importance of economic and political forces
- the role of ideas and ideology
- the role of power
- the relative importance of different levels of activity (individual, the workplace, the organisation, the sector, the societal) and the relationship between them
- the relationship between behaviour and context - the extent to which actors are driven by individual preferences that apply universally or that reflect different contexts and experience.

In terms of the disciplinary mix, employment relations has always been a ‘broad church’. This is above all true in the UK. Arguably, the history that was the starting point for several of the pioneers in the UK was more accommodating of other disciplines than the economics that dominated and still dominates employment relations in the USA. A *British Journal of Industrial Relations* editorial statement nicely captures the mood in encouraging a ‘pluralism’ not just of interests but also ‘disciplines’ and ‘styles of work’²⁵. The statement is also spot on in discussing the balance of disciplinary influence. Labour economics has a ‘strong presence’, but is not ‘sovereign’. If there is a growing influence, it is that of politics, reflecting interest in

²⁴ Heyes, J. and Nolan, P. 2009. ‘State, Capital and Labour in Crisis’, in T. Colling and M. Terry (eds) *Industrial Relations Theory and Practice*. Chichester: John Wiley & Sons. pp.116-20.

²⁵ Heery, E. 2005. ‘The British Journal of Industrial Relations: Position and prospect’, *British Journal of Industrial Relations*, Vol. 43, No 1, 1-9.

theories of 'contentious politics'²⁶ as well as the institutional 'turn' discussed earlier. Also growing is an interest in jurisprudence, i.e. the theory and philosophy of law, which is necessary not just to appreciate the increasing 'juridification' employment relations matters, but also variations in the extent to which legal rules are implemented in countries reflecting 'common law' and 'statute law' traditions.

Some worry that employment relations' approach is too eclectic. Yet being multi-disciplinary and coherent are not incompatible if, as it increasingly is, the subject is held together by shared values, a fair measure of consensus about the key issues and a distinctive approach in terms of the questions posed and methods used. Arguably, as the Preface emphasised, an approach that is grounded in the traditional disciplines runs the risk of leading to even greater fragmentation. Labour economics is primarily concerned with the supply and demand of labour. Sociology deals with issues of work and employment in general. Psychology is concerned with the individual, while Law focuses on the legal dimension. A main concern of the traditional disciplines, especially economics and psychology, also tends to be with confirming the theoretical propositions or methods of the discipline; the result is that understanding of issues often takes second place.

Methodology

Historically, employment relations was renowned for being very empirical in the choice of methods to acquire its knowledge. In the UK, in the words attributed to the Research Director of the 1965-8 Donovan Royal Commission (Lord McCarthy), 'an ounce of facts is worth a ton of theory'. Employment relations certainly puts great store by induction – most studies tend to privilege evidence and observation and, on the basis of these, try to draw some generalisable conclusions. A key consideration in the UK is that employment relations is also more or less unique among subjects taught in business schools in that it is able to draw on a large regular representative investigation of policy and practice at workplace level in the form of the *Workplace Employment Relations Survey*. Begun in 1980, WERS has been repeated on no fewer than four occasions (1984, 1990, 1998 2004) and has been important in providing a wealth of empirical data about both the collective and individual dimensions of employment relations practice in the UK. Not only has interpreting these data been a major activity of employment relations scholars and launch pad for fresh research. Data about managerial policies and practices have been fundamental in bringing about a change in the terms of debate in areas traditionally dominated by the prescriptive tradition. WERS has helped to bring about a significant shift towards evidence-based evaluation of policy and practice, with the CIPD itself becoming a major funder of empirical research.

If employment relations' strong emphasis on empirical inquiry has been maintained, there has been an increasing tendency in recent years to combine induction with deduction, where the researcher starts with a proposition or hypothesis derived from established facts or their theoretical assumptions. Indeed, almost invariably these days, such empirical work is theoretically informed. For example, many of the questions added to the WERS down through the years represent a form of theory testing - case study research in the intervening years has raised questions and suggested hypotheses that such a large scale representative survey can answer and/or test.

