

INVISIBLE HANDS, INVISIBLE OBJECTIVES: BRINGING INDUSTRIAL RELATIONS INTO FOCUS IN THE NEW WORLD OF WORK, ORGANIZATIONS, AND EMPLOYMENT

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ABSTRACT

This paper helps bring industrial relations into focus by emphasizing explicit models and explicit objectives of the employment relationship. An analytical framework is presented that is based on four models of the labor market and employment relationship—the egoist, unitarist, pluralist, and critical employment relationships—and three objectives—efficiency, equity, and voice. The importance of this framework for understanding central issues in the new world of work, organizations, and employment will be demonstrated through its application to labor law and public policies on work, employee voice mechanisms, and human resource management practices.

INTRODUCTION

In many respects, we now live in a new world of work, organizations, and employment. In industrialized nations, demographic changes and increases in educational attainment have drastically altered the labor force. Blue-collar, manufacturing jobs have given way to myriad service sector jobs while monopolistic smokestack industries have given way to a hypercompetitive, global, digital economy. Customization, flexibility, insecurity, and teamwork have replaced standardization, stability, security, and bureaucracy in today's workplace. Ideals of lifetime employment have been pushed aside by contingent employment and outsourcing. At the same time, developing nations have been buffeted by the pressures of industrialization and global multinational corporations, and are challenged by new employment forms and institutions. Around the globe, labor unions are on the defensive and protective labor standards are seen, at best, as obsolete.

How work is experienced—through jobs, career paths, corporate employment practices, and labor market institutions—has therefore undergone drastic changes. But at a more fundamental level, we need to guard against being enchanted by the new processes and outcomes of the new world of work. The core models for analyzing the employment relationship remain central for our understanding of work. The competitive paradigm of neoclassical economics, the unitarist model of management and psychology, the pluralist paradigm of institutionalist economics and industrial relations, and the critical theories of sociology do not lose their analytical power and relevance when processes and institutions change. New theories are certainly important for understanding the dynamics of these changes, but this should not obscure the enduring features of the employment relationship. For example, that globalization has changed relative bargaining power between employers and employees does not alter the conceptual debates over the inherent nature of conflict in the employment relationship. A second enduring feature of work is the set of underlying objectives of the employment relationship. One can and should judge the extent to which the employment relationship serves efficiency, equity, or other objectives regardless of the specific institutional context and social weights placed on various objectives.

Unfortunately, attention to explicit employment relationship models and objectives has largely been overwhelmed by the focus on the drastic changes in processes and outcomes associated with the new world of work. Calls for reforming employment-related public policies, for example, are almost always rooted in a perceived failure of individual and collective labor law to keep pace with societal and economic change, and are silent with respect to explicit models and objectives of the employment relationship. Moreover, in this new world of work, the free market ideals of the neoliberal economy have largely reigned supreme. Until the financial crisis and global recession in 2008, policy-makers and corporations were praised for using the global economy to pursue economic efficiency, regardless of the broader impact. This dominant neoliberal market ideology implicitly embraces a competitive model of the employment relationship and has driven alternative models of imperfect competition from view. Non-economic objectives are only weakly considered, and the resulting milieu is one of invisible hands, invisible objectives. Industrial relations, with its implicit embrace of alternative models and objectives, has therefore come to be seen as anachronistic to outsiders, while scholars from various perspectives within the field talk past each other without fully understanding the underlying models and objectives.

The global financial crisis and recession have created an opportunity to re-consider the free market ideology that emphasizes economic objectives and unregulated markets. The invisible hand and the invisibility of non-economic objectives are being questioned in all sectors of the economy, from financial services to employment. Now is time to re-think the objectives of the employment relationship and the underlying assumptions of how that relationship operates by making these key elements explicit in our scholarship.

ENDURING OBJECTIVES OF THE EMPLOYMENT RELATIONSHIP

Understanding the employment relationship should not start with processes or institutions, but with a consideration of the fundamental objectives of this relationship. The neoliberal market ideology emphasizes competitiveness, economic development, jobs, and economic prosperity. As such, the effective use of scarce resources (efficiency) is an important objective of the employment relationship. A sole focus on efficiency, however, reduces the employment relationship to a purely economic transaction that workers endure solely to earn money. But work is a fully human activity—in addition to being an economic activity with material rewards undertaken by selfish agents, work is also a social activity with psychological rewards undertaken by human beings / citizens in democratic communities.

