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Theoretical Perspectives on Work and the Employment Relationship

Abstract

Developing a strong theoretical base for research and practice in industrial relations and human resource management has, to date, remained a largely unfulfilled challenge. This pioneering volume helps close the theory gap by presenting contributions from fifteen leading scholars that develop and extend theoretical perspectives on work and the employment relationship. Subject areas covered include theories of employment relations systems, varieties of capitalism, the labor process, new institutional economics, individual work motivation, strategic human resource management, a theory of transaction costs and employment contracts, efficiency versus equity, and comparative industrial relations.

Keywords

work, employment, industrial relations, theory, social, science, negotiation, labor, state, politics, bargaining, production

Disciplines

Human Resources Management

Comments

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Theoretical Approaches to Industrial Relations

WALTHER MÜLLER-JENTSCH
Ruhr-Universität Bochum

It is common knowledge that social sciences intend to not only describe and classify empirical facts but also to explain them with recourse to their underlying causes. Although social sciences have these goals in common with natural sciences, their epistemologies and logics of research differ considerably. More explicitly, I do not believe in the Popperian unity of sciences but prefer the Weberian approach, which postulates that social and cultural sciences deal with those subjects that can be explained only via interpretative understanding (Weber [1922] 1964:3). Following Habermas (1970), social sciences can be understood as hybrids of cultural and natural sciences. Accordingly, social behavior can be conceptualized as an intentional human action (*participant's perspective*) on the one hand and as an outcome determined by structural constraints¹ (*observer's perspective*) on the other. This ambivalence calls for different epistemologies: analytical theory of science for the latter, hermeneutics (theory of interpretation) for the former. Social sciences require a combination of both perspectives, a synthesis of “structural analysis” and “strategic analysis” (Giddens 1984:327ff), in other words, a “hermeneutically informed social theory” (Giddens 1982:5).

Explanations can be only as good as the theories we deploy. In the subject area of industrial relations there are several impediments to the development of good theories. Two of these should be mentioned here. First, industrial relations is an interdisciplinary field of study, and the individual disciplines contributing to it (sociology, business studies, labor economics, political science, labor law, social psychology, etc.) provide scholars with divergent analytical tools. Second, because of the complexity of the subject area, specific theories exist for different institutions, actors, and issues that are tailor-made for their respective explanatory domains (e.g., collective bargaining, trade unions, industrial conflict, industrial democracy). It is impossible to integrate them into a

unified theory because their premises and frameworks, their levels of analysis, and their disciplinary traditions are too disparate. Thus, theoretical pluralism prevails and finds its justification in the different analytical foci and objectives. The spectrum of theories applied in industrial relations consists of grand theories as well as middle-range theories and ad hoc approaches. I will review the array of theories, schools, and approaches and assess their strengths and weaknesses before outlining my own proposal for a theory designed particularly for the subject matter of industrial relations: *actor-centered institutionalism*.²

The earliest scientific work on industrial relations was undertaken by Lujo Brentano in Germany, by Sidney and Beatrice Webb in England, and by John R. Commons in the United States. These authors viewed laissez-faire capitalism with skepticism and were sympathetic to labor organizations and their members. With their analytical focus on the role and functions of trade unions in the economy, their main concern was the character of labor as a commodity. Whereas Brentano and Commons directed their attention toward the asymmetrical and conflictual relationship between capital and labor and the resulting particularities of the employment contract, the Webbs explored the differences between individual and collective contracts. Actually, it was Beatrice Webb (née Potter) who first used the term *collective bargaining* (see Potter 1891:217, cited in Webb and Webb [1897] 1902:173).

Systems Theory

Dunlop and His Critics

The first systematic attempt to formulate a theoretical framework of industrial relations was John Dunlop's *Industrial Relations Systems* ([1958] 1993). With several direct references to Parsons's theory of social systems, Dunlop defined the industrial relations system (IRS) as an analytical subsystem of industrial societies and located it "at the same logical plane as an economic system" (p. 45). But following Parsons's assumption of functional differentiation of modern societies into four particular subsystems (economy, polity, law and social control institutions, family and cultural system), the IRS can be a subsystem of a subsystem only in Parsons's frame of reference.

The conceptual framework of Dunlop ([1958] 1993) had two specific merits: First, it moved the rules and norms of industrial relations into the center of the analysis, whereas previous accounts had regarded industrial conflict or collective bargaining as the essence of industrial

relations. Second, it identified the elementary components of which each IRS is composed.³

Dunlop ([1958] 1993) defined the core or internal structure of the IRS as “a web of rules.” By this he meant in particular the institutions and norms that frame the IRS and its outcomes, including substantive norms (e.g., wage rates, working hours) and procedural institutions (e.g., conciliation and arbitration boards). Thus, the IRS was conceptualized in terms of both process and product: as a rule-guided *process* generating as its *product* other rules governing the actors and administered by systems of industrial relations at the national, industry, or plant level. Dunlop identified as the basic components of an IRS three groups of actors (managers, workers and their respective representatives, and government institutions dealing with industrial relations), three different environmental contexts (technologies, markets, and power distribution), and an ideology “that binds the IRS together” ([1958] 1993:47).

If we ask for the causal relationship between the core and the components of IRS, we get the following explanation: the internal structure—norms and rules that govern the IRS and that are generated and altered in the IRS—is the dependent variable (R = rules). The interplay of actors (A), contexts (T, M, P), and ideology (I) is the independent variable. We can formalize this result in the following functional equation:

$$R = f(A, T, M, P, I)$$

But this is simply a formal explanation without information on how and why rules are made. Because of this deficiency, Dunlop's ([1958] 1993) approach cannot pretend to present a general theory of industrial relations. As a friendly critic mentioned, it is solely “a general framework to organize a description of the interaction between the actors, the environmental contexts and the ideologies” (Meltz 1991:14). Thus, the theoretical status is reduced to a taxonomy or a matrix listing, an ordering of the key elements and components that have to be taken into account when analyzing an IRS.