²⁶ Kelly, J. 1998. *Rethinking Industrial Relations*. London: Routledge.

A combination of different theoretical starting points involving different forms of ‘counterfactual’ method is also increasingly to be found. These can be ‘deductive’, where outcomes are compared to what might have been expected if the parties had pursued their ‘rational’ interests, or ‘inductive’, where actual outcomes are compared to empirically-based accounts of actors’ interests and preferences. Importance of history/importance of comparative method/contextualised

A combination approach that has been particularly influential with Dutch and German employment relations scholars²⁷ is the ‘actor-centred’ institutionalism associated with Scharpf²⁸ and his colleagues. 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 organisational self-interest on the one hand, and (internalised) normative obligations and aspirations on the other 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 ensuring organisational resources, defending organisational autonomy, and achieving competitive success, are likely to be more uniform and constant, allowing for fairly general and reliable predictions of organisational responses to institutional incentives’²⁹.

Turning specifically to research methods, no one seriously disputes that both quantitative and qualitative methods have their place. The progression of WERS reinforced the value of the survey method and the associated quantitative methods. Equally, there is a recognition that an ‘exclusive concern with the quantitative is as one-eyed as that which draws only on the qualitative’³⁰. Understanding the complex, unpredictable processes involved in employment relations developments needs in-depth qualitative methods like the case study.

Here, as well as the growth of studies combining quantitative and qualitative techniques, there is evidence of the increasing use of multiple case study designs that capture variation whilst continuing to seek depth of understanding. Similarly, there are research programmes in which studies seek to build from and on the findings of previous ones³¹.

Perhaps most significant has been the increase in cross-national comparative activity, largely reflecting EU developments. This has ranged from national level comparisons through to detailed analysis of specific issues such as the impact of financial institutions and foreign ownership, and the implications of European integration. Much of it has also extended beyond the standard country-by-country comparisons to embrace integrated treatment of key themes and issues. It has also involved multi-level analysis, with ‘firm in sector’ research designs and the breaking down of the barrier between EU-level and national systems developments. Such work has provided a powerful intellectual stimulus, helping us to re-think the subject matter

²⁷ See, for example, Visser, J. and Hemerijck, A. 1997. *‘A Dutch Miracle’*. *Job Growth, Welfare Reform and Corporatism in the Netherlands*. Amsterdam: Amsterdam University Press. pp.52-7; Müller-Jentsch, W. 2004. ‘Theoretical approaches to industrial relations’, in B. Kaufman (ed). *Theoretical Perspectives on work and the employment relationship*. Ithaca; ILR/Cornell University Press. pp.26-33.

²⁸ Scharpf, F. 1997. *Games Real Actors Play: Actor-centred Institutionalism in Policy Research*. Boulder Co: Westview Press.

²⁹ Scharpf, F. 2000. Institutions in Comparative Policy Research *MPIfG Working Paper* 00/3, March 2000. p.5.

³⁰ Marginson, P. and Sisson, K. 2004. *European integration and industrial relations. Multi-level governance in the making*. Basingstoke: Palgrave. p.312.

³¹ See, for example, Almond, P. and Ferner, A. (eds). 2006. *American Multinationals in Europe: Managing Employment Relations Across National Borders*. Oxford: Oxford University Press.

of employment relations and approaches to it. Paraphrasing Hyman again, it has forced us to look again at many taken-for-granted assumptions and causal explanations that apparently fit one country; it has encouraged an appreciation of the need for more theorising; and it has exposed us to different theoretical traditions³².

