

Chapter-2

Theoretical Framework of Industrial Relations

Introduction

Every industrializing community, regardless of its political form, creates workers and managers. The status of these workers and managers and their interrelations come to be defined in greater or lesser details. The national, state cannot ignore these vital relations in industrial society, particularly when government in the contemporary world is actively engaged in stimulating and directing developmental programmes. Industrial societies necessarily create industrial relations, defined as the complex of inter-relations among managers, workers, and agencies of the government.

This chapter deals with a general theory of industrial relations at national and international levels. It seeks to provide tools of analysis to interpret and to gain understanding of the widest possible range of industrial relations facts and practices. This is admittedly an ambitious and precarious undertaking. But the objective is made less difficult by a number of recent studies of industrial relations in particular enterprises and industries in single countries, by a growing number of inter-country comparisons, and by the various studies of industrial relations in the course of economic development at national and international levels.

The System Approach or the System Framework of Industrial Relations

The system approach was developed and designed by **John T. Dunlop** in 1958. Dunlop in his book "**Industrial Relations System**" develops a "System" which denotes existing features and characteristics of one country and distinguished from other. The system does not mean a planned order but it deal with so vital a matter as the relations between employers and employed in an extremely involved and haphazard fashion. Dunlop considered industrial relations a subsystem of society, distinct from, but overlapping, other subsystems. **According to Dunlop**, "the core elements of the system model of industrial relations are actors, certain contexts, and ideology which binds the industrial relations system together and body of rules created to govern the actors at the workplace."¹ The core of this framework is that industrial relations can be viewed as a system or sub-system of society, just as we speak of political or economic sub-systems. The industrial relations systems may be viewed as'

- (i) An analytical subsystem of an industrial society on the same logical plane of an economic system, regarded as another analytical sub-system,
- (ii) It is not a subsidiary part of an economic system but is rather a separate and distinctive sub-system of the society,
- (iii) Just as there are relationships and boundary lines between a society and an economy, so also are there between a society and an industrial relations systems,
- (iv) It is logically an abstraction just as an economic system. This abstraction designed to highlight relationships and focus attention upon critical variables and to formulate propositions for historical inquiry and statistical testing.
- (v) The study of industrial relations systems provides a genuine discipline, such as history, economics, government, sociology, psychology, law, anthropology etc.
- (vi) Three separate analytical problems are distinguished in this framework;
 - (a) the relation of the industrial relations system to the society as a whole,

- (b) the relation of the industrial relations system to the sub-system known as the economic system, and
- (c) the inner structure and characteristics of the industrial relations subsystem itself.

Structure of an Industrial Relations System

Dunlop suggested that the industrial relations system could be divided into four interrelated elements comprising "certain actors, certain context, an ideology which binds the industrial relations system together and "a body of rules" created to govern the actors at work place. The system model or Dunlop's framework of industrial relations may be presented by figure no 2.1 as under:

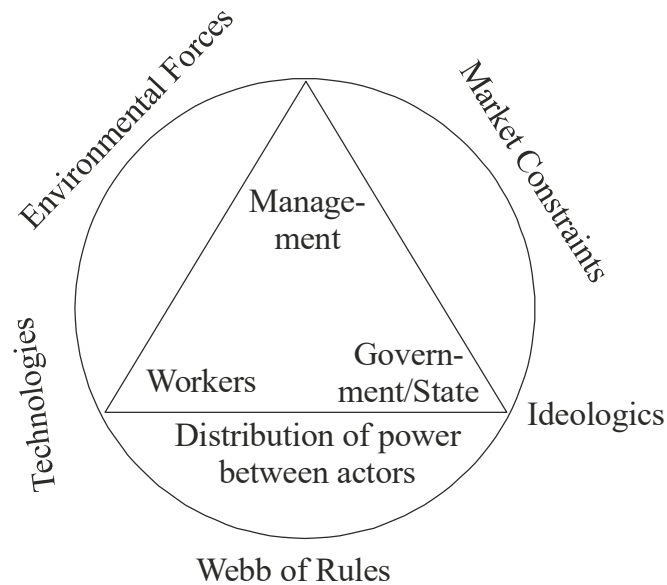


Fig. 2.1. Dunlop's Framework of Industrial Relations System or System Model

1. Actors or Parties in a system

The actors in the system are,

- (i) A hierarchy of managers and their representatives,
- (ii) A hierarchy of workers and their organizations, and
- (iii) Specialized governmental agencies. (specialized private agencies created by first two actors) concerned with workers, enterprises, and their relationships.