It is therefore common in industrial relations to assert that efficiency should be balanced with equity. But we should explicitly distinguish between the instrumental dimension of equity and the intrinsic standard of voice (Budd 2004). Equity is how employees are unilaterally treated—paid a fair wage, provided safe working conditions, dealt with in a non-discriminatory fashion, and insured against the vagaries of unemployment, disability, and old age. In contrast, voice is not how one is treated and it is independent of distributional issues. Rather, voice is an activity workers engage in which cannot be accomplished unilaterally. Equity and voice can be pursued together (as in labor unions), but might also be achieved through different mechanisms (as in European-style industrywide or sectoral bargaining for equity and works councils for voice). Moreover, equity and voice can clash. Government regulations that mandate overtime payments (equity) might conflict with individuals' desires to have input into how they are compensated for working extra hours (voice). Centralized bargaining (equity) might clash with workgroup or individual responsiveness (voice). The enduring objectives of the employment relationship are therefore:

- Efficiency.* effective, profit-maximizing use of labor and other scarce resources.
- Equity.* fairness in the distribution of economic rewards, the administration of employment policies, and the provision of employee security.
- Voice:* meaningful participation in workplace decision-making (Budd 2004).

Some might disagree with these specific employment relationship objectives. Marxist and other critical scholars might criticize the omission of power. But while employee power is important for delivering equity and voice, it is not an end in itself. Similarly, while the free market underlies efficiency, free markets are means to deeper ends, not an end in themselves. More generally, regardless of the specific objectives used, it is essential that scholars, activists, and policymakers explicitly identify the desired objectives and ground their research, proposals, and policies in them. Otherwise, there is little basis for analysis, understanding, and debate. Lastly, while normative analyses require weighting the relative importance of efficiency, equity, and voice (or alternative objectives), there is significant analytical power in using explicit objectives for understanding the employment relationship, without needing to use normative weights.

ENDURING MODELS OF THE EMPLOYMENT RELATIONSHIP

Four alternative models of the employment relationship underlie the essential ideologies and frames of reference for most employment relations scholars, policymakers, and practitioners: the egoist, unitarist, pluralist, and critical employment relationships (Budd and Bhawe 2008). Each of these models are derived from differing underlying assumptions about the nature of employees, employers, markets, and employment relationship conflict (Budd and Bhawe forthcoming). Employees can be seen simply as commodities to be allocated to their optimal economic uses, or as human beings with aspirations, attitudes, and rights. Employers can be modeled as black boxes of profit-maximizing technologies, collections of stakeholders with varying degrees of shared and conflicting interests, or as complex webs of antagonistic power relations set within a broad socio-political-economic system of class conflict. Markets can be seen as perfectly competitive, as imperfectly competitive, or as embedded in the socio-political system and structured to serve the interests of the elite.

In the egoist employment relationship, employment is a mutually-advantageous transaction between self-interested legal and economic equals in a free market. This model partly derives from the mainstream economics view of the purpose of the economic system as consumption. Work is an unpleasant activity that one endures only to earn money which can then be used to buy things (including leisure), but it does not provide intrinsic rewards. Labor is just another commodity to be allocated by the invisible hand of the marketplace to profit-maximizing firms, except labor is also assumed to shirk and therefore needs to be monitored or motivated by economic incentives. Conflicts are resolved by the marketplace such that employees and employers agree to terms that are mutually beneficial, or look for other employers or employees when the terms are not mutually beneficial and satisfactory.

The unitarist employment relationship consists of a long-term partnership of employees and employers with common interests. This model is built upon a vision of work as an activity that fulfills important psychological and social needs and provides more than extrinsic, monetary rewards that support consumerism. It also fundamentally assumes that employers and employees share a unity of interests. Conflict is not seen as an inherent or a permanent feature of the employment relationship; rather, conflict is seen as a manifestation of poor human resource management policies or interpersonal clashes such as personality conflicts. But because of the unitarist assumption, the right management policies can align everyone's interests for the benefit of all, and there is little need to consider employee rights.