On-going challenges

At the top of many lists is likely to be that of unraveling the links between practice and performance. This is particularly true of the links between working practices and business performance. There can be little doubt that success here would help to confirm employment relations' importance in the eyes of policy makers and practitioners. It would also pave the way to assessing the consequences for other key outcomes such as personal development. Yet enough is known to appreciate the immensity of the task – indeed, it could be as frustrating as the search for the 'holy grail'. For, arguably, it is not just a matter of 'big science' comprising large-scale surveys and the collection of detailed data using sophisticated instruments³³; there is also need for contextualised inquiry reflecting the complexity and variability of the relationships between practice and performance³⁴.

Developing a truly 'multi-level' perspective is another major challenge. Much employment relations analysis prioritises *either* the national level *or* the workplace level. In the first instance, there is what might be described as a 'top-down' view of arrangements. In the second, the concern is with the labour process and its implications. These approaches need to come together, with attention focused on the interaction between the levels and the forces driving the relationship between them. Arguably, Morgan's comments on the national business systems literature apply equally to its employment 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'³⁵. Certainly the more internationally comparative work in the area becomes, the greater the need for sensitivity to the articulation between 'top down' and 'bottom up' developments.

A third challenge is to develop a 'progressive' research agenda, i.e. one that 'builds on what has gone before to improve conceptualisation of the phenomenon in question and to advance explanation of its causes and consequences'³⁶. It is not just that employment relations has tended to be ad hoc in its choice of issues for attention, very often reflecting immediate policy maker and practitioner concerns. Arguably, it has too often in the past developed

³² Hyman, R. 1994. 'Introduction: Economic restructuring, market liberalism and the future of national industrial relations systems', in Hyman, R. and Ferner, A. (eds). *New frontiers in European industrial relations*. Oxford: Blackwell.

³³ Wall, T. D. and S. J. Wood. 2005. 'The romance of human resource management and business performance, and the case for big science', *Human Relations*, 58: 429-62.

³⁴ Edwards, P. K. 2006. 'Industrial Relations and Critical Realism: IR's Tacit Contribution'. *Warwick Papers in Industrial Relations*, Number 80. Coventry: Industrial Relations Research Unit, University of Warwick; Hesketh, A. and Fleetwood, S. 2006. 'Beyond Measuring the Human Resources Management–Organisational Performance Link: Applying Critical Realist Meta-Theory'. *Organisation*, Vol 12, no 5, 677-99.

³⁵ Morgan, G. Whitley, R. and Moen, E. 2005. *Changing capitalisms? Internationalisation, institutional change and systems of economic organisation*. Oxford: Oxford University Press. p.416.

³⁶ Edwards, P. K. 2006. 'Industrial Relations and Critical Realism: IR's Tacit Contribution'. *Warwick Papers in Industrial Relations*, Number 80. Coventry: Industrial Relations Research Unit, University of Warwick.

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 field. Take the issue of change. Even if the language is not used, issues of ‘entrepreneurship’, ‘bricolage’, ‘translation’ and ‘enactment’ figure prominently throughout British studies of workplace employment relations, going as far back as Flanders’ classic 1964 study of the Fawley productivity agreements.

The 2010 edition of this chapter suggested a final challenge raised in the Preface. Those of us who teach and research in the area have to do much more to explain to the outside world why the subject has on-going relevance to policy makers and practitioners. This does not mean pretending to have quick fix solutions. Rather it means teasing out the policy and practical implications of analysis and research; focusing on outcomes as well as processes - not just in terms of business performance, but also wider concerns such as the contribution of work organisations to social capital development; and making things more accessible. All these are important not just because, in the climate of limited resources, the appeal of teaching programmes and the success of research applications depend on relevance. Much more fundamentally, they take us back to the origins of the subject. Because none of the traditional disciplines is centrally concerned with the employment relationship, there is a great danger that the unfolding developments and their considerable implications will only be appreciated when it is too late to do anything about them.