The first two are directly related to each other in that the managers have responsibilities at varying levels to issue instructions (to manage), and the workers at each corresponding level have the duty to follow such instructions (to work). The specialized government agencies as actors may have functions in some industrial relations systems so broad and decisive as to override the hierarchies of managers and workers on almost all matters.

2. The Contexts or an Environmental Context

These three actors maintain relationships with one another within an environment made up of three tightly inter woven contexts. Actors are confronting an environment context comprised of factors such as technology, market constraints, relative distribution of power relations etc. These features of the environment of an industrial relations system are determined by the larger society and its other sub-systems. These contexts are decisive in shaping the rules established by the actors in industrial relations systems. The significant aspects of the environment are,

- (i) The technological characteristics of the workplace and community (*technological features of work situation*). The technological features of the work place have very far reaching

consequences for an industrial relations system, influencing the form of management and employee organization, the problems posed for supervision, many of the features of the required labour force, and potentialities of public relations.

- (ii) The product and factor markets or budgetary constraints that impinge on the actors (*market and economic context*). The product market or budget is a decisive factor in shaping the rules established by industrial relations systems. The market or budgetary context also indirectly influences the technology and other characteristics of work place. An industrial relations system created and administered by its actors is adaptive to its market and budgetary constraints.
- (iii) The locus and distribution of power in the larger society (*Political Context*). The relative distribution of power among the actors in the larger society tends to a degree to be reflected within the industrial relations systems; their prestige, position and access to the ultimates of authority within the larger society shapes and constrains an industrial –relations systems, the relative bargaining powers among the actors, or their controls over the processes of interaction or rule setting. The distribution of power in the large society does not directly determine the interaction of the actors in the industrial relations system; rather, it is a context which helps to structure the industrial relations system itself.

3. The Establishment of Rules

The actors in given context established rules for the work place and the work community, those governing the contracts among the actors in industrial relations systems. This network or web of rules consists of procedure for establishing rules, the substantive rules, and the procedures for deciding their applications to particular situations. Substantive rules are the requirements and conditions for applications of labour, whereas procedural rules involve the way in which the parties actually arrive at and formulate these rules. All these factors are critical in industrial relations systems. These may be expressed in a variety of forms: the regulations and policies of management hierarchy, the law of any worker hierarchy, the regulations, decrees, decisions, awards, or orders of government agencies, the rules and decisions of specialized agencies created by the management and workers hierarchies, collective bargaining agreements, and the customs and traditions of the workplace and work community. In any particular system the rule may be incorporated in a number of these forms; they may be written, an oral tradition, or customary practices. In fact, in a dynamic society the rules, including their administration, are under frequent review and change.

3. The Ideology

Ideas and beliefs held by the actors which when consensus reached help bind or integrate the stable industrial relations system. An ideology is a set of ideas and beliefs commonly held by the actors that helps to bind or to integrate the system together as an entity. The ideology of an industrial relations system is a body of common ideas that defines the role and place of each actor (management, worker and specialized public agency) and ideas that each actor holds towards the place of function of the other system. The ideology of an industrial relations system must be distinguished from the ideology of the larger society; but they can be expected to be similar or at least compatible in the developed industrial society. The ideology or philosophy of stable system involves a congruence or compatibility among these views and the rest of the system. Thus, in a community in which the managers holds a highly paternalistic view towards workers and the workers hold there is no function for managers, these would be no common ideology in which each actors provided a legitimate role for the other; the relationship within

such a work community would be regardless as volatile, and no stability would likely be achieved in the industrial relations system. It is fruitful to distinguish disputes over organizations of an industrial-relations system or disputes that arise from basic inconsistencies in the system from disputes within an agreed or accepted framework.

The model focuses on institutionalization of conflict and establishment of orderly industrial relations. This is explained in figure with rules and rule making. According to Dunlop, this model is to describe national system of industrial relations. In this, the source of power and rules are situated within national framework. Whereas in multinational enterprise decision-making is no longer tied to borders of national system.

Limitations of the System Framework

Undoubtedly, the system model of industrial relations is more appropriate and effective for any industry, enterprise, industrial society or industrialized nations. This industrial relations system has been used on occasion to refer to a sub- system of a national society, at times to a system of industry wide scope, and other settings to a system in a single enterprise. But Dunlop's theory has certain shortcomings. There are some criticisms of the Dunlop's system model in the modern globalized economic system. Some of the criticisms and limitations are noted as under;

- (i) The actors in industrial relations are not only management, workers, and governments. With liberalization and growing environmental concerns, consumers and community have also come to play a critical role in industrial relations processes and outcomes.
- (ii) Dunlop talks about roles of actors, not people. In industrial relations, relationships are established primarily by and between people. Therefore, behavioural aspects like human motivations and preferences cannot be ignored.
- (iii) The System Model by Dunlop has described as national system of industrial relations where as the sources of power and rules are situated within national framework. Whereas after globalization, large numbers of Multinational Corporations (MNCs) are taking place in which decision- making is no longer tied to borders of national system,
- (iv) Dunlop did not design this framework for international industrial relations whereas, in globalization, free flow of capital, labour, technology and trade/ market are taking place.

Statements of Dunlop's as quoted by **C.S. Venkata Ratnam** prove that he has not been fully understood by his critics.

"An industrial relations system is logically an abstraction ...(not) concerned with behaviour as a whole. There are no actors whose whole activity (is) confined solely to the industrial relations ...sphere(s), although some may approach this limit... an industrial relations system is (not) designed simply to describe in factual terms the real world of time and space... (it is an) abstraction(s) designed to highlight relationships and to focus attention upon critical variables and to formulate propositions for historical inquiry and statistical testing."

International level Framework of Industrial Relations or

Bomera's Framework in Industrial Relations at International Level

Bomera used Dunlop model to construct a supplementary analytical framework for studies into industrial relations at international level. Undoubtedly, the Dunlop's system model functions at national level. As mentioned earlier, Dunlop described "the core of this national framework is that industrial relations can be viewed as a system or sub-system of society. Just as we speak of political or economic

sub-system. Dunlop did not design this framework for international industrial relations. According to Dunlop this model is to describe national system of industrial relations. In this, the source of power and rules are situated within national framework, whereas in multinational enterprise decision making is no longer tied to borders of national system.

Personnel Management and Industrial Relations influence each other directly; in fact they form part of a complex and dynamic whole. Personnel management or human resource management targets these substantive aspects of the employer-employees relationship which also form the core of industrial relations process. Personnel management in each national is embedded in societal rules, norms and values and is influenced by multiple 'policy centers' such as trade unions, participation bodies and government authorities in its country. Same is the case of industrial relations which are expression of specific and deeply rooted cultural, traditions and beliefs. One important problem which international companies must solve is how to deal with these differences within their own 'walls'. Each multinational corporation has a different approach to solve the problem of centralization and decentralization of personnel management. No MNC can afford to ignore the influence of local culture and structure of industrial relations on personnel management at its various subsidiaries.

However, the MNC is also a strategic actor in what may be an internationalizing system of industrial relations measured against international norms and regulations. International capitalism leads to international trade unions.

According to **Bomers** (1976). "System model of Dunlop may be interpreted at international level. It may be relevant to mention here that the prospects of effective internationalization of industrial relations remain bleak as long as national parties are unwilling to delegate fundamental elements of their autonomy to super national organization. Parties continue to operate at national level." Bomers used Dunlop's system model to construct a supplementary analytical framework as under:-

According to Dunlop as mentioned above "the core elements of the systems model of industrial relations are actors, certain contexts, an ideology which binds the industrial relations systems together and body of rules created to govern the actors of work place".

According to Dunlop's System Model, industrial relations consist of four basic components.

1. Actors or Parties

- (a) Workers and their Associations (Trade Unions)
- (b) Employers, Managers and their Organizations
- (c) The Government Agencies.