Two further points of critique are usually made:

1. The dimension of conflict and change is underrated. According to the premise of the older systems theory, Dunlop ([1958] 1993) regarded stability (“unity”) as a structural essential of an IRS. He stipulated that the actors who produce the rules do this under a normative consensus; if they do not share a common ideology, their respective ideologies must at least be compatible. Finally, little attention was paid to

the internal dynamics and conflicts of the constituent parts of the IRS; they were treated as unitary elements.

2. The IRS is not a subsystem at the same level as the economic system, as Dunlop asserts. Wood, Wagner, Armstrong, Goodman, and Davis (1975) convincingly argued that the IRS is a subsystem with regulative functions for the production system and that both IRS and production system are subsystems of the economic system.

Nevertheless, the two merits mentioned earlier and the heuristic potential of the theory remain undisputed. One further advantage is its ability to connect with other theoretical approaches, as was shown by Kochan, Katz, and McKersie (1986) with their concept of “strategic choice” (discussed later).

Luhmann and His Disciples

An interesting attempt to conceptualize the IRS in the framework of Luhmann’s autopoietic systems theory⁴ has been undertaken by Ralf Rogowski (2000) and Wil Martens, Ad Nagelkore, and Willem de Nijs (2001). Even though Luhmann made no direct contributions to industrial relations as a field of reasoning, his paradigm shift from a structural-functionalist view to an autopoietic understanding of social systems provided these authors with new intellectual tools to analyze systems of industrial relations.

Rogowski (2000) argued in favor of a full-fledged autopoietic IRS that reproduces itself through collective communications, especially negotiations. By analogy to the legal system, he treats it as a functionally differentiated societal subsystem with a specific societal function. “It serves to continue communication in the case of collective conflict. It provides procedures that transform violent collective conflicts into negotiations” (p. 113). “Industrial relations have developed from a conflict system into a societal subsystem, which defines itself with respect to fulfilling a function in society at large,” namely, “to manage collective violence, which can occur in the relations between industrial interest groups” (p. 116). Managing conflicts between collective actors through “procedures of conflict resolution,” “collective agreements,” “joint decision making,” “industrial democracy,” and so on has contributed to a transition from external regulation (e.g., state intervention) to self-regulation. Having transcended the stage of a mere conflict system, industrial relations are no longer adequately described by the semantic of *capital* and *labor*.

The mode of communication in the IRS is *negotiation*. “Negotiations within an industrial relations system can be called ‘industrial relations acts,’ in analogy to ‘legal acts’” (Rogowski 2000:118). Such acts are, in particular, negotiations in collective bargaining. To distinguish its elementary communications—in other words, to select them from societal communications—an autopoietic system operates along a binary code, which Rogowski proposed to call “negotiable or nonnegotiable between collective industrial actors” (p. 120). That means anything that is negotiable can become part of the IRS. Finally, autonomous functional systems do “relate to each other ‘horizontally’ through performances” (p. 121). The particular intersystemic exchange relations of an IRS are performance relations with the political and legal systems, and these systems reciprocally benefit from each other; they “are often tripartite in nature with the two industrial actors interacting with state officials” (p. 122).

Taking up Rogowski’s theoretical challenge, Martens, Nagelkere, and de Nijs (2001) modified the binary code to “agreeable–nonagreeable in relation to work–nonwork” (p. 242) and defined the societal function of a *labor relations system* more broadly as “handling the problem of lasting usability of persons for an organized instrumentalization for other societal problems (e.g., scarcity of goods and services, production of new knowledge)” (p. 247). Put in less abstract terms, IRSs are necessary to develop patterns for education, selling, and application of labor.

The theoretical endeavors of the disciples of the autopoietic systems theory might open our eyes to some new insights into industrial relations, but they also leave us with the general suspicion that systems theory is rephrasing well-known phenomena in a new language.

Marxist Approaches

Neither the notion *labor relations* nor the term *industrial relations* belongs to the vocabulary of Karl Marx. The reason is simply that regulation of the class struggle via institutionalized channels of conflict resolution—the very subject matter of industrial relations—was still unknown at his time. On the other hand, the core institutions underlying industrial relations—*free labor markets* and the *factory system*—were main components of Marx’s analysis of industrial capitalism, and he was also a keen observer and intellectual supporter of workers’ early efforts to build trade unions. But his analytical focus was less on their role as agencies of collective regulation of wage and labor conditions than on their historical mission as organizers of workers’ resistance against exploitation, estrangement, and impoverishment, leading to the eventual overthrow of the capitalist wage system.

After the relationship between capital and labor had undergone profound changes during the late 19th and early 20th centuries, with improvements in the living and working conditions of the "laboring poor" and the recognition of labor organizations, Marxist theoreticians interpreted these changes as achievements of the class struggle and the unions' exercise of organized power. They concluded from those historical movements that the struggles must go on until the final victory of full industrial democracy, either by revolutionary actions (as Rosa Luxemburg and Karl Korsch thought) or by social reforms (as Eduard Bernstein assumed).

It took quite some time before Marxist theorists overcame their ignorance of the emerging practice of day-to-day industrial relations and instead discovered it as a serious subject for their analyses. The current spectrum of theories on industrial relations that can be traced to Marxist origins includes three schools of thought: the political economy of industrial relations, labor process analysis, and the French regulation school.

Political Economy of Industrial Relations

An early systematic Marxist tableau of industrial relations was Richard Hyman's textbook *Industrial Relations: A Marxist Introduction* (1975). His later collection of essays was published under the programmatic title *Political Economy of Industrial Relations* (1989).

Attacking the theoretical mainstream dominated by Dunlop and Flanders, he first questioned their narrow and one-sided definition of industrial relations:

to define the subject *exclusively* in terms of rules and regulation is far too restrictive, and has unfortunate evaluative overtones. The implication is that what industrial relations is all about is the maintenance of stability and regularity in industry. The focus is on how any conflict is contained and controlled, rather than on the processes through which disagreements and disputes are generated. From this perspective, the question whether the existing structure of ownership and control in industry is an inevitable source of conflict is dismissed as external to the study of industrial relations. (Hyman 1975:11)

He argued that "order" and "regulation" were only one side of industrial relations; instability and disorder must be evaluated as of "equal significance as 'system outcomes'" (Hyman 1975:12). This led him to conclude that industrial relations were not to be defined as "the study of job regulation" but rather as "the study of processes of control over work relations" (1975:12). But those processes can be theoretically explained only with

recourse to class structure and the capitalist environment, in particular the capitalist accumulation and crisis processes as well as political, social, and ideological power relations.

In an article published in 1994, Hyman (1994:177) affirmatively quoted Shalev (1992) in characterizing industrial relations as an “intervening variable,” specifying in a footnote its dual meaning: its role as a “passive transmission belt from cause to effect” on the one hand and the fact that it “actively conditions the causal consequences” on the other (Hyman 1994:178).

A different Marxist approach to the political economy of industrial relations was elaborated by John Kelly (incidentally now Hyman’s colleague at the London School of Economics) in his book *Rethinking Industrial Relations* (1998). In his theoretical synopsis Kelly combined a social-psychological mobilization theory with the economic long-wave theory. The argument starts with what the author regarded as the intellectual core of his approach: *injustice*. By taking the Marxist interpretation of the employment relationship for granted, he recognized exploitation and domination as its main elements. However, he did not ignore that only perceived injustice is relevant for stimulating an opposing response or—even more important—collective resistance against it. Thus, workers’ interests and their collective identity are the real forces to be mobilized. In this context, militant activists play a key role; they act as catalysts who help spread the feeling of injustice and elevate the collective identity of workers. According to this theory, however, the employers are not idle but embark on countermobilizations against organized labor with the support of the capitalist state. This makes it difficult for workers to achieve the status of a class-conscious collectivity, in Marx’s term, a “class for itself.”

Kelly (1998:128) rigorously asked: “How do workers come to define dissatisfaction as injustice” and “how do they come to acquire a shared identity with their fellow employees that divides them from their employer?” He found the theoretical answer in the long-wave theory: “Each turning point between upswing and downswing is associated with an upsurge of mobilization, epitomized by heightened strike activity” (p. 86). The workers’ mobilization triggers a period of countermobilization by employers and the state, resulting in a period of intensified class struggle. The consequence for industrial relations is “a more or less far-reaching reconstruction of the relations between labour, capital and the state” (p. 86). During the following long wave, the new patterns of industrial relations are gradually consolidated until the next transition.

Focusing on exploitation, conflict, power, and collective mobilization, Kelly's (1998) approach provides a framework to explain change and long-run trends in the unequal exchange between capital and labor, but it tells us little about the nature and functioning of the institutions and procedures of industrial relations.

Labor Process Debate

Another strand of Marxist reasoning on industrial relations is the debate on the character of the labor process. The nub of the debate is the so-called transformation problem, which Marx had already defined as the transformation of (bought) labor power into performed work, or in a more common term, the problem of managerial control of labor.

The debate was triggered by Harry Braverman's book *Labor and Monopoly Capital* (1974). The author's main argument was that the key task of capitalist management is the control of the labor process in order to extract a maximum of surplus value by transforming labor power into work performance. Equipped with Taylor's "scientific management" and the advanced machinery of industrial technology, management commands the optimal means and methods of a nearly complete control of the labor process. Since management follows Taylor's recipes—that is, rigid separation between planning (management) and implementation (workers), together with progressive division and dissection of labor and progressive mechanization and automation—the process of degradation of work should accelerate not only in factories but also in offices. This is the recognized general tendency of monopoly capital (hence the subtitle of the book: *The Degradation of Work in the Twentieth Century*).

This strong thesis provoked productive opposition among industrial relations experts and social scientists. The accusation that Braverman argued in the framework of technological determinism was unjust, since he explicitly stated: "In reality, machinery embraces a host of possibilities, many of which are systematically thwarted rather than developed by capital" (1974:230). Nonetheless, his argument entails an *economic determinism* with the underlying assumption that the logic of capital subjugates technology and shapes it into an instrument of intensification and objectivization of capitalist power and exploitation. According to this understanding, technology and machinery are elastic potentials that can be used to systematically deprive the workers of their control of the job.

The main criticism (see Friedman 1977; Littler 1982; Wood 1982) was launched against Braverman's (1974) construction of a linear process of progressive degradation of labor and intensification of managerial

control over the labor process. The critique accepted neither that managerial strategies were treated as roughly equivalent with Taylorist strategies nor that managerial practices could simply be understood as emanations of strategic concepts. Instead, it was argued that hardly any strategy could be implemented without serious changes because practice is a product of conflict, bargaining, and compromise between two or more parties. It is worth mentioning that Braverman did not deal with phenomena like industrial conflict, trade unions, or other institutions of industrial democracy.

Arguably, the main merit of the labor process debate was that it broadly engaged sociologists, industrial relations experts, political scientists, economists, and labor historians and generated a deeper understanding of managerial strategies and practice and their constraints. Together with the increased knowledge of the dynamics of the labor process, old and new concepts (e.g., negotiation of order, micropolitics) became more elaborate and sophisticated.

Regulation Theory

Following Marx's theory of political economy, the French regulation school (founded by Aglietta 1979, 1982; Boyer 1990; Lipietz 1991) regards industrial relations as a key component in a comprehensive net of societal relations and institutions, in fact as an essential variable for identifying specific modes of regulating capitalist societies.

Their general object of analysis is the conditions and requisites of normal reproduction of the societal form of capitalism. Marx understood *reproduction* as the permanent reestablishment of capitalist production and capitalist relations between classes by objective processes of production, distribution, and accumulation. The regulation theory replaces reproduction by *regulation*, a term that indicates the regularity of the social practices of individual and collective actors and the governing effects of social, economic, and political institutions that are the fabric for reestablishing and changing societal formations. In other words, the proponents of this school of thought ask: How does capitalism function? They find the answer in societal relations and their manifestations in institutions on the one hand and in the clash between social actors (class conflicts, competition) on the other hand. Prominent among such societal relations is the wage relation.

Regulation theoreticians are particularly interested in long-term changes in capitalist economies and societies. Unlike followers of Marxist orthodoxy, they divide capitalism into periods according to specific

regimes of accumulation and modes of regulation. These key categories are not always stringently defined. *Regime of accumulation* stands for conditions of surplus value production such as forms of transformation of labor power, factors and mechanisms of wage determination, and reproduction of the working class. *Modes of regulation* is the label for the historical patterns of institutions and social practices that foster, underpin, and sustain the respective regime of accumulation.

Fordism is the preferably analyzed mode of regulation, ironically called the “golden age of capitalism.” Lipietz (1991) identified these characteristic components of Fordism:

- Fordism is a specific form of work organization, namely, Taylorism (with its clear-cut separation between conceptualization and performance) *plus* mechanization (e.g., conveyer belt).
- The macroeconomic accumulation regime, characterized by the steady increase of labor productivity, allows the financing of accumulation out of profits as well as expanding mass purchasing power. Thus, a stable rate of profit goes hand in hand with increasing sales of productive goods and consumer goods.
- The “rules of the game” (i.e., the mode of regulation) comprise collective bargaining over wages, relative employment security, regular wage increases, and social security. In return the trade unions accept managerial prerogatives and the organizational principles of the labor process.

According to the regulation school, the model or paradigm of Fordism was the prevailing societal compromise between capital and labor, supported by an active state, in the developed capitalist countries during the postwar period. Since the late 1970s, however, the retardation of the productivity rate on the one hand and the augmenting of total labor cost on the other led to a crisis of Fordism. The shift of economic policy from demand to supply management and the accompanying institutional changes of industrial relations were political strategies to convert the rigid rules of Fordism into a flexible, neoliberal regime of governance. Flexible regulation, first introduced in the United States and the United Kingdom and later in most OECD countries, is central to a new mode of regulation that is referred to as *post-Fordism*. But this term is a misnomer because it indicates only negatively that it is different from the former mode of regulation.

So far the contours of post-Fordism have remained vague, in spite of Lipietz's (1991) attempt to evade the agonies of decision by distinguishing between three different variants of post-Fordism:

- *Neo-Taylorism* means a return to pre-Fordist flexibility (e.g., low wages, high job insecurity) with external labor market flexibility and internal hierarchical control of the workforce, particularly prevalent in the United States and the United Kingdom.
- *Kalmarism* (named after the Swedish city of Kalmar, site of a Volvo plant) implies the collectively negotiated participation of the workforce in a process whereby social guarantees and profit sharing are exchanged for a willingness to contribute to improvements in quality, productivity, and the optimization of new technology. It is widespread in the Scandinavian countries and with some qualifications in Germany.
- *Toyotism* is a mixture of the two other variants. Flexibility is achieved by the dual labor market structure (core and peripheral workforce); workers' participation is restricted to the employees of big companies. This is the predominant pattern of industrial relations in Japan.

Assessment of the Marxist Approaches

The theoretical approaches discussed have their respective strengths and weaknesses. Without doubt, Hyman's books and articles are lucid analyses of historical and present problems of industrial relations. However, his concept of political economy of industrial relations constitutes an obstacle to the establishment of a proper industrial relations theory since it demands the embedding of industrial relations in a comprehensive Marxist theory of relations of production and capitalist accumulation. Hyman himself (1989:ix, 138) denies the possibility of elaborating a viable theoretical account inside the narrow confines of industrial relations.

Kelly's approach has the capacity only to explain changes in industrial relations systems. It explains neither their institutions nor the national differences among industrial relations systems. It merely reflects the changes in power relations between industrial relations actors, which in turn depend not only on the occurrence of long waves (whose theoretical status is highly controversial) but also on the fragile notion of justice as an indispensable substratum for collective action and on the assumption of a revival of the labor movement.

The regulation school, too, is primarily interested in macroeconomic and macrosociological analyses of society. Its ideal models of Fordism and post-Fordism have no solid empirical footing. Lipietz's (1991) attempt to bridge the gap between regulation theory and industrial relations empiricism became possible only by introducing ad hoc categories. Nevertheless, both modes of regulation are meaningful heuristic models that

can—like Dunlop's systems model—be used as interpretive frameworks. Last but not least, labor process analysis is limited to microsociological analysis (despite Braverman's [1974] and Little's [1982] regard of some supra-firm dimensions). But it has contributed to refining analyses of the control aspects at the workplace level and thereby has forged valuable links to other microlevel approaches, especially to micropolitics.

Institutionalism

Institutions are an essential ingredient of regulation theory, although this grand theory fails to elaborate a substantial concept of institutions. It incorporates a much more detailed exposition of the accumulation regime and the mode of regulation than of the institutional setting that acts as the intermediating variable between these two categories. In contrast, institutions are the explicit focus of the theoretical frameworks used by the following approaches.

Institutions structure the field of actions. We realize the presence of institutions while acting. The intention as well as performance of actions is regulated by institutions. The less spontaneous our acting, the more we are being guided by institutions. According to Durkheim ([1895] 1938), they are social facts (*faits sociaux*), which are external to individuals and impose constraints on them. Naturally, institutions not only restrict our behavior but also allow us to economize on our actions and interactions. More specifically, they relieve us from inventing each action anew. Sociologists such as Gehlen (1956) and Berger and Luckmann (1966) already regard as institutions those actions that are performed in a regular, standard, or routine manner. For our purposes, however, this is too broad an understanding of the term. We regard institutions as programs of actions that are robust enough to make them anticipatory for other actors. They do not rigidly determine individual actions but rather establish corridors for possible actions. Those corridors have conditioning effects on the goals, strategies, and interest definitions of the respective actors as well as on the power relations between them. It would be wrong to perceive them only under the aspect of restraint, for they also open options and offer resources for actions within defined boundaries. This duality of function was recognized by Commons (1934) when he defined an institution as "collective action in restraint, liberation, and expansion of individual action." Instead, institutions can be conceptualized as "filters" through which some strategies and goals are promoted and others are restricted. Following Giddens's (1984) structuration theory,³ which states that *rules* and

resources are inherent to institutions, they confront actors with restrictions and opportunities for their social interactions.

Historical or Evolutionary Institutionalism

Historical and evolutionary institutional theories link the emergence of and changes in institutions and practices of employment relations with developments in society and the nation-state at large. Fundamental is the embeddedness of institutions in the political, economic, and societal processes that give birth to and shape a separate sphere of industrial relations.

