

# PLANT CLOSURE AND INSTITUTIONAL ARRANGMENTS OF INDUSTRIAL RELATIONS IN TAIWAN

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Plant closures are normal business activities in industrial society. They signify the total or partial closure of an establishment, a work-site, or a factory, whether multi-plant company or single-plant company, by the employer. The consequence of plant closure is the making of employees redundant collectively. Thus, plant closure and collective redundancy (or large-scale redundancy; mass lay-offs; large-scale workforce reduction) are fundamentally two sides of the same coin, even though it is possible to have collective dismissal for redundancy without plant closure.

The liberal individualist views plant closure as a neutral by-product of a healthy and dynamic capitalist economy. Termination, then, is not an ending *per se*, but a beginning of something new and wholly different. It is part and parcel of the natural life cycle (Levin-Waldman 1992:1-2). Just as Joseph Schumpeter's (2008) abstract model of "creative destruction", plant closure could be regarded as the necessary process of social progress. System theorists (e.g. Dunlop 1958; Hardy 1996; Kaufman 2004; Heery 2008) regard an external environment as an independent variable which is characterised as the input of the industrial relations system. To a large extent, an external environment is just a structural context which indirectly stimulates the formulation of plant closure as a response. What directly leads to plant closure is located inside the industrial relations system which is the institutional arrangements.

Strategic choice theory (e.g. Kochan *et al.* 1986) notes that plant closure, in essence, is a result of strategic choice which is driven by goals, expectation, and values. It is through institutional arrangements that the actors interact and make choices that, together with forces in the environment, determine the strategy for plant closure. An international comparative survey (Yemin 1982) shows that plant closures are the result of management's decisions to carry out important changes in the enterprise, but there is still a variety of possible alternative measures. The process of strategic choice of plant closure is majorly formulated in the institutional arrangements which embraces traditional means (such as collective bargaining, dispute resolution process, strikes and lockouts, and works council) and human resource management practices (such as planning, staffing, and training) (Meltz 1993: 170-71). The questions one may raise are why there is the diversity of strategic choices available to employers and whether the decisions of plant closure are typically made unitarily. The best explanation can be found from one of the major variables: institutional arrangements of industrial relations. I argue that institutional arrangements constrain or facilitate the discretion of plant closure, while the managerial strategy for plant closure is restricted by the institutional arrangements.

The aim of this article is to explore the linkages between institutional arrangements of industrial relations and strategies of plant closures. I intend to identify the extent to which institutional arrangements influence the strategies in which plant closures take. I draw on the 'style' typology of Purcell (1987), Marchington and Parker (1990), and Purcell and Ahstrand (1994) to develop style classification for the Taiwanese plants.

In the article, I begin by proposing a style matrix of institutional arrangements of industrial relations in Taiwan as a basis of carrying out field work. Secondly, the main features of institutional arrangements of six plants are categorised into 'authoritarian domination' and 'paternalist consulted/bargained', and are then located in the suitable site of the proposed matrix. Here, I demonstrate that institutional arrangements have a link with the managerial strategies for plant closures by showing how institutional arrangements influence the strategies for plant closures. My article is finally concluded that the plants typified as 'authoritarian domination' were identified as operating 'unlawful plant closure', whilst those typified as paternalist consulted/bargaining were identified as 'lawful plant closure'.

### THE MATRIX FOR MAPPING INSTITUTIONAL ARRANGMENTS IN TAIWAN

A number of authors (e.g. Fox 1966, 1974; Purcell 1987; Marchington and Parker 1990; Purcell and Ahlstrand 1994; Legge 2005; Redman and Wilkinson, 2006; Boxall *et al.* 2008) have elaborated managerial ideologies towards employees and managerial strategies for dealing with the democratic mechanism of collective bargaining and joint consultation.

