Managing Competitive Crisis

Strategic Choice and the Reform of Workrules

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CAMBRIDGE
UNIVERSITY PRESS

PUBLISHED BY THE PRESS SYNDICATE OF THE UNIVERSITY OF CAMBRIDGE
The Pitt Building, Trumpington Street, Cambridge CB2 1RP, United Kingdom

CAMBRIDGE UNIVERSITY PRESS
The Edinburgh Building, Cambridge CB2 2RU, United Kingdom
http://www.cup.cam.ac.uk
40 West 20th Street, New York, NY 10011-4211, USA http://www.cup.org
10 Stamford Road, Oakleigh, Melbourne 3166, Australia

First published 2000

Printed in the United Kingdom at the University Press, Cambridge

Typeset in Times NR 10/12 pt [SE]

A catalogue record for this book is available from the British Library

Library of Congress Cataloguing in Publication data

Wright, Martyn.
Managing competitive crisis: strategic choice and the reform of workrules / Martyn Wright.
p. cm. – (Cambridge studies in management)
Includes bibliographical references.
ISBN 0 521 64005 9 (hardback)
1. Industrial relations – Great Britain. 2. Competition – Great Britain. 3. Industrial management – Great Britain. I. Title. II. