Comparative Patterns of Labor-Management Relations: Great Britain, the U.S., and Japan

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Business history has traditionally tended to neglect the management of labor and has been primarily concerned with the commercial, organizational, and technological aspects of the firm. Individual company histories touch on labor relations briefly and almost as an aside, often dealing with only the most superficial aspects. Only in recent years have there been signs of a growing interest in various aspects of labor management [25, 17, 13, 24, 12]. Labor history, for its part, has traditionally tended to overlook the role of management, concentrating on either labor union development or broader aspects of working-class experience. Similarly, however, there are signs of a new interest among labor historians in the role and policies of management [18; 27].

In his business history writings Alfred Chandler is no real exception to this pattern. In *The Visible Hand* he deals with production in traditional enterprises and in mass production firms, but without exploring in any detail the management of workers [3, Chs. 2 and 8]. He also comments briefly on labor unions and the structure of collective bargaining--to the effect that small traditional firms begot craft unionism and modern enterprises shaped the industrial unionism that emerged in the 1930s [3, pp. 493-94]. It might, therefore, be surprising to many to learn that Chandler may be used and extended to explore patterns of labor management.

Nevertheless, it is the contention of this paper that Chandler, and his intellectual predecessors and followers, can contribute to a framework for analyzing the labor activities of the firm. This paper will set out such an ap-

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proach and show how it might be applied to an analysis of labor relations in three countries--the United States, Great Britain, and Japan. The paper is largely conceptual in nature, given the space constraints and since the empirical work designed to develop the hypotheses is still in progress.

The Chandler thesis is well known. Essentially it is an argument about the relationship between markets and technologies, firm strategies, and corporate structures. In the late nineteenth century, as markets expanded and as new technologies of higher throughput became available, small, single-unit, extrepreneurially managed firms took advantage of growing opportunities to expand their activities and to internalize certain functions that previously they had left to market mechanisms, for example, purchasing, certain stages of production, and distribution. These firms grew, not least because they were able to reduce costs. In order to manage their increased size and complexity, the more successful firms developed forms of organization based on centralized functional departments and extensive managerial hierarchies. Such firms performed better than other large firms that, especially after growth by acquisition or merger, retained a loose, decentralized holding-company form of organization. The latter type of firm did not achieve the benefits of integration and rationalization and failed to develop the full potentialities of hierarchy. According to Chandler's account, a further stage in corporate evolution occurred in the United States in the early decades of the twentieth century. In order to utilize their resources and to take advantage of market opportunities, some large firms developed strategies of product diversification and acquired firms in industries contiguous to, or outside, their own. In their attempts to overcome the diseconomies of scale and complexity which resulted, such firms developed multidivisional organizational structures, with the firm divided into semi-autonomous product or geographical divisions but subject to the strategic direction and control of a powerful head office. Over time, firms that developed such strategies and structures generally survived and prospered; those which did not, declined and failed. Thus, Chandler's argument is one that links markets and technology, strategic decisions, internal structures, and corporate performance [2, p. 3].

This model has been applied, with qualifications, to other market economies. Let us briefly examine Great Britain and Japan. In the case of Great Britain, the evidence suggests that these same processes took place, but that they occurred later and were less far-reaching. The small firm and the loose, decentralized holding-company persisted longer in Britain and firms were slower to develop strong internal management hierarchies. Two main explanations have been suggested for this pattern. First, British firms, in particular the family-owned firms that predominated in the British economy, were more conservative. Intent on maintaining family control, they paid less attention to recruiting and training a professional management hierarchy and to developing organizational structures. Second, the nature of British markets has been offered as an alternative explanation. In Britain, markets were smaller and less dynamic than in the United States and, therefore, offered fewer opportunities for growth and organizational innovation. British markets were, moreover, also very efficient, with well-developed commodity exchanges and numerous specialized merchants, and there was, therefore, less incentive to bypass them and develop internal organizational capabilities. Most British firms have not until the last ten to twenty years begun to parallel the large American multidivisional firm in terms of organizational and hierarchical development [4, 15, 16].

In the case of Japan, a number of large enterprises emerged in the late nineteenth and early twentieth centuries to take advantage of compact and often protected domestic markets. At the same time a few of these firms developed overseas markets, especially in East and Southeast Asia. Some of the more prominent firms were organized in family-owned *zaibatsus* or diversified industrial groups tightly controlled financially by a particular family; others were less formally linked in groups or operated more independently. However, though complex in their interlinkages and though legally constituted as holding-companies, these early twentieth century groups were different from British holding-companies: the constituent manufacturing firms were centrally coordinated and were administered by extensive and well-trained hierarchies. After the Second World War the old *zaibatsu* holding companies were dismantled. In the 1950s, and especially in the 1960s, the rapid growth of the domestic market, effectively protected in many areas, provided a base for large centralized firms to exploit potential scale economies. Building on this base, such firms have been able to capture a growing share of world markets, especially in industries such as automobiles, shipbuilding, and electrical products. The large Japanese firms of the post-war period are either functionally or increasingly multidivisionally organized enterprises. Both types possess extensive and effective managerial hierarchies [5, 33, 23, 35]. With variations, therefore, the Chandler thesis holds: both markets and organization are important driving forces explaining the behavior and performance of the corporate economy.

The question is how does this approach relate to, or help us understand, the management of labor and patterns of labor relations? An initial answer is that (1) linkages can be made between the stages described by Chandler and the pattern of labor relations; and (2) some of the Chandlerian concepts relating to strategy and structure can be adapted and applied to labor management. This may be set out in a number of propositions derived from the Chandler thesis.

The first proposition is that markets, both factor and product markets, are key independent variables. This, of course, is a proposition that economists and business historians will have no difficulty in accepting.

In terms of product markets, the level of demand for the product is a key factor shaping various aspects of labor relations. The firm's demand for labor is of course primarily derived from the demand for its product. The level of product demand will therefore affect *inter alia* the tightness of the labor markets, the security of employment, and the balance of power between management and labor. Two other important influences of the product market also need to be stressed. First, as Adam Smith pointed out, the division of labor is limited by the extent of the market: in other words the size of the market, in terms of the number of buyers and their level of income, and the geographical scope of the market, in terms of transportation time and costs, are major factors influencing the subdivision of jobs into their component parts and the creation of more specialized types of labor [28, I, pp. 9-19]. Second, the degree of competition and collusion in the product market may affect the likelihood of the employer seeking to minimize labor costs. When markets are subject to extensive collusion, firms will have less incentive to pursue strategies aimed at minimizing labor cost. The demand curve facing a whole industry is less elastic than that facing an individual firm. In other words, in industries where price-fixing and market-sharing are extensive, firms can pass on concessions to labor in the form of higher prices to the customer. In more competitive product markets firms must give more attention to minimizing wages or unit labor cost. Turning to factor markets and the supply side, factor endowment and the supply prices of labor and substitutable factors must be taken as important independent variables. Though the Habbakkuk thesis has been criticised, it still seems plausible that the relative shortage of skilled labor in the United States placed American employers on a different labor-saving path to their British counterparts [14].

The second proposition, derived more directly from Chandler, is that corporate structure is itself an important intervening variable explaining certain aspects of labor management.

Though Chandler has directed us to look inside the firm and to examine different types of corporate organization, he has not himself made a link between firm structure and labor management. Others, however, have suggested such a link. Many years ago John Commons argued that different market structures shaped different firm structures and that these in turn shaped different systems of labor relations. In a famous article on the American footwear industry, first published in the *Quarterly Journal of Economics* in 1909 and still considered a classic in labor history, Commons showed how, as markets expanded and firm structures changed from journeyman-master to merchant-master to merchant-capitalist and to integrated, multi-function, multi-unit manufacturing enterprise, so various aspects of labor relations changed [8; 9, pp. 763-73]. Among these were the division of labor, the system of wage payment, and the structure of unions. For Commons, the extension of the market and what he called the "competitive menace" were major driving forces; but firm organization was an equally important intervening variable. The story that Commons told came up to the beginning of this century. The contention here is that this line of argument can also be applied to the following decades. Whether large firms are organized on holding-company, functional, or multidivisional lines has implications for various aspects of labor management. Equally, the strength or otherwise of managerial hierarchies influences choices. To take one example, uncoordinated loosely managed holding companies are likely to have different bargaining relations with labor unions than are more centralized and closely managed enterprises. In the post second world war period collective bargaining in the large Japanese corporation has taken place primarily at company level; in the United States it has been located at company, divisional, or plant level; whereas in the United Kingdom there existed a multi-level and more fragmented system with considerable bargaining at shop and departmental level.

The third proposition derived from Chandler is that strategies and structures in the area of labor management can be understood in terms of internalizing and externalizing.

Chandler's idea of administrative coordination within the firm as opposed to external coordination in the market, though developed independently in his historical work, does in fact have important theoretical antecedents.[1] In a now famous article in *Economica*, published in 1937, Ronald Coase analysed the nature and growth of the firm in precisely these terms [7]. He was concerned with the boundaries of the firm, in other words, with that the firm itself undertakes and what it leaves to others. Coase suggested that the boundary between the firm and the market, between the internal administrative mechanism and the external price mechanism, will be determined by the relative transaction cost of each. Such transaction costs will include inter alia the cost of gaining information, making and enforcing contracts, and coordinating flows of goods and services. When the costs of using the external market mechanism are too high, the rational firm will look to coordination by internalizing activities within its boundaries. In a much more elaborate fashion Oliver Williamson has recently extended the concepts of internal organization and market organization as a fundamental part of the "new" institutional economics [30, 31, 32]. There is also an interesting overlap with a quite independent tradition in labor economics. What might be called the "internal labor market" school identifies and analyzes an internal labor system within certain firms which is quite distinct and insulated from the external market for labor. Typically it has an elaborate set of procedures and conditions that shape employment decisions. A key feature is that workers are treated better relative to others in the external labor market [10; 20].