Fox (1966; 1974) used the unitarist and pluralist approaches as 'frames of reference' to examine managerial ideologies and styles. The **unitarist approach** assumes that the organisation is an integrated group of people with a single authority structure with employers at the top. The organisation has a set of common values, interests, and objectives shared by all members. It assumes that the organisation is in basic harmony and conflict is unnecessary. Trade unions are regarded as an intrusion into the organisation from outside which threatens the loyalty of employees to employers. The way of resolving conflict is through coercion which is regarded as a legitimate use of managerial power. By contrast, the **pluralist approach** assumes that the organisation is made up of various interest groups with different interests, objectives and leadership. Conflict is perceived as rational, inevitable, and resolvable. It accepts the legitimacy of employees unionising as a group to express their interests, influence management decisions. Fox (1966: 7) argues that such legitimacy is built not only upon workers' power or management recognition but also upon social values which recognise the right for interest groups to combine and have an effective voice in their own destiny. Resolution of conflict can be achieved by establishing accepted procedures and institutions through negotiation and compromise. Fox's division of managerial ideologies has been built upon by a number of authors.

In classifying management style, Purcell (1987) and Purcell and Ahlstrand (1994) highlight two dimensions: collectivism and individualism (shown as Figure 1).

The term **collectivism** which is closely associated with pluralism is used to describe employers' policies which relate to employees having the right to form themselves into representatives to work on their behalf (Purcell and Ahlstrand 1994: 182-83). The critical question here, as Purcell and Ahlstrand noted, is 'the extent to which the firm gives credence, if at all, to the role of collective labour organisation' (ibid 183). Collectivism is defined as 'the extent to which management policy is directed towards inhibiting or encouraging the development of collective representatives by employees and allowing employees a collective voice in management decision-making' (Purcell 1987: 533). There is a spectrum from opposing any forms of collective relationships and representative bodies (low collectivism or unitary) to supporting collective relationships and representational bodies based on democratic structures (high collectivism or co-operative) (Purcell 1987: 539). In low **collectivism** or **unitary**, employers deliberately choose to avoid any form of collective labour organisation and certainly seek to resist either coercively or by competition the possibility that unions

will gain a foothold in the company (Purcell and Ahlstrand 1994: 183). High collectivism or co-operative employers allow the extensive exchange of information, the use of joint working parties to explore problems, and extensive efforts by either party to support the other (Purcell and Ahlstrand 1994: 184).

<b>RESOURCE</b>				
<b>INDIVIDUALISM</b>	employee development	Sophisticated human relations	??	Sophisticated consultative
	Paternalism	Paternalist	Bargained constitutional	modern paternalist
	Cost minimisation	Traditional		??
<b>COMMODITY</b>		None or unitary	Adversarial	Co-operative
<b>COLLECTIVISM</b>				

Figure 1: The Management style matrix  
Source: Purcell and Ahlstrand (1994: 178)

The **individualist** dimension is defined as ‘the extent to which personal policies focus on the rights and capabilities of individual workers’ (Purcell 1987: 533) and in particular ‘seek to develop and encourage each employee’s capacity and role at work’ (Purcell 1987: 534). There is a spectrum which runs from seeing individual employees as ‘commodity’ (low individualism) to ‘human resources’ (high individualism). Taking commodity views, management policies are described as ‘cost minimisation strategies where the emphasis is placed on short-term employee costs, a tight control over pay and employment level, and a preference for avoiding training and development’ (Purcell and Ahlstrand 1994: 180). Taking human resource views, management strategies underline the significance of human capital which can be developed and nurtured through the internal labour market rather than the hire-and-fire approach. Such strategies seek to develop individual employees through an internal promotion pattern and by giving access to training and a good reward package (Salamon 2001: 223).

