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1 Introduction: the management of labour

The management of people at work has always been a central problem and challenge for employers. It is a universal problem, but it has been tackled in different ways, at different times, in different countries. As the first industrial nation, Britain occupies a distinctive position with a long legacy of traditions and practices which still influence the way labour is managed in the modern business enterprise. The management, and mis-management, of labour has had profound consequences for British society and national competitiveness.

This book investigates the development of labour management in Britain. It begins with the inheritance from the nineteenth century and traces continuities and change in the twentieth-century business enterprise. It concentrates mainly on the management of manual workers in industrial enterprises since it was here that the historically predominant pattern of labour management was established. A major theme is that, at an early stage during the process of industrialisation, British employers made certain critical choices about the ways in which labour should be managed. Though at the time these choices had a certain rationality, in the longer term they proved short-sighted and less appropriate. Yet they set a pattern which persisted and profoundly influenced the management of labour in the twentieth-century business enterprise. It is the argument of this book that the outcome of these choices contributed significantly to Britain's relatively poor economic performance from the late nineteenth century onwards.

The book seeks to bridge the gap between traditional business history and labour history. In addition it draws upon contemporary studies of business management, industrial relations, and personnel management. From the Webbs onwards, we have a number of excellent studies of British labour history, which provide valuable insights into labour management, though their main focus has been on trade unions.[1] In recent years there has been a growth of business history, including studies of individual firms and broader surveys. However, these various bodies of literature have not been brought together. What follows draws on

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earlier historical studies of labour management,[2] but it differs from previous work in several respects. It takes a longer term perspective, beginning in the late nineteenth century and coming more or less up-to-date. It therefore builds a bridge between historical and contemporary studies. It also sets the story in a wider economic and business context, bringing out the importance of market structure and company organisation. In addition, it adopts a broad view of labour decisions and interactions between employers and their workers, by looking beyond narrow aspects of personnel management and management–union relations.

Concepts and definitions

In analysing economic processes economists use the notions of markets and firms. A market exists when there is an exchange of goods or services between sellers and buyers, shaped by the forces of supply and demand and co-ordinated by the price mechanism. Such an exchange is usually a short-term and relatively impersonal transaction. Firms, on the other hand, are economic institutions which operate in markets, but which are distinct from them. Activities within firms, above a certain size, are co-ordinated and controlled by a hierarchy of managers, and relations within the firm are more likely to be longer term. One way to see the firm is as an administrative mechanism which comes into being and supersedes the market mechanism when it becomes more efficient or more effective to co-ordinate activities and allocate resources internally within the firm rather than externally in the market.[3]

Labour is one of the primary factors of production and represents both a cost and a resource to the firm. Whether the employer sees labour primarily as a cost to be minimised or as a resource to be developed is of considerable importance to the practice of labour management because it shapes the attitudes and practices of employers. In either case, however, it should be stressed from the outset that labour is very different from non-human factors of production, a fact noted by economists of very different persuasions. Thus Marx made the distinction between labour power and labour: what the employer buys in the labour market is labour power or, in other words, the potential and capacity to work; but the employer's continuing problem is how to get actual labour or effort out of the worker in the workplace.[4] From a different standpoint, Marshall made a similar point. For him the uniqueness of labour was that 'human agents of production are not bought or sold as machinery and other material agents of production are. The worker sells his work, but he himself remains his own property.'[5] Similarly, the American institutional-

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ist economist, Commons, placed great emphasis on the provisional and open-ended nature of the transactions surrounding labour. 'The labour contract is not a contract', he wrote, 'it is a continuing implied *renewal* of contracts at every minute and hour, based on the continuance of what is deemed, on the employer's side, to be satisfactory service, and, on the worker's side, what is deemed to be satisfactory conditions and compensation.'[6] Labour is, therefore, more than a commodity which can be bought and sold: employees are a resource which must be controlled and motivated in order to secure productive output.