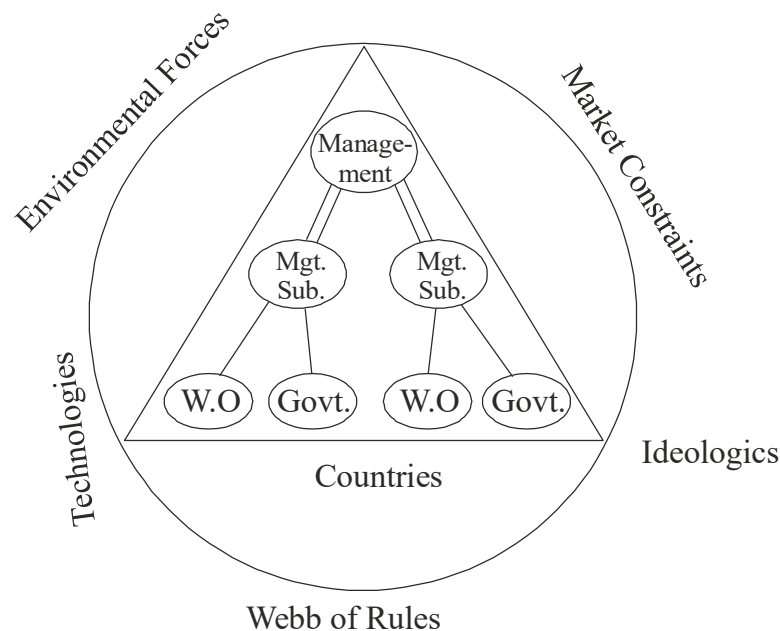
2. An environmental context

3. The Ideologies

4. The Rules

(All these components are discussed earlier)

Bomers interpreted these components for international industrial relations as under:



Mgt. Sub – Management of Subsidiary

W.O. – Workers organizations

Govt. – National Government

Figure 2.- Multinational Enterprise and National System of Industrial Relations.

According to Bomers, it may be mentioned; (in this model) MNCs may claim that various subsidiaries are legally and organizationally autonomous. However, in actual fact a multinational policy centre controls the decisions which are taken in these subsidiaries. This means that top management of MNC (though located away) takes no account of decision – making in the subsidiary. So, MNC as an actor operator in different systems of industrial relations, this very fact means that it will be viewed as a destabilizing force within a national system of industrial relations. So this model has implications on certain grounds:-

- (i) The management of a local subsidiary does not function as an autonomous actor within national system. Certainly in the case of essential issues, local management must co-ordinate its policy with the MNC's headquarters.
- (ii) The management of MNC is largely out of the reach of national parties. Multinational Corporation may develop an international strategy in unilateral fashion, government and trade unions of subsidiary may not have any influence.
- (iii) The nationality of ownership of subsidiary has an impact on who handles employee relation.
- (iv) A subsidiary character also influence on the who should handle employee-relations. For example, a subsidiary taken through acquisition of established indigenous firm tend to be given more autonomy in labour relations then green field site setup by an MNC.
- (v) Thus, chances of international industrial relations are bleak. MNC have to understand local industrial relations practices of country of operations.

Multinational Corporation may create problems for parties within the framework of national system of industrial relations. This may disrupt balanced negotiating relationship between national employee's representatives and the management at one of a MNC national subsidiary, as under:

- (a) One of the problems is that national governments, trade unions may not know about the decision- making process within MNCs. MNCs regularly claim that their national

subsidiaries have adapted to local customs and rules in industrial relations. While local management team might swear that they are doing nothing more than following the guidelines set by headquarters. Nothing happens without the concerns central government being consulted in negotiation.

- (b) The second aspect which may create negative impact on the equality of parties in local negotiating process is that local parties may not know or understand the overall international strategy and entire range of activities which MNC carries out in various countries. The MNC can manipulate profits in subsidiary without violating the law.
- (c) A final threat to national negotiations is the power of MNC to reorganize its production centres. It may close down at one subsidiary as chosen strategy and open new subsidiary in another country. Multinational can threaten to remove production units to another location. This seriously undermines the negotiating position of the local trade unions.

Barriers to the creation of an Effective Regulatory Framework for MNC at International Level.