The pluralist employment relationship is a bargained exchange between stakeholders with sometimes-conflicting interests who possess unequal bargaining power due to market imperfections. Workers are not simply economic commodities or individuals seeking psychological fulfillment, but are also humans with rights that stem from their membership in communities, democratic societies, or the human race. The workplace is therefore seen as characterized by a plurality of legitimate interests akin to a pluralist political system. Some of

these interests are shared—both employers and employees want their organizations to be successful—but for other issues, it is believed that there is an inherent conflict of interest between employers and employees. The pluralist employment relationship is also founded upon a rejection of perfectly competitive economic markets; instead, market imperfections make the employment relationship a bargained exchange in which terms and conditions of employment are determined by relative bargaining power.

The critical employment relationship is an unequal power relation between antagonist groups that is embedded in systemic inequalities throughout the socio-political-economic system. As in the pluralist model, workers are seen as humans with fundamental rights. But employment relationship conflict is seen as significantly deeper, broader, and more antagonistic than the limited economic conflict in the pluralist view. Conflict is not limited to higher wages or better benefits; it is a social conflict of unequal power relations. Employers are seen as complex webs of antagonistic power relations set within a broad socio-political-economic system of class conflict. With antagonistic interests, competing classes or other social groups vie for superiority, and the more powerful group uses its access to resources to structure relationships to serve its own interests. But again because of antagonistic interests, the members of subordinate groups resist, and struggles for control and accommodation are therefore defining features of the critical employment relationship.

These models have not been made irrelevant by institutional changes in the new work of work, organizations, and employment. Rather, these models provide the enduring analytical keys for understanding the ramifications of these changes. In other words, seeing labor law and public policies on work, employee voice mechanisms, or human resource management practices, for example, through the lenses of these four models provide invaluable insights for interpreting the changes that are occurring in the nature of work (see Table 1).

LABOR LAW AND PUBLIC POLICIES ON WORK

Consider the pressures on labor law and public policies on work in the early 21st century. Does the new world of work make regulation of the employment relationship obsolete? The answer to this important question depends on the objectives of the employment relationship and how the employment relationship operates (Befort and Budd 2009). If the employment relationship objectives are seen as narrowly-defined with a particular emphasis on economic efficiency and if the employment relationship is seen as working largely through voluntary transactions among well-informed, self-interested actors in perfectly-competitive markets (that is, the egoist employment relationship), then there is little to no productive role for government regulation of the employment relationship. Rather, work-related public policies such as those mandating a minimum wage or paid family leave are seen as negative interferences with the operation of free markets. So the deregulation of labor law and public policies on work is warranted.

But if the objectives are more broadly defined to include things like equity and voice for employees and if the employment relationship is seen as a complex affair in which workers with human needs and possibly citizenship rights are not the equals of their employers because of imperfect markets and other real-world complexities, then there is the potential for public policies to improve the workings of the employment relationship.

From a unitarist perspective, government policies can be limitedly beneficial in encouraging cooperative relations between employers and employees while also preventing short-sighted employers from starting a vicious cycle of destructive competition. But well-designed and properly executed human resource management policies are the preferred mechanisms for fulfilling the needs of employers and employees.