Looking back, to introduce a personal note, I confess to not appreciating how substantial this challenge would prove to be. Scarce resources have made for a hostile environment for employment relations in many universities, its location in business schools proving to be a weakness: some business school deans have never seen employment relations as a core activity and have taken the opportunity of austerity to cut back or cease altogether. At the same time, the traditional social science disciplines have been under pressure to fight their corner as hard as they can: much of the work that might be said to draw on the employment relations tradition now takes place in law and politics departments. Simultaneously, financialisation means that ‘outside world’ has changed fundamentally. Arguably, for example, the role of HR managers under the ‘financial’ model is very different from that in the ‘managerial’ one and issues such as ‘high performance work systems’ and managing trade union relationships are no longer important as they were. Demonstrating relevance to policy makers has always been difficult, but has become even more so with the rise of ‘populism’. Government increasingly look like ‘permanent campaigning’ designed to ensure popularity rather than dealing with the task in hand³⁷.

The rest of the text

The chapter that follows is concerned with why the employment relations that employment relations studies matter. It not only covers the impact of employment relations in areas that have traditionally featured, namely conflict and business performance, but also living standards, health, and personal development opportunities. It also deals with the wider impact of the conduct of the employment relationship on the family, social capital and macroeconomic performance.

The remaining chapters focus on the matters that the study of employment relations deals with. In each case, they seek to explain why the issue is seen as worthy of study, account for why things are as they are, and tease out the underlying trends and developments. They also highlight the main controversies and debates.

Chapter 3 is concerned with the employment relationship, highlighting its distinctive

³⁷ Sidney Blumenthal. 1980. *The Permanent Campaign*. 1982 Shuster & Shuster. p.7.

features and the main variations that it takes. It goes on to consider whether ??? is bringing about fundamental changes in the traditional model. Chapter 4 is concerned with institutions, explaining why they are the focus of so much attention, identifying the ones that are especially significant and accounting for the main cross-national differences. It also reviews the forces driving change, the mechanisms involved and direction of travel.

Chapters 5 and 6 focus on the two key underlying issues that are all too often neglected. Chapter 5 emphasises that 'negotiation' is as much a feature of individual employment relations as it is of collective ones. It is also not just about 'exchange'. It is also about influencing relationships, changing attitudes and shaping preferences. Chapter 6 is concerned with the nature, distribution and exercise of power that is involved in the employment relationship. It explores the different types and 'faces' of power and their relevance, explains why the nature of power in the employment relationship is so asymmetrical (unequal) and discusses attempts to handle the tension between 'power to' and 'power over'.

Chapter 7 explains why conflict is an integral feature of the employment relationship. It reviews the main expressions that conflict at work takes and considers the changing patterns of these and the reasons for them.

Chapters 8, 9 and 10 go on to consider three main areas of debate relevant to the practice and theory of employment relations. Chapter 8 focuses on the nature, extent and direction of change in management's approach, linking them to the particular 'varieties of capitalism'. Chapter 9 deals with trade unions and collective bargaining and considers whether the decline in membership and coverage represents the passing of an era. Chapter 10 is devoted to the role of government and the ongoing public policy issues that policy makers find themselves having to confront, finishing with the widespread calls for a 'new social contract' to deal with the distributional tensions that inequality is giving rise to.

Table 1.1 ‘Financialisation’ and its implications

Financialisation figures even more prominently in this edition of the text than it did in the 2010 one, which is why its basics are introduced here in Chapter 1. In the 2010 edition it was explained that, whereas in earlier decades, market position was the main business driver – be it diversification to spread risk in the 1970s or more focus (‘sticking to the knitting’ in Peters and Waterman’s phrase³⁸) in the 1980s – in the 1990s, financial considerations came to the fore, in part reflecting the deregulation of financial markets in the 1980s. In the 1970s and 1980s, to paraphrase Froud and her colleagues, competition was based on product and process, most notably in sectors such as cars and consumer electronics; pressure was exerted through the product market, with consumers making firms ‘winners’ or ‘losers’ by virtue of their combined purchasing power; and the management challenge was represented in physical terms – ‘lean production’ was about better factories with lower build hours, less inventory and higher quality. Japanese companies were also seen as leading the way, with Toyota’s practices widely imitated and transplanted³⁹.