In this study, labour or human resource management is used as a generic term to cover the set of decisions which employers have long made in order to govern their enterprises. It is taken to cover three main areas – work relations, employment relations, and industrial relations. Work relations covers the way work is organised and the deployment of workers around technologies and production processes. Employment relations deals with the arrangements governing such aspects of employment as recruitment, training, job tenure and promotion, and the reward of workers. Industrial relations is concerned with the representational systems which may exist within an enterprise: in the British context this has often meant management–union relations and the process of collective bargaining. These are obviously rather arbitrary distinctions of convenience and, in practice, there is considerable overlap between them. For the purposes of this book, however, the distinction is used to provide a framework for focusing on and analysing key employer decisions.

The approach adopted sees labour management in a broad context. It places considerable emphasis on the markets within which firms operate, both labour markets and also final product markets. Markets simultaneously represent an opportunity, a constraint, and a threat to employers. In other words, they can provide either an incentive or a disincentive to particular labour strategies. The approach also focuses on the organisational context of the firm, especially its strategy and structure. Strategy is used, in the first place, in the sense now established in the business administration, industrial economics, and business history literature to mean overall market strategies of growth, backward and forward integration, specialisation and diversification. Structure refers to the organisational forms and managerial hierarchies which firms develop to manage their activities. These can either facilitate or impede the choice and development of particular strategies. In this book, however, the terms strategy and structure are further developed and applied to the management of labour. In this context, strategies are defined as the long-term actions and policies used by management to secure a satisfactory labour force, to organise, discipline, and reward

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workers, and to deal with workers' representational and collective aspirations. Structures are the organisational forms and hierarchical arrangements used to administer such labour policies.

Theoretical framework

The book owes its theoretical ideas and origins to a number of sources. First and foremost, it owes a debt to the institutional tradition in economics. This is an approach which stresses the importance of organisational arrangements and transactions within markets. Writing at the beginning of this century, Commons argued that the basic unit of economic analysis should not be commodities or factors of production, but transactions, in other words, the arrangements through which goods and services are exchanged. He pointed out that there are a variety of institutional forms, such as markets, firms, and cartels, which may co-ordinate exchanges between individuals or groups. In his writings he developed an argument on the following lines: in a market economy, the scope of the market, its geographical extent, and the degree of competition within the market are key factors which influence transactional arrangements; such arrangements shape the structure or organisation of the firm; different firm structures, he argued, then influence the pattern of labour management and aspects such as union organisation; changes in the market, in particular its 'ever-widening area' and 'increased competitive menace', trigger changes in strategies and organisational forms. For Commons, the analysis of different institutional forms and patterns in various market contexts was central to the study of economic processes in history.[7]

An important contribution to the economist's theory of the firm and one which can be applied to the firm's labour activities is to be found in the classic work by Coase on 'The Nature of the Firm'.[8] In this, Coase discussed why firms come into existence and why they grow. In a sense, he was concerned with the boundaries of the firm, with what the firm itself undertakes and what it leaves to individuals, other firms, and other institutions. Coase suggested that the boundary between the market and the firm, between the external price mechanism and the internal administrative mechanism, is determined by the relative transaction cost of each. Such transaction costs include *inter alia* the costs of dealing with uncertainty, gaining information, and making and enforcing contracts. Where the costs of using the external market mechanism are relatively low, the firm will choose to transact through the market; where the costs of market transactions are too high, the firm will prefer to

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internalise activities within its boundaries; the limits to the growth of the firm will be fixed by the volume of transactions which can be efficiently internalised. Following Coase, others have identified more complex transactional arrangements than the simple dichotomy between market and firm. In practice, there exists a spectrum of contractual arrangements, including markets, firms, and various forms of inter-firm organisation such as cartels, joint ventures, and subcontracting.[9] Other economists, such as Williamson, working in the institutional tradition, have tried to identify different types of structural arrangements *within* firms and to explain why they exist and with what economic consequences.[10]

Similar ideas have been developed independently in empirical research by business historians. In the US, Chandler has analysed the growth of the modern business enterprise in terms of decisions to internalise certain historically separable business activities.[11] The process of internalisation, he has argued, began when mass markets and mass-production technologies permitted high volume throughput in production and distribution. Firms grew by increasing the scale of their production or the scope of their products and by adding new plants. Firms also grew in a horizontal direction by acquiring other firms in the same industry; they grew vertically by obtaining related processes involved in earlier or later stages of production; and they also internalised by developing purchasing, sales, and other functions which they had previously left to others such as suppliers or merchants. In these ways the small, single-plant, single-product firm (the S-form firm, to use Williamson's terminology[12]) was transformed into the large, multi-unit, multi-product enterprise. These strategies of growth then induced a search for new structural forms of organisation. Over time, firms have moved through various stages. At an early stage, some developed unified structures, with functionally specialised departments in large headquarters (the U-form firm). Others, usually growing by acquisition and merger, remained decentralised federations of relatively autonomous, but legally related, units and adopted looser holding-company forms of organisation (H-form). Increasingly, in particular as a result of product and geographical diversification, firms have moved more towards a multidivisional form of organisation (M-form), where operations are divided into product or geographical divisions, but subject to the overall strategic control of headquarters. For Britain, Chandler, Hannah, and others have used a similar type of analysis to examine the growth of the modern business corporation. They have shown, however, that the process of internalisation and organisational development occurred later in Britain. Smaller firms survived for longer, and there was less pressure on larger firms to develop new forms of organisation. Cultural and social factors, such as the strength of family

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ownership, may in part explain the differences between the US and Britain. But business historians have tended to emphasise the different nature of factor and final product markets in Britain. More concentrated markets and efficient distribution systems obviated the need, in the case of Britain, to bypass the market and build large centralised firms with extensive managerial hierarchies.[13]

The argument of this book is that these ideas can be developed and used to understand the nature of labour management. At this point it is useful to present certain key propositions. Such a presentation of generalisations risks oversimplifying a set of complex economic and organisational interactions and understating certain factors. However, this framework is set out as a pre-statement of the general thesis to be developed in the course of the book and to help make sense of the detailed historical material which follows.[14]

The initial proposition is simply that, in a market economy, the nature of markets will play a large part in shaping labour decisions. In a sense, to say that markets are important in a capitalist economy is to state the obvious; but the nature of markets, for the various factors of production and for the final product or service, is so fundamental that it can be stated as a proposition. Important features of markets which will be stressed are their size and boundaries, their homogeneity or fragmentation, their stability or instability, and the degree of competition within them. The argument is developed in the book that the nature of product markets in the nineteenth and early twentieth centuries, in particular their heterogeneity and degree of fragmentation, had a profound effect on systems of labour management in Britain. The extension of product markets and the intensification of competitive pressures at various times triggered significant changes in labour management arrangements. Labour markets also shaped employer decisions in various ways. To cite but one: the relative abundance of labour, including craft labour, in nineteenth- and early twentieth-century Britain played an important part in shaping employer policies and practices. In particular, it was a disincentive to the introduction of more sophisticated production techniques and the development of strong internal employment systems.

Of course, markets exist within and are shaped by historical, cultural, and political contexts. To say that markets have been of crucial importance is not to deny the significance of other environmental factors. Employers obviously made their choices in a social and cultural context where historical traditions and attitudes were important. Indeed, in accounting for employers' behaviour, this book places considerable emphasis on the origins and early development of systems of labour management in Britain and the continuities in attitudes and practices.

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In addition, the activities of the state shaped events, both by direct government intervention in labour management as through legislation and more indirectly by influencing the market context. Similarly, in the industrial relations sphere, workers and their trade unions have been a significant factor independently influencing relations with employers. However, in a market economy, where some kind of profit maximisation and cost containment are goals, the forces of competition and the nature of markets are of major importance in shaping strategic choices. In other words, markets do not determine behaviour, but are a powerful constraint on choices.