Table 1: Alternative Perspectives on Key Industrial Relations Topics

Model of the Employment Relationship	Issue		
	Labor Law and Work-Related Public Policy	Employee Voice	Human Resource Management (HRM) Practices
Egoist	Labor law distorts free markets and benefits special interests; should be deregulated	Voice is best exercised individually in free markets; unions are labor market monopolies that reduce economic welfare by impeding the operation of competitive markets	HRM practices are administrative or institutional mechanisms for implementing the desires of self-interested actors interacting in competitive labor markets
Unitarist	Law labor is largely unnecessary; management policies are best, though perhaps some minimal standards are useful to establish a baseline of good HRM	Nonunion voice can enhance cooperation, but unions are unnecessary third parties that add conflict	HRM practices are the key method for creating productive employment relationships by aligning the interests of employees and employers
Pluralist	Labor law is necessary to counter corporate bargaining power and to balance efficiency, equity, and voice in democratic, capitalist societies	Nonunion voice is inadequate for achieving industrial democracy; unions are essential institutions for balancing bargaining power between employers and employees	HRM practices are useful for aligning shared interests, but insufficient for balancing competing interests because of power imbalances
Critical	Labor law is inadequate to redress systemic imbalances; need greater socio-political changes for true reform	Unions are important working class advocates that counter exploitation, but are disadvantaged by structural inequalities embedded in the socio-political-economic system	HRM practices are manipulative managerial tools for shaping the ideology and structure of the workplace to strengthen capital's control and power over labor

From a pluralist perspective, government promotion of labor standards is a robust, essential element of trying to better balance power between employees and employers, and therefore promote efficiency, equity, and voice. Because some conflict is inherent, it is unwise to rely on managerial goodwill to protect workers and to rely on management-initiated programs to provide employee voice. When times get bad enough, even enlightened management can be tempted to put their interests above those of the workers. And due to the assumption of market imperfection, one cannot rely on economic markets to place a check on this conflict of interest because of market failures. The specific nature of regulation might need to change in a new world of work, but the underlying principles remain in the pluralist model.

From a critical perspective, employment-related public policies are better than unregulated markets and can modestly help improve wages and working conditions. Ultimately, however, labor law is seen as an imperfect or perhaps manipulative solution to the plight of workers when power imbalances are deeply embedded in the socio-political system, and when efficiency is a misguided objective.

A focus on processes and institutional change in the new world of work overlooks the analytical foundations of labor law and work-related public policies. By revealing the unstated models and multiple objectives of the employment relationship, an explicit framework of employment relationship models and objectives can instead bring logical coherence and new breadth to debates over the full range of laws and public policies on work. Beftor and Budd (2009) therefore use a framework of efficiency, equity, and voice to create a new scorecard for workplace law and public policy, and then by pairing these objectives with the pluralist model of the employment relationship, propose a comprehensive set of reforms for U.S. labor law that tackle such issues as regulatory enforcement, portable employee benefits, training programs, living wages, workplace safety and health, work-family balance, security and social safety nets, nondiscrimination, good cause dismissal, balanced income distributions, free speech protections for employees, individual and collective workplace decision-making, and labor unions.

EMPLOYEE VOICE MECHANISMS

An explicit framework constructed around the objectives and models of the employment relationship also provides an informative basis for understanding the role of employee voice mechanisms in the new world of work (Budd, Gomez, and Meltz, 2004; Budd and Zagelmeyer forthcoming). In the egoist model, individual voice is primarily exercised by one's feet—if you do not like your working conditions, you are free to quit and find a better job. Collective voice in the form of a labor union is seen as a mechanism by which employees try to create monopoly power in the labor market. Unions are therefore seen as reducing economic welfare by impeding the operation of competitive markets and violating the liberties of individuals to freely contract on terms of their own choosing.

In the unitarist employment relationship, some forms of voice are seen as methods for helping employers successfully align their interests with their employees' interests. For example, collective voice mechanisms that promote information sharing and consultation can help foster a cooperative relationship while boosting productivity. However, labor unions are viewed as unnecessary because good managers will align employee and employer interests. The presence of a union is interpreted as a signal of poor managerial methods. Unions are further seen as outside third parties that add conflict to what should be a conflict-free employment relationship. The unitarist emphasis on individual, not collective, fulfillment and intrinsic rewards further reduces the perceived need for collective voice.

In contrast, in the pluralist employment relationship, voice is frequently seen as industrial democracy and this requires collective voice mechanisms that are legally and functionally independent of management, such as works councils or labor unions. Only these

independent voice mechanisms can fight for the protection necessary for industrial democracy such as free speech and due process protections. Moreover, labor unions are viewed as essential vehicles for leveling the otherwise unequal playing field between employers and employees interacting in imperfect labor markets. Forms of independent collective voice might need to adapt to a changing workplace, but in the pluralist model the essential roles of independent collective voice are not diminished by these changes.