In the 1990s, the emphasis of competition shifted to financial results in the form of current and projected cash returns on investment using cross-sector league tables such as MVA (market value added) and EVATM (economic value added), with the returns on investment in one firm explicitly compared against all others regardless of product or sector; pressure was exerted through the capital market by shareholders via buy, sell and hold decisions; the management challenge came to be represented in narrow financial terms; and there was a renewed leadership role for US companies. In this case, promoting many of these developments were new investment forms, such as private equity groups and hedge funds, which assumed an increasingly ‘active’ role in seeking to influence company share performance.

In the ten years since, these trends have intensified, as evidenced by soaring executive pay, dividends and takeover windfalls. In Batt’s words, from being a ‘fringe’ concept ‘financialisation’ has become ‘mainstream’⁴⁰ – not just because of the growing dominance of the finance sector itself, but also because of the increasing importance of financial activities, in non-financial companies.

Following van der Zwan⁴¹, three main stands of financialization studies can be identified:

Financialization as a regime of accumulation. This is very much the province of *regulation theory* touched on earlier in the chapter and discussed in more detail in Chapter 10 dealing with theorising of the state’s role in employment relations. Essentially, the regulation approach is about the ways in which the instabilities capitalism gives rise to are managed⁴². There are two central concepts: the ‘accumulation regime’ (AR) and ‘mode of regulation’ (MR), i.e. the set of underpinning institutions, laws, norms, state interventions and policy paradigms. It is enough to note here that, at the macro level, ‘financialisation’ can refer to the shift in accumulation regime from industrial (‘Fordism’) to financial capitalism

³⁸ Peters, T.J. and Waterman, R.H. 1983. *In Search of Excellence*. New York: Harper and Row.

³⁹ Froud, J., Haslam, C., Johal, S. and Williams, K. 2000. ‘Shareholder value and financialization: consultancy promise, management moves’. *Economy and Society*, Vol 29, No 1, 80-111.

⁴⁰ R. Batt. 2018. ‘When Wall Street manages Main Street: Managerial dilemmas, sustainability and inequality’. *Journal of British Academy*, 6, 65-96.

⁴¹ N. van der Zwan, 2014. ‘Making sense of financialization’. *Socio-Economic Review* 12: 99-129.

⁴² Lucio Baccaro and Chris Howell. 2017. ‘[Unhinged Industrial Relations Liberalization and Capitalist Instability](#)’. *MPIfG Discussion Paper* 17/19, p. 102.

(‘financialisation’). In Batt’s words, ‘financialisation’ emerged as ‘an economic, political, and ideological force from the 1980s on, in which powerful financial and corporate actors captured regulatory institutions and deregulated and re-regulated them in ways that favoured their interests’⁴³.

The financialization of the modern corporation. To contrast the changes that Flood and her colleagues described above, Batt distinguishes between two models of the firm: the ‘managerial’ and the ‘financial’. Under the ‘managerial’ model, which was the dominant corporate form throughout most of the 20th century, assets are relatively fixed resources used to produce goods and services, with retained earnings replenishing resources and expanding the firm’s asset base. The ‘financial’ model, by contrast, assumes the corporation is a bundle of mobile assets to be bought and sold with the goal of increasing short-term gains and shifting the distribution of retained earnings from investments in the firm and workers to shareholders.

Firms increasingly manage for cash rather than profitability. They increase cash returns via a range of financial activities, such as fee-generating activities, the sale of real-estate assets and less profitable businesses, and tax arbitrage. They make greater use of debt for investments - especially favoured when interest rates are low or zero - as debt multiplies returns and the interest on debt is tax deductible. They return the proceeds to stockholders and buy innovation via mergers and acquisitions (M&As) - which also increases market power - rather than investing in research and development or workforce skills. Because firms extract rents through a range of financial activities, they are less willing to cooperate with labour to generate wealth.