The second proposition is that market forces are mediated through the structure of the firm. In other words, the organisation of the firm itself is of crucial importance in shaping labour decisions. It is significant that the modern business enterprise in Britain developed more slowly than in some other countries. The traditional British enterprise, smaller and often family-owned and -managed, remained the predominant form well into the twentieth century in many industries. Where large firms emerged, they were often loosely organised holding companies in which subsidiaries enjoyed considerable autonomy. The predominance of small firms or loosely co-ordinated larger firms shaped the choices open to British employers for managing labour. Thus choices of strategy and structure at the broader level of the firm both constrain and facilitate the choice of strategy and structure in the area of labour management.

A third proposition is that the nature of the managerial hierarchy is an important variable influencing labour decisions. The managerial hierarchy is made up both of vertical levels (top, middle, and lower managers) and horizontal functions (such as production, finance, sales, and personnel). The effectiveness of managerial hierarchies depends on various characteristics. It depends on the technical training and professional competence of managers. It also depends on the degree of integration or segmentation within the managerial hierarchy between levels and functions. Managers who are better trained and managerial hierarchies which are more integrated are more likely to be better able to manage. It is noted in this book that in Britain family control and management remained stronger and salaried management developed more slowly than in other countries. Also, British management has tended to be relatively less well trained and proficient than in certain other major countries and managerial hierarchies tended to be more segmented. Weak managerial hierarchies, allied with inadequate corporate structures, meant that there was insufficient organisational capability in most British firms to develop and administer strong internal systems of labour management.[15]

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A fourth proposition is that the choice of production technology and the division of labour within the firm also shape management labour decisions. Technology is here taken to mean not just machines and technical processes, but also how these are organised and the way workers are deployed around them. The division of labour is in part a function of the extent of the product market and managerial capabilities. Where markets were large and homogeneous and where firms had the organisational capability to organise production in innovative ways, it was more likely that there would be a more extensive and sophisticated division of labour.[16] The organisation of production is also shaped by the availability of labour in the labour market, and here the argument that, up to the Second World War, Britain for the most part had an abundance of labour, including skilled craft labour, is important in that it often acted as a disincentive to change in work organisation. The choices which management makes in this area and its interactions with its labour force are referred to in this book as work relations.

The final proposition is that, in making labour decisions, there are a number of choices open to the employer. However, these choices are not limitless. One way to conceive the choices is as follows: the employer can either externalise activities in the market, internalise them within the boundaries of the firm, or co-ordinate them by various combinations of the two. This concept may be applied to decisions in the three areas of work relations, employment relations, and industrial relations.

In terms of work relations, the concepts of internalising and externalising can be used to analyse a number of important labour decisions. For example, the firm can externalise by relying on different forms of subcontracting to organise production or it can internalise by more directly organising its own workforce. Thus one significant historical change was the movement from putting-out systems of production, to various forms of subcontracting, and to direct production within the firm. Over time, there has been some backward and forward movement between these different ways of organising work. The notion of internalising and externalising can also be used to analyse skill formation and transformation, in other words, training arrangements. Thus the firm can externalise by doing little or no training and poaching or recruiting labour in the market which others have trained. Also, it could be said to externalise by relying on apprenticeship arrangements which are occupationally orientated or by making extensive use of state training facilities which train in externally marketable skills. On the other hand, the firm can internalise by doing its own training and making training more firm-specific.[17] Where and how a worker acquires his skills is of extreme importance: it affects his attitude towards those skills, his control over them, and his attitude to technical change.