It is very difficult to create an effective regulatory framework of industrial relation for Multinational Corporation at international level due to the nature and control system of the actors of industrial relations. Most important initial obstacle is the actors themselves. National trade unions and national government are not prepared to transfer essential elements of their jurisdiction to international organisations. The role of international trade unions has been limited to representation in international organizations i.e., United Nations Agencies. The majority of their times goes in meeting and consultations. Other barriers which may be point out that.

- (i) Union at national level want to work with their political parties and continue to operate at that level.
- (ii) There are major organizational and cultural differences between trade unions. Trade unions in each national having their own specific grounds to grow. For example, German Trade Unions Movement is organized in different form than French or British.
- (iii) There are enormous national differences in the structure and culture of industrial relations. Pronounced differences in intensity of legislation in industrial relations, levels and approaches to negotiations, degree of involvement or participation, legal status of collective bargaining etc.

Thus, as long as national parties are unwilling to delegate fundamental elements of their autonomy to super national organizations, the prospects for the effective internationalization of industrial relations remain bleak.

The degree of adaptation to local customs in industrial relations in their various subsidiaries of MNCs will remain on the strategic agenda of MNCs. They may think of international consultations with their own personnel as a strategy to win loyalty and commitment of own human resources.

Inputs – Outputs Approach of Industrial Relations or A Modified Version of the Industrial Relations System Model.

Undoubtedly Dunlop's system approach is pioneer work in the field of industrial relations. However, a number of authors have recommended changes to Dunlop initial framework. There have been several modifications and improvements to his framework. However, none of them has seriously contested or altered the original framework. At best, the modifications have served to include some aspects to which Dunlop did not pay much attention. For instance, the strategic choice framework of T.A.

Kochan, integrates the traditional theoretical framework on industrial relations with key concepts on strategy, structure and decision-making. **Kochan**, also propose that industrial relations activities among the three principal social partners take place at three levels.

- (i) Top tier – strategic decision-making
- (ii) Middle tier – collective bargaining and/or personnel policy making, or
- (iii) Bottom tier – work place, individual and organizational relationships.

Another author **Craig** (1967) took the model out of structural terms and represented it in a more conventional systems approach with the use of an **input – output framework**. Research within each of the perspectives discussed has also suggested modifications or helped to indentify key linkages between different components of the model. **John C. Anderson, Morley Gunduson** and **Allen Ponak**, in their book, **Union Management Relations in Canada** have modified the industrial relations system approach on the basis of continuing developments in the study and practice of industrial relations. After discussing these modifications, the authors present the relationship between their approach and the various perspectives on industrial relations.

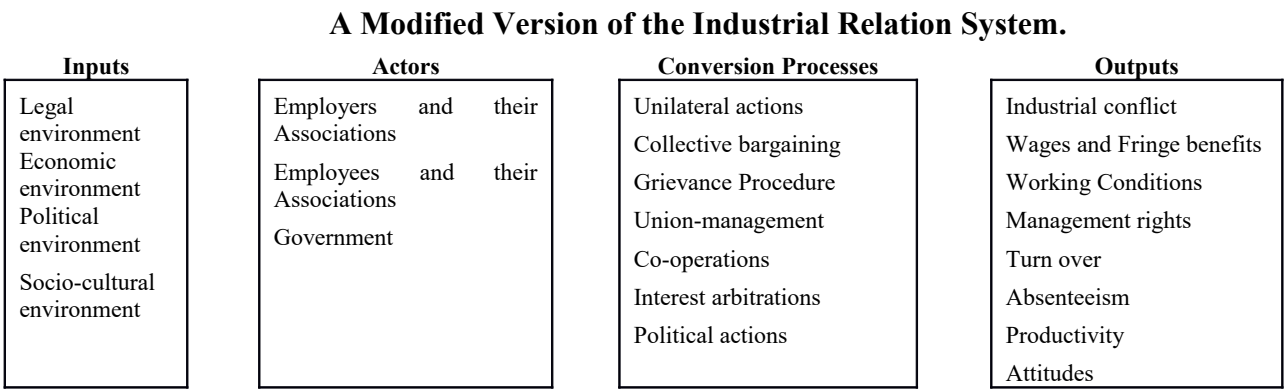


Figure – 3. Inputs and outputs approach.