There are some difficulties in adopting this typology of styles. **Firstly**, such classifications are mainly derived from British industrial relations. Purcell (1987) and Purcell and Ahlstrand (1994) identify ‘traditional’ management style which adopts cost minimisation and non-union (unitary) approaches to individual employees and collective relationship respectively. In this style, employees are regarded as commodity which can be coerced into accepting managerial prerogatives and qualitative and quantitative flexibility, while unions are opposed by employers. It fails to fully address why Taiwanese employers take advantage of authoritarian and bureaucratic powers to suppress or dominate unions. **Secondly**, the existence and recognition of unions does not mean that employers have a commitment to collectivism and wish to establish partnership with unions, because what the employers are doing is seeking a mechanism of maintaining and securing order in the workplace (Marchington and Parker 1990: 235-6; Legge 2005: 40). In Taiwan, sometimes unions dominated by employers are ‘the administrative arm of

management' through which employees' grievances and complaints can be settled and industrial peace can be secured. **Thirdly**, turning to the individualism, it is debatable whether the extremes of the individualist dimension are mutually exclusive (Marchington and Parker 1990; Legge 2005: 40) The employers in favour of the cost minimisation approach do not reflect that the employee development approach is not the focus of personnel policies of the employers. Some may treat employees as human capital which is worth being invested and explored as a potential resource. **Fourthly**, Purcell (1987) identifies mid-way between 'low' individualism typifying employees as an exploitable commodity and 'high' individualism typifying employees as an invested human resource is 'paternalism'. Paternalist is nothing to do with employees' status. Rather, I argue, the term paternalist is a broad concept describing the role of employees' subordination and the employers' caring face of personnel management. In practice, employers with a paternalist approach could exist in 'low' individualism and 'high' individualism. Therefore, the concept 'paternalism' needs to be slightly adapted by showing the clear status to which employees are subject. The concept for midway between commodity status and resource status, I suggest, is **contractual status under paternalism**. The term 'contractual status under paternalism' describes the status of employees under doctrines of employment contract law.

On the basis of the analysis above and Marchington and Parker (1990), I propose some amendments to individualism/collectivism dimensions for the purpose of analysing the institutional arrangements in Taiwan (as Figure 2). Firstly, collectivism is adapted as **partnership orientation** (to the unions) as Marchington and Parker have proposed. Subdivision of collectivism remains the same as Purcell classifies: '**none**' (**unitary**) on the left of the scale, '**adversarial**' in the central category, and '**co-operative**' on the right of the matrix. Secondly, individualism is adapted as **human resource orientation** (to employees). Sub-categories are divided and slightly different from Purcell's model. They are '**resource status**' at the top of human resource orientation scale, '**contractual status under paternalism**' in the centre, '**commodity status**' at the bottom of scale.

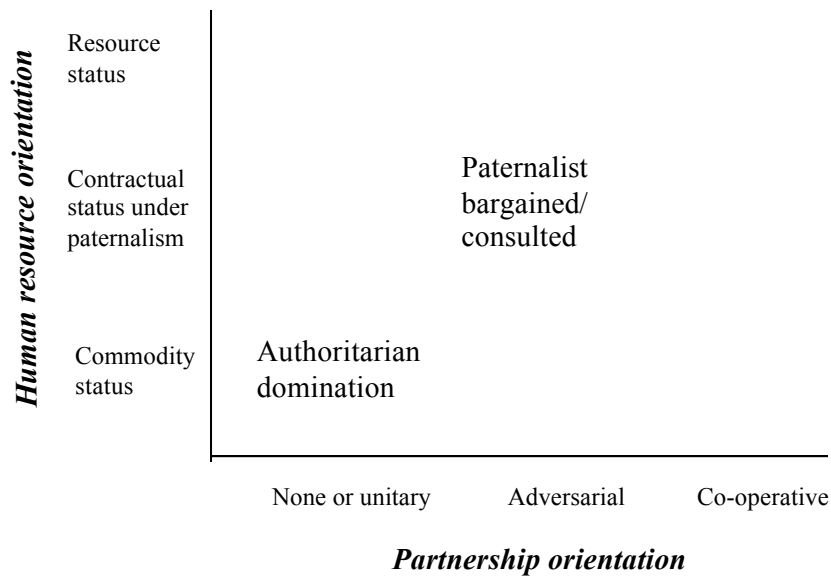


Figure 2: The institutional arrangement matrix  
 Source: Adapted from Purcell (1987:541), Purcell and Ahstrand (1994: 178), Marchington and Parker (1990)

## TYPOLOGIES OF INSTITUTIONAL ARRANGMENTS AND LINKING WITH THE STRATEGIES OF PLANT CLOSURE

The apparatus for institutional arrangements consisted of two components: software and hardware. The hardware of institutional arrangements embraces joint bodies (e.g. WMC, WWC), collective bargaining, and unions, while the software includes ideologies, styles and agreements. In this section, I want to show how institutional arrangements help shape the strategies for plant closures. In order to achieve this end, it is necessary to categorise institutional arrangements of the plants into a matrix by means of the inductive analysis.

Based on my exploration of institutional arrangements of the six plants closed in Taiwan, Plants D, E, and F are located in the commodity status of human resource orientation scale and in the unitary of partnership orientation scale. Institutional arrangements of the plants are categorised as **authoritarian domination**. As Table 2 shows, the distinctive features of this are the disposability of labour, the opposition of collective interaction, and cost minimisation. On the contrary, institutional arrangements in Plants A, B, and C are located in the contractual status under paternalist on the human resource orientation scale and in the adversarial section of orientation scale. They can be categorised as **paternalist bargaining/consulted**. The distinctive features of this are the dependability of labour, a degree of collective interaction, and benevolent welfare care. In next sub-section, I want to discuss these characteristics, found in my case studies, in detail.

Table 2: The typologies of the institutional arrangements of the six plants

Plant	D, E, F	A, B, C
<b>The perceptible and actual characteristics</b>	The disposability of labour Opposing collective interaction Cost minimisation	The dependability of labour. A degree of collective interaction Benevolent welfare care.
<b>The typologies of institutional arrangements</b>	Authoritarian domination	Paternalist Bargained/consulted

### Authoritarian Domination

In Plants D, E, and F, it can be observed that management regarded individual employees as a commodity which was the factor of production to be disposed of in the light of operational requirements. Moreover, collective relationships were either covertly and overtly suppressed or dominated by managerial authoritarian. The partnership orientation to the unions is unitary or non-existent. In such a situation, the characteristics of institutional arrangements can be categorised as 'authoritarian domination'. Three characteristics can be found. The first is **the disposability of labour**. Labour power was considered as a commodity to be hired or fired according to the changing requirements of the business. Meanwhile, management sought to maximise the disposability and exploitation of labour in an attempt to increase the accumulation of capital. However, the hire-and-fire strategy for responding to changeable markets also undermined the commitment of employees to the organisation. Under authoritarian management, therefore, low commitment of workers and high disposability of labour power were the characteristics of these plants.

The second is **the opposition to collective interaction**. Due to its characteristics of opposition to a collective voice, employers either adopted a union-free policy by suppressing unionisation or dominated the union as a company union. The employer

of Plant D, for instance, intensely suppressed the unionisation of workers by terminating the leaders of workers up to five times. Under the domination of the employer, the function of the union in Plant E turned out to be 'the executive arm of management', which assisted management in structuring workers' affairs. It made no attempt to improve the terms and conditions of employment. In particular, in the case of malicious plant closure, incumbent union officials in both Plants E and F even gave up taking action against it. Instead, most chose to voluntarily leave, which in turn was alleged by workers as receiving a bribe from their employer. The reason why employers were keen to suppress unionisation in the work place or dominate unions as one of departments of the plants is that the existence of powerful and adversarial unions would undermine the managerial capability of continuously exploiting employees as a factor of production and securing the flexibility of the production process.

The third is **cost minimisation** of labour. Management deployed a strategy of cost minimisation for securing achievement of surplus value (profit). The nature of work in Plants D, E, and F was labour-intensive on mass-production in assembly lines. Workers were low-skilled or even unskilled, and could be easily replaced by other workers. The simplification of work and the close supervision was conducted by the management to secure workers' compliance and reach the expected goals of production. These employees provide employers with flexibility in quantity and quality to minimise the cost of production by exploiting employees as the commodity status of labour. Under such an orientation, it is impossible for employers to care for employees with fringe benefits and welfare policies

### **Paternalist Bargained/Consulted**

In Plants A, B, and C, it can be observed that the employee was regarded as having a natural subordinate deferential role, whereas the employer accepted a degree of social responsibility to provide benevolent welfare care for the employees. Moreover, collective interaction was considered as the appropriate way to institutionalise conflict and maintain industrial peace. In such a situation, institutional arrangements can be characterised as 'paternalist bargained/consulted', which embraces three components.

The first is **the dependability of labour**. Labour power is not regarded as a commodity, but contractual workers with a natural subordinate deferential role. Based on the rationale of dependable labour, employees were empowered with enhanced authority to act in resolving problems, achieve the required objectives, and participate in decision-making. Workers in Plants A, B, and C were given the opportunity to be involved in helping the improvement of productivity and quality, and increasing job satisfaction and development. For instance, there were semi-autonomous workgroups in Plant A. Management Meetings in Plant B, and the WWC in Plant C. These human resource management techniques, underpinned by the rationale of dependable labour, increased employees' identification with the interests of the organisation, promoted an awareness and understanding of the plant's position, and sought accommodation within a mutually acceptable solution.

The second is **a degree of collective interaction**. The employers in Plants A, B, and C did not oppose the collective interaction with unions or workers, nor did they turn down the demand of workers for conducting collective interaction. For instance, as described earlier, a variety of institutional arrangements were established in Plant B. In Plant A despite being a non-union sector, the employer favoured the importance of communication of information between management and employees. In Plant C, the union was active and enjoyed a certain degree of workers' participation through

institutional arrangements. Basically, the employers in Plants A, B, and C not only provided information for the workers, but were also willing to embark on consultation or negotiation with unions or the workers' representatives. However, the matters on which they consulted/negotiated with unions or the workers' representatives were limited or confined to limited specific areas of operational decision making.

The third is **benevolent welfare care**. In these three plants, employers regarded employees with contractual status by adopting a paternalist stance and require workers to provide their services and labour under employment contract. Employers basically accepted a degree of 'social responsibility' to provide benefit welfare care for their employees in order to show the paternalistic figure of employers. In Plant C, for instance, as indicated earlier, employees could easily obtain a great deal of welfare allowances through the WWC. In Plant B, management offered a scholarship and reward for employees' children through the WWC with good academic results. In Plant A, the improvement of workers' welfare had been affirmed by the workers. The common characteristic of this type of benevolent welfare care was that the workers had an initiative in redistributing the welfare care from only a limited fund of the WWC which was mostly provided by employers.

### **THE CONNECTION BETWEEN THE INSTITUTIONAL ARRANGMENTS AND PLANT CLOSURE**

Institutional arrangements within industrial relations serve as an intervening condition which plays a key part in the formulation of plant closure strategies. If there are institutional arrangements in a plant, it will provide employers and workers with a well-established channel of communication and interaction with each other. This will make both sides well aware of their needs and difficulties before and during plant closure. Therefore, it is likely to reduce the possibility of resistance and dispute over plant closure. Of course, one cannot deny that in a way resistance and industrial action over plant closure might be a strategy of workers in an attempt to raise the amount of compensation for job loss. Perhaps, the tragedy of plant closure might be prevented through institutional arrangements when both sides can find the alternative which is accepted by both parties. Therefore, the argument I make here for a linkage between institutional arrangements and strategies for plant closure is that the strategic conduct or actions for carrying out plant closure is most likely to derive from the normative institutionalisation of conduct and interaction which employers and the unions adopt through institutional arrangements.

Based on my case studies, the distinctive functions of institutional arrangements to be drawn are mainly **information, communication, involvement, and attitudinal structuring**. The informational function means that workers can gain access to the basic financial situation, strategy for development, management strategy and other related information. The communicative function denotes that institutional arrangements provide a forum for management and workers to communicate with each other 'concerning their shared situation' (Thompson 1983: 279). Employers can seek employees' views on the given policies through institutional arrangements. The function of involvement means that workers are allowed to involve themselves in shaping decisions by a variety of joint bodies. The attitudinal structuring function refers to the way in which the motive orientation of competition or co-operation between workers and management could be formed or affected through institutional arrangements (Walton and McKersie 1965: 4-6). It can be a means of developing trust, respect, and harmony or hostility, therefore, both the workers' and the employer's strategies for handling plant closure could be shaped by drawing upon the nature and operation of institutional arrangements.