From the perspective of the critical employment relationship, voice mechanisms are analyzed in the context of antagonistic power relations. Employer-initiated voice mechanisms are therefore seen as methods for increasing management's control of the workplace. In contrast, strong, militant labor unions are seen as important advocates for employees' interests that can counter their exploitation under capitalism by mobilizing and raising the consciousness of the working class, and by fighting for improved compensation, better working conditions, and greater control over workplace decision-making. But ultimately, the pluralist reliance on collective bargaining to promote employees' interests is seen as inadequate in critical thought because structural employee-employer inequalities are modeled as embedded in the entire socio-political-economic system. Critical scholars and activists therefore criticize conservative unions for not doing enough to challenge employer power and raise working class consciousness—in the workplaces of the past and future.

HUMAN RESOURCE MANAGEMENT PRACTICES

Human resource management (HRM) practices are also seen very differently through the lenses of the four models of the employment relationship (Budd and Bhawe forthcoming).¹ In the egoist employment relationship, HRM practices are seen as essentially dictated by the labor market—fall below or fail to follow the market and risk losing employees or failing to adopt competitive practices, but get too generous relative to the market and risk being uncompetitive selling products and services because of high labor costs.

In the unitarist model, well-designed HRM practices are seen as the key managerial mechanism for creating profitable organizations because these practices are the way to align the extrinsic and intrinsic interests of employees and employers. HRM practices such as valid and reliable selection measures to hire and promote employees; training and development opportunities; respectful methods of supervision; compensation that provides more than a living wage while also rewarding performance; benefits that foster personal growth, security, and work-life balance; and open channels of communication to prevent conflict therefore directly embody the central unitarist belief in the commonality of employee and employer interests.

In the pluralist employment relationship, in contrast, job ladders and other elements of the internal labor market result from a mixture of pressures, such as economic efficiency, relative bargaining power, and customs. But compared to egoist theorizing, limited ports of entry from the external labor market into the internal labor market are seen as shielding some HRM practices from competitive pressures. From this pluralist perspective, then, the determination of HRM practices occupies a conceptual middle ground between the complete determinism of competitive (external) labor markets in the egoist model and the unilateral managerial control of the unitarist model. Moreover, the pluralist perspective rejects a sole reliance on employer goodwill and HRM practices for serving employee interests (since by assumption there are some interests that clash).

¹ These four models can also usefully reveal the key perspectives on diversity initiatives—discrimination is corrected by the marketplace (egoist), diversity initiatives are good for employees and for business (unitarist), improving minority employment conditions requires increased bargaining power (pluralist), or diversity initiatives are inadequate without deep structural reforms (critical); see Budd and Bhawe (forthcoming).

In the critical employment relationship, human resource management practices are not seen as methods for aligning the interests of employee and employer, but rather as disguised rhetoric that quietly undermines labor power and perpetuates the dominance of capital. The design of routine low-skill jobs and organizational structures such as bureaucracies that create management routines through rules and procedures are seen as examples of employer strategies to obtain power and control over the employment relationship through the manipulation of HRM practices. Above-market compensation policies and informal dispute resolution procedures are viewed as union substitution strategies to prevent employees from gaining more power by unionizing. Some critical scholars further contend that HRM practices seek to redefine how individuals relate to employers, and aim to gain employees' adherence to a value system that prioritizes business values.

CONCLUSION

This paper seeks to sharpen the focus of industrial relations scholarship by presenting a framework of explicit models and explicit objectives of the employment relationship. It might be tempting to counter that the objectives and models of the employment relationship used here are already implicitly recognized in research and practice. While perhaps partially true, it is time to bring industrial relations into greater focus by making the models and objectives of the employment relationship explicit. This is necessary to provide the framework for understanding the institutions, processes, and outcomes of the new world of work. Moreover, the global financial crisis has created a broad interest in reassessing the objectives and assumptions of the neoliberal market ideology. A renewed focus in industrial relations on explicit objectives and models provides the framework for this reassessment, and can thereby enhance the relevance of industrial relations in broader academic, policy-making, and practitioner circles at this important time.

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