Authors presented modified and updated version of the industrial relations system framework. This framework has a number of advantages over Dunlop’s original version. Most of the advantages are as under:-

1. In this model, authors have recognizes or wide range of inputs to industrial relations beyond the market, technological and power contexts of the system. Industrial relations are not viewed as an isolated sub-system; rather, the identification of inputs stresses the direct importance of the economic, legal, political, and socio-cultural systems in shaping the actors, their interactions, and the outputs of the system.
2. The modified framework also recognizes that the determination of the outputs of the system, including the web of rules, may result from unilateral action on the part of any of the actors, or from bilateral action (as in bargaining, grievance processing, labour – management co-operation

mechanisms, day-to-day decisions at the workplace, intent arbitration or Political action by management or the union), or from tripartite involvement on some issue. As a result, it is vital to conceptualize the industrial relations system as operating on several levels of society with the web of rules being shaped at the firm, industry, sector, and societal level. Moreover, outputs produced at one level inevitably influence those produced at another.

3. By distinguishing more clearly between procedural rules (conversion mechanisms) and substantive rules (out puts), the framework demands recognition that the web of rules includes not only wages, benefits and working conditions, but also all the other outputs of the conversion mechanisms. Such outputs may include changes in legislation, productivity, industrial conflict industrial accidents; turn over, absenteeism and employees attitudes.
4. This framework reveals that it is important to see the system as dynamic, rather than static. That is, outputs at one level (individual, firm, industry, sector or society) or in one time period are likely to become inputs for another level or for another time period. For example, Political action that succeeds in effecting a change in collective bargaining legislation (output) will produce a change in the legal environment (an input) from that time forward. Thus, many of the environmental conditions examined as constraints in a static view of the industrial relations system may, in fact, be seen as under the partial control of the actors when a dynamic perspective is adopted.

Criticisms of Inputs – Outputs approach

This Inputs – outputs approach has conceptual framework addressing so many complications and criticisms. It does not solve all the problems of system model. The most important criticism may be pointed out as under:-

1. This approach does not provide directly testable hypothesis. Each of the sets of conceptual variables – inputs, actors, conversion mechanisms, and outputs – contains a vast number of dimensions that can be identified, measured, and related to variables within the same conceptual set or with variable in other sets.
2. It is obvious fact that every partial system is rooted in a larger system, and every experimenter must bridge the two by demonstrating common variables. In other words, the onus is placed on the researcher to identify the appropriate level of analysis, the perspectives to be taken, and the variables considered important in explaining the dependent variables of interest. Then the researcher must show how the work helps people to understand the overall industrial relations systems.
3. The conceptual framework indicates a series of sequential relationships, starting with inputs and moving through actors and conversion processes to outputs. In reality, however, theory and empirical research exists to indicate that the characteristics of the inputs and actors may have direct effect on the conversion mechanisms and outputs of the system as well as the indirect ones included in the framework (as indicated by the dotted lines in figure no. 3). Therefore, in thinking about industrial relations system, it is important to consider the way in which its components interact to shape the outputs.

Besides overall criticism, a modified version of the industrial relations system model of Dunlop, highlight wide range of inputs, actors, conversion process and output. The modified framework looks the system as dynamic rather than static.

Keywords :

System Model, Industrial relations system, Environmental context, Multiple Policy Centers, Management of Subsidiary, Input-Output Framework,

A. ***Long Answer Type Questions:***

1. Discuss the theoretical perspectives of industrial relations.
2. Give a critical appraisal of Dunlop's Approach to industrial relations.
3. Present the theoretical perspectives of input-out approach of industrial relations
4. Discuss the framework of industrial relations at international level. Do you think the Dunlop's System Model is still relevant for multinational corporations?
5. Discuss the Bomer's framework of industrial relations at international level.
6. Critically examine the modified version of the Industrial Relations System Model.

B. ***Short Answer Type Questions:***

- (i) What is System Approach of Industrial Relations?.
- (ii) What do you mean by Environmental Context of Industrial relations?
- (iii) What do you mean by Web of Rules?
- (iv) What do you mean by management of subsidiary?
- (v) What is international capitalism?

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