Batt goes on to suggest that three management strategies are central to implementing the ‘financial’ model. One, and the most important, is the alignment of top management and shareholder interests - hence executive pay being tied to stock options - the second is organisational restructuring and outsourcing, and the third treating labour as a variable cost.

In the case of organisational structures, focusing on short-term cash generation puts pressure on firms to reduce headcount.

Once firms sell off diversified businesses and develop more focused strategies, they have further incentives to focus on ‘core competencies’ (what they ‘do best’), undertake value chain analysis, and out-source activities that are viewed as ‘non-core’. These ‘asset light’ models of the firm allow companies to lower costs of plant and equipment, labour, and other operational expenses; eliminate legal employment liabilities; and shift risks and uncertainty to contractors and workers in contractor firms. By lowering headcount and reducing the denominator, revenues per employee go up, leading to higher stock market valuations.

Batt reminds us that, while most empirical research associates outsourcing with offshoring and global supply chains, the practice is also widespread in sectors relatively untouched by globalisation - including the service and public sectors.

The ‘financial’ model also turns labour into a variable cost. Emphasising ‘core competencies’ segments workers into those who ‘add value’ and those who do not. A

⁴³ R. Batt. 2018. ‘When Wall Street manages Main Street: Managerial dilemmas, sustainability and inequality’. *Journal of British Academy*, 6, 65-96. p.87.

small core is retained as a quasi-fixed asset, with the remainder redefined as a variable cost and outsourced.

The financialization of everyday life. Financialisation's influence does not stop with the firm, but is also held to influence 'the inner workings of democratic society'⁴⁴. Take pensions schemes. Wage earners are increasingly encouraged to invest in financial markets and manage their own risk, the 'approved' way of doing so being to seek high rates of return in the equity market. 'Instead of embedding the market in the social' says Fudge, 'states increasingly expand the market into the social'⁴⁵. In so doing they help to explain Crouch's characterisation of the shift from 'public Keynesianism', in which the state takes on debt to stimulate the economy, to 'privatized Keynesianism' in which citizens are encouraged to take on this responsibility⁴⁶. This dual identity, in turn, helps to explain why it is difficult to create and maintain political coalitions to bring about change. At the same time, as later chapters show, it increases income inequality and high levels of household debt and so the systemic risk implicit in financialised capitalism.

⁴⁴ N. van der Zwan, 2014. 'Making sense of financialization'. *Socio-Economic Review* 12: 99-129. p.100.

⁴⁵ J. Fudge. 2017. 'The Future of the Standard Employment Relationship: Labour Law, New Institutional Economics and Old Power resource theory'. *Journal of Industrial Relations*. p.10.

⁴⁶ C. Crouch. 2009. 'Privatised Keynesianism: an unacknowledged policy regime'. *British Journal of Politics and International Relations*. 11: 382-399.

Table 1.2 Theorising's three perspectives⁴⁷

Positivism

This holds that the role of theory is to simplify our understanding of social phenomena. It seeks to go beyond explanation to identify timeless 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 in understanding individual motivation and addressing empirical regularities rather than the underlying causal mechanisms.

Social constructionism

This holds that the role of theory is to inform and sensitise analysis to the complexity of social phenomena. It focuses on explanation and equates it 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 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, ignoring the influences of structures that lie outside the processes and failing to ask 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 focuses on explanation and equates it with identifying 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. It especially values complexity and realism in making assumptions; it also stresses the importance of context in shaping individual preferences. 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.

⁴⁷Based on Hay, C. 2002. *Political Analysis. A critical introduction*. Basingstoke: Palgrave; Edwards, P. K. 2006. 'Industrial Relations and Critical Realism: IR's Tacit Contribution'. *Warwick Papers in Industrial Relations*, Number 80. Coventry: Industrial Relations Research Unit, University of Warwick; Hindmoor, A. 2006. *Rational choice*. Basingstoke: Palgrave.