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[1]Chandler acknowledges these [3, p. 515, footnote 3].

Let us develop further this idea of viewing patterns of labor management in terms of internalizing and externalizing. It is useful here, for presentational purposes, to divide labor relations into three areas that have traditionally been examined by labor historians, labor economists, and industrial relations academics. The first area is *employment relations.* This covers the way people are recruited and employed, job tenure, and reward systems. The second area is *industrial relations*, which covers management-union relations and the arrangements for collective bargaining. The third area is *work relations*, which covers technology and processes and the way workers are organized around them.

In each of the three areas described the firm can either externalize or internalize labor relations. Thus, in employment relations, it can externalize by relying on local or national markets for labor; by recruiting and laying off as demand changes; by filling higher positions by internal and external candidates; and by fixing wages according to external market signals. In this situation the employment contract, both implicit and explicit, is minimal. Alternatively the firm can internalize the employment relationship by more systematically screening and recruiting workers; by making every effort to make them permanent; by developing internal job ladders and using internal promotion whenever possible; by fixing wages more according to internal administrative principles than to market forces; and by developing extensive seniority-based fringe benefits.

In industrial relations, managements can internalize by seeking to promote its own employee representation system or by sponsoring a company union. Where the firm does recognize an outside union, it will seek to bargain at plant, divisional, or company level (depending in part on its overall organizational structure) and will handle grievances and disputes internally within the firm through its own procedures. By contrast a firm can be said to externalize its industrial relations when it hands dealing with a labor union over to an association of employers outside the firm. This type of employers' organization sets wages according to external market criteria and processes grievances through an external disputes procedure.[2]

For work relations and the organization of the labor process, it is less easy to utilize the concepts of internalizing and externalizing. Here, as already stated, Adam Smith's dictum that the division of labor is limited by the extent of the market is probably more useful, particularly when to this is added a further rider, namely as mediated through the structure of the firm and the effectiveness of its management hierarchy. In other words, the degree

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[2]This might perhaps be more exactly termed "coordination by cooperation" [26].

of coordination within the firm and the strength of the managerial hierarchy are important factors influencing the division of labor. However, there is one significant work-related area where the concept of internalizing and externalizing can be used, and this is in the area of skill formation and transformation, in other words, training. On the one hand the firm can externalize by doing little or no training and just recruiting labor in the market which others have trained. Also it could be said to externalize by relying on market-oriented apprenticeship schemes (in which the union participates); by making extensive use of state technical education facilities; and by training in all-round, externally marketable skills. On the other hand the firm can internalize by doing its own training and making training more firm-specific. The whole area of training has unfortunately been neglected by business and labor historians, despite its extreme importance. Where and how a worker acquires his skills affects his attitude towards those skills, his control over them, and his acceptance or rejection of technical change.

Following Chandler, Coase, and Williamson, a firm's decision whether to internalize or externalize will be determined by the relative costs and benefits of each mode of coordination. Of course such costs and benefits may change over time, and policies will change accordingly. It is possible also to have mixed modes, with different strategies applied to different groups of workers. It is, moreover, quite possible that a firm may make a number of irrational decisions. Equally, since competitive forces take time to work, there will be a time lag before such managements are spurred to react.

At this point the model may be summarized as follows. Markets influence employers' labor policies both directly and indirectly through corporate structures. Corporate structures also have their own direct effect on labor policies. The model thus seeks to explain labor relations using market and organizational explanations. There may be other factors at work, for example, cultural and political influences that help to shape labor relations. It is also clear that labor union have an independent effect. However, the model initially emphasises the preeminence of an economic explanation.

How does this framework relate in practice to the history of labor management in the three countries chosen for study?