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In terms of employment relations, the firm can externalise by relying on the external market for labour; by recruiting and laying off as demand changes; by filling higher positions with external as well as internal candidates; and by fixing wages according to external market signals. Alternatively, the firm can internalise the employment relationship by more systematically screening and recruiting workers; by making every effort to make them permanent employees; by developing internal job ladders and using internal promotion wherever possible; by fixing wages more according to internal administrative principles than to market forces; and by developing more extensive fringe benefits, often based on seniority within the firm. In the former situation, where strategies of externalisation are pursued, the employment contract is likely to be of a minimal kind; in the latter it will be more complex and there will be a more highly developed internal labour market.[18] (In this book the term 'internal labour market' is used to describe an elaborate internal employment system relatively insulated from external market forces. In this sense the term is now widely accepted; however, it is something of a misnomer, since what is being described is less of a market and more of an internal administrative system.)

In industrial relations, managements can internalise by seeking to promote their own employee representation system, such as a works council, or by sponsoring a company union. Where management does recognise an outside union, it will seek to bargain domestically within the firm and will handle grievances and disputes internally through its own in-house procedures. By contrast, a firm can be said to externalise its industrial relations when it hands dealings with a trade union over to an association of employers outside the firm. This type of employers' organisation sets wages according to external market criteria and processes grievances through an external disputes procedure. This use of employers' associations is a form of externalisation, though it might perhaps be better termed 'co-ordination by cooperation';[19] certainly it represents a form of delegation to an outside body.

In reality, firms will often use a combination of these strategies. For example, they may use different strategies for different types of labour, showing more of a tendency to internalise in the case of higher level employees who are in short supply or who possess firm-specific skills. They may also move between different types of strategy over time as market conditions change. But such moves occur infrequently and come about slowly. The argument that will be developed in this book is that, in general, British employers in the nineteenth and early twentieth centuries tended to prefer market mechanisms and to externalise their labour activities. This contrasts with tendencies in other countries, especially among large firms in the USA, Germany, and Japan, where there was a

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stronger tendency to rely more on internal systems of co-ordination. Yet British firms were never monolithic, and it is significant that there were always exceptions to the general pattern. Strategies of externalisation existed where product markets were small, fragmented, and competitive and where labour markets provided an ample supply of workers. They also existed where firms had simple divisions of labour and lacked the organisational capability to develop and administer strong internal systems. In these circumstances, it made more sense for employers to rely on market rather than administrative co-ordination. Strategies of internalisation occurred when administrative co-ordination permitted a more effective and efficient labour management than co-ordination by market mechanisms. Internalisation therefore depended on markets, was related to more sophisticated divisions of labour, and required more advanced managerial hierarchies. The argument is that, through the course of the twentieth century, there has been a growing tendency, on the part of British firms, to internalise labour activities and to develop stronger internal arrangements. However, this development of strategies of internalisation has been slow and uneven.

The contention, then, is that markets, as mediated through firm-level structures, managerial hierarchies, and the division of labour, go a long way to explain the choice of employer strategies in the labour field. Such strategies can be seen in a broad sense as policies of either internalisation or externalisation. Historically, in the British case, limited internalisation represented, for most employers, a rational response to the ease of organising transactions through markets. At the same time, it also represented a failure of employer action, reflecting the weakness of corporate structures and managerial hierarchies. Thus, in Britain, the invisible hand of the market dominated labour management, and the visible handshake of closer and more lasting relations between employers and employees made only slow progress.[20]

As stated so far the argument prompts two questions. First, can it really be said that historically British employers pursued policies in the labour field which added up to anything so grand as strategies? Many might feel that employers merely reacted opportunistically to events and at best muddled through. In the case of British employers, there is indeed much to this contention, and the idea of opportunistic behaviour fits well with the notion that employers pursued short-term, market-orientated policies. However, in considering strategies, a useful distinction may be drawn between *intended* and *enacted* strategies: intended strategies are those which are consciously and purposively developed *ex ante*; enacted strategies are those practices which grow incrementally over time and which, with the benefit of hindsight, reveal a certain pattern of actions

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