In Taiwan, several legal provisions require employers to form a number of joint consultative bodies. Some impose neither compulsory obligations nor effective sanctions on employers (e.g. legal provisions about the WMC and WWC). Others impose voluntary obligations on employers (e.g. the Collective Agreement Law). It is difficult for employers and trade unions to manage plant closure and collective redundancy through the given institutional arrangements at the very beginning when plant closure is projected by employers. Moreover, employers are not mandated by legal provisions to negotiate or consult with the union about matters related to redundancy or collective redundancy. The only procedural regulations are the maximum of thirty days' notice and compensations for job losses. Therefore, legal regulations do not provide powerful underpinning for institutional arrangements in influencing the formulation of managerial strategies for plant closure.

In Plants A, B, and C, the institutional arrangements are characterised as paternalist bargained/consulted, in which workers were treated positively as contractual resources, were able to have workers' participation or involvement, and management accepted a degree of 'social responsibility' to provide benefit welfare care for employees. In particular, a degree of collective interaction between employers and workers or the unions contributed to enhancing mutual understanding and consensus. In the light of a plant closure process, the managerial strategies which the employers conducted to carry out the plant closure are identified as lawful plant closure. At the same time, in accordance with the previous 'customs and practices' or rules of consultation or negotiation, the employers informed the workers in advance and were willing to negotiate with the unions and the representatives of workers in an attempt to reduce the impact of closure upon *their* employees.

However, in Plants D, E, and F, the institutional arrangements are characterised as authoritarian domination, in which workers were treated as disposal labour, whilst management opposed collective interactions and had direct control over workers in the process of production. The way in which plant closure was carried out by employers was identified as 'unlawful plant closure'. In this, the employers did not inform workers in advance, did not negotiate with the unions or the representatives of workers in good faith. Such strategic conduct could have their roots in communicative acts and normative interaction which were shaped in institutional arrangements.

According to the analysis above, in short, the strategic conduct of employers in the context of plant closure are most likely to derive from the normative institutionalisation of conduct which employers and the unions or workers adopted within institutional arrangements.

## CONCLUSIONS

I explored the extent to which institutional arrangements in the work place help shape the formation of plant closure and malicious plant closure. I defined institutional arrangements as comprising the institutions of industrial relations, including hardware (i.e. joint consultation bodies, collective bargaining, and trade unions) and software (i.e. ideologies, management styles and agreements). Data about institutional arrangements in each research site were gathered in cases studies and analysed case by case. The cases selected are typical of their kind which increases the likelihood of generalising from the cases studied to others. However, it is necessary to give a **rich description** of the cases in order to judge the degree of generalisability. Therefore, I described in detail the institutional arrangements in each plant, providing a basis of examining the linkage between institutional arrangements and strategies of plant closure.



Before linking them, I developed a matrix for mapping institutional arrangements by adapting Purcell and Ahlstrand's work. I characterised institutional arrangements of the six plants into two types: authoritarian domination and paternalist bargained/consulted. In the former type, the perceptible characteristics include the disposability of labour, opposing collective interaction, and cost minimisation of the workforce, whilst the latter type includes the dependability of labour, a degree of collective interaction, and benevolent welfare care. Finally, I found that those employers whose institutional arrangements are characterised as 'authoritarian domination' adopted strategies to close the plants down in an unlawful way, whilst those whose institutional arrangements are characterised as paternalist bargained/consulted closed their plants down in the lawful way, but still brought about industrial disputes over compensation for job losses. The implication of findings is that managerial strategies developed for implementing plant closure are most likely to be shaped by the types of institutional arrangements. It gives a powerful reason why legal provisions for regulating plant closures need to take institutional arrangements into consideration.

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