Let us begin with Britain. It is probably the case that from the Industrial Revolution most British firms chose to externalize their labor relations and did so for good economic and organizational reasons. In the area of employment relations, most employers externalized. They hired and fired as market conditions dictated; fixed wages according to the going rate in the labor market or the price of their output in the product market; and, for the most part, they provided only minimal benefit systems. There were, however, exceptions to this in the nineteenth century. Paternalistic relations existed in many firms at this time. More importantly, the exceptions included the large railway companies, some of the gas companies, and a few large manufacturing enterprises such as Lever Bros., Brunner Mond, and Cadburys. Significantly, they were all leading businesses in a Chandlerian sense. In market and organizational terms, they had both the incentive and the capability to internalize. In the area of industrial relations, most large British firms had recognized unions by the end of the World War I. Usually, however, they sought to deal with unions through employers' organizations. This suited their membership of trade associations for price-fixing and market-sharing: the two forms of market collusion complemented each other. It also suited firms that had rudimentary managerial hierarchies to deal with labor matters. This system of external collective bargaining arrangements continued in Britain well into the 1950s. But again there were exceptions, and these exceptions tended to be a few leading firms.

In the area of work relations it is apparent that in many industries, such as cotton, iron and steel, and parts of engineering, British firms did not in the late nineteenth century successfully pursue the division of labor. The resistance of skilled workers may have played a part in this failure. However, it is equally or more plausible that weakly coordinated and managed firms, with marked product differentiation, did not see great advantages in moving from craft to mass production [22, 35, 11]. In the area of skill training, they were content to rely on traditional apprenticeship methods: training in all-round skills suited both the craft union (which wanted to limit labor supply and ensure the mobility of its members) and the employers (who wanted external flexiblity and all-round skills for nonstandard work). It is also not surprising that British workers were strongly opposed to seeing their investment in human capital destroyed by technical change.

Having started on a particular path it has subsequently proved difficult for British firms to change course. Nonetheless over the last quarter century the tendency has been for British employers to internalize--to develop more highly structured labor systems, to rely more on internal training, to leave employers' organizations, and for their own staff to negotiate with the unions. Challenges caused by full employment in the labor market and increased competition in the product market were spurs to change. Another prerequisite for change has been a series of structural and management developments from the mid 1960s onwards, in particular the greater adoption of multidivisional forms of organization and the development of more extensive managerial hierarchies [6]. Leaders in these developments have been firms such as ICI and Unilever.

The large Japanese firm is in some ways the extreme opposite of the British firm in terms of labor relations. As early as the 1920s, because of labor shortages, especially of skilled manual labor, and high labor turnover, Japanese firms developed internal labor systems and emphasised internal training [29, 19]. At first, however, this was restricted to a few key workers, both blue and white collar. In the post World War II period there has occurred a significant further extension of this system of internalized labor relations in large Japanese firms. The well-known system of lifetime employment, seniority wages, and extensive fringe benefits for workers in big firms is based on large and growing markets and centrally coordinated firms. Commercial success and the ability to move workers within and between plants is the basis for this job security. In turn, security and internal training have promoted high levels of flexibility and adaptability within the enterprise. Though a detailed division of labor has been pursued, the negative human consequences of this seem to have been counteracted by internal mobility and rotation of workers. In the area of union-management relations, it is important to note that in the late nineteenth century, in the 1920s, and again immediately after the Second World War, Japanese workers had sought to organize trade unions on craft, industrial, or political lines [19, 21]. However, such a pattern did not prevail. After the high level of strike activity in the early 1950s the large Japanese firms were the major influence creating the pattern of enterprise-based unions and enterprise-level collective bargaining that exists today. Finally, on Japan, it is important to add that, for many workers in smaller firms and for female and temporary workers in larger firms, a different system exists, more akin to an externalized employment relationship.

Very roughly, the United States may be seen as falling somewhere between Great Britain and Japan in its labor-management relations. Obviously within the United States there was a tradition of employment at will. In terms of industrial relations, there was also a tradition of craft trade unionism and external bargaining. However, many of the big firms, which were emerging in the late nineteenth and early twentieth centuries, were simultaneously developing internal labor systems. For example, at the same time that DuPont was experimenting with new corporate structures (as described by Chandler), the company was also introducing seniority systems of wage payments and extensive welfare benefits. Other large firms were developing similar kinds of personnel policies [18]. It is significant that when unions began to grow in the mid-1930s, the large firms which accorded recognition usually insisted on bargaining at either plant or company level. For the most part, they did not rely on employers' organizations (though, significantly, smaller firms in construction, printing, clothing, trucking, and coal mining did). Once collective bargaining was established, strong managerial hierarchies prevented the emergence of highly decentralized departmental and shop bargaining such as developed in Britain.

Such is the story in general terms. The strength of these relationships is still to be worked out in detail. The empirical work, being carried out with a

Japanese colleague,[3] focuses on a number of closely matched American, British, and Japanese firms in three industries--chemicals, automobiles, and consumer nondurables. The aim is to explore the relationship between markets, firm structure, and labor strategies using the framework described above. Of course cultural and political factors may be found to have had a marked impact. However, the fact that there were differences within each country, possibly as great as the differences between countries, would seem to argue against such an explanation.

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