An early example of an evolutionary institutionalist explanation is Karl Korsch's ([1922] 1968) historical profile of the development of *industrial democracy*, a term that he adopted from the Webbs ([1897] 1902) and literally translated into German. Inspired by Hegel and Marx, he understood history, on the one hand, as a history of class struggles and, on the other hand, as a process of the development and gradual expansion of human freedom (Korsch [1922] 1968:35). This led him to the following historical analogy: Like the bourgeois class (the "third estate"), whose struggle against aristocracy and absolutism gradually secured democratic institutions in the polity, the working class (the "fourth estate"), with its class struggle against the bourgeoisie, gradually achieved codetermination rights in the "community of work." Korsch delineated the historical development of the constitution of work starting with the feudal-paternalistic period that endowed the capitalist entrepreneur with absolute, despotic power over the wage worker. Due to the struggles of the labor movement, legal restrictions and rights have successively established a state of "industrial constitutionalism" stretching from the employment relationship to the broader economy.

Korsch distinguished three categories of workers' participation rights:

- Rights of the worker as a citizen (e.g., social policy, worker protection law)
- Rights of the worker as a seller of his or her labor power: combination rights
- Rights of the worker as a member of a work organization: codetermination in labor relations

According to his theory, the three categories also signify three different and unsynchronized paths of institutional development or paths toward industrial democracy. The first category relates to state intervention in the economic sphere, the second to the process of legalizing trade

unionism and collective bargaining, and the third to the workers' movement for works councils and codetermination in the factories. Being a revolutionary socialist, he regarded the institutions of industrial constitutionalism (social policy, collective bargaining, joint regulation, codetermination) as important but only transitional steps toward full industrial democracy.

T. H. Marshall, the British sociologist, identified another evolutionary track. In his seminal article "Citizenship and Social Class" (1963), he explained the emergence of a separate sphere of "industrial citizenship rights" as a by-product of a long evolutionary process characteristic of industrial societies. His concept of citizenship is the following: "Citizenship is a status bestowed to those who are full members of a community. All who possess the status are equal with respect to the rights and duties with which the status is endowed" (Marshall 1963:87). As a system of equality, citizenship mitigates the inequality of the societal hierarchy of social classes. Obviously, in view of British social history, Marshall (1963:73) recognized "continuous progress for some 250 years" in the development of citizenship rights.

The historical pattern in the development of citizenship is the succession of the following rights by special institutions, each serving as a platform for the development of the next:

- Civil rights: rights necessary for individual freedom, that is, liberties concerning the person (institutions: courts of justice)
- Political rights: rights to participate in political power (institutions: parliament, local government)
- Social rights: economic welfare and security (institutions: educational system, social services)

The civil rights of citizenship gradually added new rights to a status that already existed. They were a cornerstone for the foundation of the market economy and the contractual system. The political rights of citizenship granted old rights to new sections of the population. Since they "were full of political danger to the capitalist system" (Marshall 1963:96), they were only cautiously extended during the 19th century. They enabled the working class to achieve political power and led to the recognition of the right of collective bargaining. Marshall described this as "an extension of the civil rights in the economic sphere" (1963:97), for trade unions collectively exercise civil rights on behalf of their members. He concluded: "Trade unionism has . . . created a secondary system of

industrial citizenship parallel with and supplementary to the system of political citizenship" (1963:98). With the creation of the welfare state after World War II, all three rights have been fully established.

Giddens (1982:171) has rightly criticized Marshall for understanding the evolution of citizenship rights as "a natural process of evolution, helped along where necessary by the beneficent hand of the state" without taking into regard that they had been the result of the efforts and struggles of the underprivileged.

Whereas Korsch and Marshall located the driving forces of institutional development in the political sphere, Kerr, Dunlop, Harbison, and Myers (1960) believed them to be in the economic system. In their view the inherent logic of industrialism leads to a *convergence* of different industrialized countries toward a pluralistic industrial society. The secular tendencies are the growing importance of the educational system, an expanding role of the state, growth of large companies with paid managers, and a differentiated, highly qualified, and disciplined working class. The inevitably increasing complexity of production affords decentralization of the control functions in the labor process, which in turn requires the consensus, responsibility, and cooperation of the employees. A pluralist balance of power and institutionalized procedures between the industrial elites and other corporate actors of industrial relations regulate their interests and conflicts.

We find a rather new subspecies of historical institutionalism in comparative political economy (Hall 1986; Thelen and Steinmo 1992; among others). So far it has only partially been applied to the analysis of industrial relations; therefore I confine myself to a short account, particularly as I shall take up some of its assumptions in my own theoretical project.

The proponents of this brand of historical institutionalism⁶ place institutions and relations of power at the center of their analyses. They are interested predominantly in the state, but also in other social and political institutions. A central question is how institutions structure political interactions, with a focus on the quality of institutions to distribute power among political actors and societal groups. In the words of Thelen and Steinmo (1992:2): "[Historical] institutionalists are interested in the whole range of state and societal institutions that shape how political actors define their interests and that structure their relations of power to other groups." We further learn that the existing institutions embody asymmetries of power and—since institutions also reflect particular "world views" (Max Weber)—that actors' interests and objectives are shaped in institutional contexts.

In general, historical institutionalism provides analytical tools for a better understanding of the qualities and the origins of institutions as well as the interactions between institutions and human agency. Thus, institutions are defined as “formal rules, compliance procedures, and standard operation practices that structure the relationship between individuals in various units of the polity and the economy” (Hall 1986:19). As for the formation and development of institutions, Kathleen Thelen (1999) has elaborated the concept of *path dependency*. According to her, institutions, once founded, “continue to evolve in response to changing environmental conditions . . . but in ways that are constrained by past trajectories” (Thelen 1999:387). In other words, the existing institutions structure the process whereby new institutions are adopted, without excluding the possible departure from established patterns at “critical junctures” (Hall 1986:19). Finally, the approach bears certain affinities with the governance approach of neocorporatism (discussed later), as the title of the school’s founding document, *Governing the Economy* (Hall 1986), itself indicates.

New Sociological Institutionalism

Sociological neo-institutionalism (Meyer and Rowan 1977; Walgenbach 1995, 2002) is a more recent influential theory that opposes the economic approach of institutionalism. Whereas institutional economics (discussed later) is interested in the genesis of institutions and organizations, sociological institutionalism focuses on their effects on organizational behavior. The structure of organizations is explained through isomorphic processes, that is, conforming to the normative demands, expectations, and behavioral patterns demanded by institutional environments, or rather *organizational fields*.⁷ It is in this sense that organizations are to be seen as institutions, the genesis of which cannot be explained by the concept of the (limited) rational behavior of the actors. The rationality of decisions, according to the argument of Meyer and Rowan (1977), is a façade, primarily serving the cause of legitimacy. It is not the optimization of input–output relationships but the norms and models of the institutional environment that determine good, efficient, and successful rules of conduct for management action. The decoupling theory (Meyer and Rowan 1977:356), which states that enterprises display the rationality façade on the “front stage” but “back stage” pursue quite different practices according to the technical demands of the task, secretly reintroduces the rational actor—something that the basic theory suppositions exclude (Müller-Jentsch 2002).

From an action theory standpoint the argument is undifferentiated because it ignores the categorical difference between strategic (i.e., calculated rational) and norm-regulated action (Habermas 1981:chap. 3). New sociological institutionalism, just like role theory, assumes only norm-regulated actions. Behavior in organizations is, according to this standpoint, determined more by rules (conventions, routines, customs) and less by the interests and rational choice of actors. This is reflected by a concern with legitimacy rather than with efficiency.

At least the core statements of the theory arose from research on nonprofit organizations (health organizations, universities, schools, etc.). The absence of market feedback enables such organizations to conceal at least part of their performance and build up rational façades of legitimacy. This explains the plausibility of this approach with regard to such institutions. However, its most important tenets are not independent of these types of organization, even if this approach has since been applied to business organizations too with some plausible results. But in general, the effects of market environment are systematically played down in favor of the impact of the institutional environment.

A much more serious objection is that institutions of industrial relations that are not organizations (collective bargaining, codetermination, etc.) cannot be explained by this theory. These institutions usually involve a bilateral procedure that has been established by strategically acting parties during and after conflictive interactions between them. Their outcomes are compromises that mostly differ from the original, strategically pursued plans of the individual parties.

Governance Approach: Neocorporatism and Beyond

Evolutionary institutionalism focuses on the function of achieving social integration of conflicting interests by means of the institutional system of industrial relations. In contrast, the governance approach puts the steering potential of institutions and organizations, or in other words, their political and economic effects on performance, at the center of its analysis. Starting with the fundamental sociological question of the possibility of social order in the face of a plurality of interests and conflicting strategies, this approach focuses on the mechanisms and processes of forming, aggregating, negotiating, and implementing interests.

Streeck and Schmitter (1985) have coined a specific term for this mode of associational self-regulation: *private interest government*. They interpret it as "an associative model of social order" besides community, market, and state (p. 14). According to this view, intra- and interorganizational

harmonization of intermediary associations shape and coordinate private interests, as opposed to spontaneous solidarity (*community*), dispersed competition (*market*), or hierarchical control (*state*). Being a "mixed mode of policy making" (p. 14), private interest government does not replace the other three modes of social order. Instead, the latter "constitute important limiting and facilitating conditions for and inside of any given associative arrangement" (1985:14). Where public policy is implemented through intermediary associations, these are "to some important extent dependent on community values and cohesion, kept in check by economic and political market forces, and subject to hierarchical control, political design and the pressure of possible direct state intervention" (1985:28).

We have to thank theorists of neocorporatism (e.g., Schmitter and Lehmbruch 1979) for the insight that governance functions can be carried out by nonstate ("private") institutions and intermediary associations. They have drawn our attention to the concerted coordination of interests between state, trade unions, and employers' associations (tripartism) and to the institutional systems, often created and changed with aid from the state, without which the associative arrangement of relevant interests would not work. After all, the central question remains: What are the institutional conditions under which corporatist arrangements of interest representation and mediation can emerge and endure? (See, for example, Streeck 1981; Traxler 1982, 1986.)

As various authors have established, corporatism or tripartism at the macroeconomic level requires, *inter alia*, a state that engages in active economic policy and that has the ability to act at the national level, social democratic parties that are at least part of the government and that are supported by the trade unions, and encompassing interest organizations that have bargaining power and centralized representation structures. These preconditions are present in only a few countries today. Theorists of neocorporatism have thus reacted to the demise of their subject matter by extending their theoretical concept: they nowadays differentiate between macro-, meso-, and microcorporatism.

A more recent governance approach was outlined by Hall and Soskice (2001) in their well-received volume *Varieties of Capitalism*. It combines several approaches (game theory, transaction costs, governance- and actor-centered institutionalism) with a "firm-centered political economy" (Hall and Soskice 2001:6). The basic contention is that companies are the main actors in the capitalist economy and that they establish their relationships with other actors by strategic interaction.

Institutions enter the analysis because firms have to solve several coordination problems, internally and externally. Their success depends substantially on the “ability to coordinate effectively with a wide range of actors” (Hall and Soskice 2001:6) in five spheres: industrial relations, vocational training and education, corporate governance, interfirm relations, and the workforce. Institutions and organizations (themselves regarded as institutions) provide support for resolving these coordination problems. The authors identified a whole array of institutions that serve this function besides markets and hierarchies, which the transaction-cost approach (discussed later) exposed as the main coordinating institutions in the capitalist economy.

Building on the distinction between two ideal types—“liberal market economies” and “coordinated market economies”—Hall and Soskice (2001) argued that firms solve their coordination problems with different sets of institutions. In market economies, firms coordinate their activities mainly via market relations and hierarchies, whereas in coordinated economies, firms depend more heavily on additional institutions and organizations. These provide “capacities for the exchange of information, monitoring and the sanctioning of defections relevant to cooperative behavior” (p. 10). Also relevant is the capacity for deliberation, not only in terms of formal rules and organizations.

Since the firm is at the center of the analysis, industrial relations represents only one of several dimensions in the institutional matrix of this approach.⁵ For our purposes, however, we need a conceptual framework that focuses on industrial relations as a societal subsystem with its own dynamics and distinctive actors.

Action Theory

Institutionalism examines the action program of structures—institutions and organizations—and the logic of their evolution, their effects on social integration, and their steering achievements. In contrast, proponents of the action theory focus their analysis on the interaction of strategically operating actors. The reference is therefore to actor-centered approaches and strategic organization analysis.

In contrast to deterministic approaches (systems theory, Marxism) and concepts of the “one best way” (classical organization theory), these approaches draw attention to the “political” processes in organizations resulting from the incompleteness of the employment contract and the “power games” between actors in the company. Contingency (i.e., everything is also possible in a different way) is of programmatic significance

for this school of thought. Despite this common perspective, we are dealing with a heterogeneous group of theoretical approaches. Four of these approaches are briefly outlined in the following sections.

Micropolitics

The term *micropolitics*, coined by the British sociologist Tom Burns (1961/1962), applies to the approach that regards the micro level of companies and working processes as a political field of action. Companies and establishments are seen not as planned, cooperative systems of organization nor as a mere "*Herrschaftsverband*" (Max Weber) but rather as the "totality of micropolitical games" (Ortmann 1995:33) involving actors with varying degrees of power potential and conflicting strategies. The genuine political aspect is to be found in the dimension of power as an exchange relationship between the actors. According to Crozier and Friedberg (1993), there is no situation in any given organization that places an actor under a complete and deterministic type of pressure. The space left to the actor in which to maneuver and negotiate presents the opponent with "a source of uncertainty"; the actor's power increases depending on the relevance of the source of uncertainty for the other (Crozier and Friedberg 1993:56).

The proponents of the micropolitical approach do not deny that the actors in organizations, and organizations as a whole, act under structural pressures, but these only limit the free choice of the actors ("lock-ins"); they form a "decision corridor," the barriers of which are defined by previous organizational and technological decisions, pure economic compulsion, and so on (see Ortmann 1995:39).

Labor Politics

Regarding the apparently politically neutral area of labor and production, the labor politics approach emphasizes the political dimension even more than the micropolitical approach does. Naschold (1985:10) speaks of "the endogenising of politics," of the necessity to anchor it systematically as an "element of the technical-economic context." Politics is defined as "the regulation (constitution, reproduction and transformation) of social relations" (p. 9), and labor politics as the regulation of social relations in the process of work and production. The concept of regulation, at the same time synonymous for labor politics, remains strangely indefinite. Jürgens (1984) speaks of labor politics in terms of power, dominance, and control. Power is "characteristic of social relations within the company" (p. 61). It appears as "primary power" (power

that grows from the “dependent relationships arising from the power positions held by the actors in the company”) and “secondary power” (based on “regulations and institutions set up by the state or achieved through collective bargaining,” p. 61). In contrast to micropolitics, labor politics does not restrict itself to the micro level of the company; it brings in actors not only at the company level, but also at the association and state levels, who then in turn influence labor and production processes. Moreover, being a “fragmented field of politics, situated at the point where state, association, and company come together” (Naschold and Dörr 1990:12), labor politics is the macropolitics of state and para-state institutions and the micropolitics of the enterprise. This approach was elaborated by the working group at the *Wissenschaftszentrum* (Science Center) in Berlin (Jürgens and Naschold 1984; Naschold 1985; Naschold and Dörr 1990) and has affinities with the regulation theory and the labor process debate. Furthermore, it corresponds with Burawoy’s (1979) analysis of political and ideological processes in production, which he coined “power games” and “politics of production.”

Negotiation of Order

Negotiation and negotiation-like interaction between actors in industrial relations are the thematic focus of another strand of action theory. The spectrum ranges from formal negotiations to the “shadow area of informal rules and relations” (Trinczek 1989:43), from *collective bargaining* and *labor negotiation* to *silent bargaining*, *tacit agreement*, and *implicit negotiation*.

For the area of formal negotiating processes, Walton and McKersie (1965) have put forward a “behavioral” theory of labor negotiations. They draw attention to the multifunctionality of negotiations, which they split up into four parts, each having a special function:

1. *Distributive bargaining*. This means hard bargaining with the function of solving conflicts of interest according to the pattern of zero-sum games: what one side wins, the other loses. A typical example for this is the wage conflict resolved by collective bargaining.
2. *Integrative bargaining*. This type of negotiation is based on the mutual efforts to mobilize joint interests toward cooperative problem solving according to the model of positive-sum games. A typical example for this is the company-level negotiations between management and works council regarding the introduction of teamwork, which is intended to both increase productivity and reduce work stress.

3. *Attitudinal structuring*. This means influencing the attitude and position of the opposition, for example, in order to dismantle resistance or create willingness to cooperate.
4. *Intraorganizational bargaining*. This includes harmonization between results attained, or rather attainable results, in the negotiation process on the one hand and the aims and interests of those for whom negotiations were carried out on the other.

Weitbrecht (1974) draws attention to the linkages between inter- and intraorganizational bargaining processes by bringing into the discussion the power variables established in organizations. He demonstrates, with the example of agreement tactics and concession processes, the interplay between organizations and the negotiating table: "The organization requires signs and signals from the negotiating table in order to be able to steer the concession and ratification process. On the other hand, the person leading the bargaining discussion at the negotiating table requires signs from the organization in order to be able to exercise bargaining power" (Weitbrecht 1974:229).

At the other end of the negotiating spectrum, so to speak, we find the *negotiated order* approach (Strauss, Schatzmann, Ehrlich, Bucher, and Sabshin 1963; Strauss 1978; Edwards 1993). According to this approach, any type of social order, even the most repressive, is to a certain degree a negotiated order. It springs from the interaction of the individual and collective actors; they produce and reproduce social order in organizations—either implicitly through tacit agreements and silent bargaining or explicitly through formal negotiations. Negotiated social order can achieve relative stability and duration—for example, in the form of an unwritten works constitution or of organizational culture—and thereby sets limits and guidelines for future negotiations. Strauss (1978:6) terms the more stable elements of social order "the background" and the daily bargaining processes "the foreground."

Strategic Choice

This approach, developed by American scholars of industrial relations (Kochan, Katz, and McKersie 1986), represents an action theory extension of Dunlop's systems approach. It deals with a combination of systems and action theory elements, but—as analysis of the material shows—the authors mostly use the action theory dimension for their explanations. The justification for this is that the profound historical transformation of American industrial relations has rendered the systems

approach less relevant. Collective bargaining no longer has the central significance given to it by the traditional approach, and thus the preconditions for the consensual creation of rules has ceased to exist. This can be seen in the efforts of many executives of enterprises to keep trade union representatives out, or even to force them out (union avoidance policy). Moreover, the frequently observed proactive role of management forces a reassessment of *strategic choice*.⁹ Kochan, Katz, and McKersie (1986) pleaded for the relative autonomy of strategic decisions not only on the part of the management but also on the part of trade unions and the state. Those decisions count as strategic that influence the role and scope of action of an actor in his or her relationship to other actors within industrial relations.

Kochan, Katz, and McKersie (1986) elaborate a three-tier institutional structure. Below the level of strategic decisions, they identify further levels of action: the middle level of collective bargaining and personnel policy and the lowest level of the workplace and the individual. This explanatory approach had some impact on American industrial relations research (see Chelius and Dworkin 1990). But the empirical backdrop against which it must be seen is the U.S. system, for which state abstinence from issues of industrial relations is as characteristic as the existence of company-level trade unions and widespread use of human resource management, which prefers individual solutions to collective ones. As a result of its focus on the firm's strategy, the analytical framework has attracted some British authors (Boxall and Purcell 2003) specialized in human resource management. To date, however, it has seldom been applied to the analysis and explanation of industrial relations outside the United States and Britain (the exception is Rojot 1990).

Economic Approaches

It is economic theory that provides models defining rational behavior as that which maximizes individual benefit with respect to the attainment of individual preference. Two of these models that are relevant for industrial relations analyses are the *rational choice* approach and the *transaction costs* approach.

Rational Choice

At the basis of the rational choice (RC) paradigm is the supposition that individuals faced with a range of alternative actions will always choose those that most readily conform to their preference and from which they expect to derive the greatest utility. This axiom is employed

by various strands of economic and social theory (game theory, theory of collective goods, new microeconomics, new political economy, but also the game theory variant of American Marxism). It should be stressed, however, that these modern approaches do not imply complete decision-making and operational rationality. Since Herbert A. Simon's ([1945] 1976) survey that analyzed administrative decision-making processes, the assumption of hyperrationality has been increasingly replaced by the concept of "bounded rationality."¹⁰ It is conceded that individuals tend to be aware of only some of their possible courses of action and in turn the consequences of only some of these actions. Within such informational constraints, economic agents decide rationally. One of the main drawbacks is that preferences are not explained by this approach but regarded as extrinsically given and independent of the alternative actions.

Analysts working with the model of the *rational choice of alternatives* (Kirchgässner 1991:12) are less interested in explaining the specific behavior (or actions) of individuals than in the behavior of larger groups (e.g., consumers, voters, employers, employees) and the explanation of social interaction (and some of its unintended consequences) resulting from individual rational behavior. It is primarily macrophenomena that are to be explained with the aid of individual decision-making processes. While the RC approach is sometimes seen as reducing social interaction to rational bartering, it has yielded a range of useful analytical tools for the analysis of social structures and processes.

A central emphasis in the analysis is the so-called rationality traps and dilemmas between individual and collective rationality. Examples that can also apply to industrial relations are the problematic nature of *collective goods* and the *prisoner's dilemma*. The problematic nature of collective goods results from the possibility of being able to benefit from public or collective goods (e.g., clean air, collective agreements) without having to contribute to the production of such goods (the so-called free-rider effect). Mancur Olson's *The Logic of Collective Action* (1965) is regarded as the classical analysis dealing with the production of collective goods and the free-rider problem. Many publications in economics and social science are based on these analytical insights (e.g., in the area of industrial relations, Crouch 1982; Offe and Wiesenthal 1980). Olson had decisive influence on investigations into membership recruitment and the organizational security of trade unions. The prisoner's dilemma is a game theory version of the problematic nature of collective goods: it exposes a structure of conflict and a constellation of interests that leave

“players” who consistently follow their egoistic interests worse off than those assuming a cooperative attitude. In addition to the prisoner’s dilemma, which holds as paradigmatic for the analysis of strategic behavior in game theory, further game concepts (e.g., the “chicken game” and “battle of the sexes”) find application in investigations into strategic games between capital and labor (see Elster 1989).

Transaction Costs

In contrast to neoclassical economics, which focuses predominantly on markets and production costs and leaves the theoretical analysis of the embedding institutions to other sciences, the *new institutional economics* (Williamson 1985) tries to establish an endogenous economic explanation of institutions and organizations. As in the neoclassical approach, the analysis takes as its axiom rational choice (here, the choice between alternative institutions), for which the decision-making criterion is the minimization of transaction costs (TC), which—according to a general definition by Arrow (1969)—are understood to be the “operating costs of the economic system.” These include search and information costs, negotiating and decision-making costs, and controlling and monitoring costs.

The TC approach was put on a systematic theoretical footing by Williamson (1981, 1985). His model of the contractual exchange of performance takes as its starting point the specific features of the transaction object (given location, capital stock, human resource specifications) and looks at two types of behavior: (1) actors are limited in their ability to acquire and process information (*bounded rationality*), and (2) they pursue their own interests with the aid of cunning, shirking, and so on (*opportunism*). The resulting conflicts, uncertainty, and other transaction costs make it necessary to have institutions to control and monitor contractual relationships primarily through out-of-court regulations. The initial consideration is that wherever an exchange of goods and services (i.e., a transaction) takes place, the need to determine the joint duties and responsibilities causes conflict and friction—in short, TC. In many cases the coordination and directing of transactions can be carried out far more cost-effectively by nonmarket institutions than through market mechanisms. The specific framework conditions for economic transactions determine the optimal (efficient) boundaries and structures of institutions. Their existence is explained in a purely functional manner by the need for a minimization of TC. According to Williamson (1981:574), coordination and directing structures with a high saving effect displace those with low saving effects, a course of “natural selection.”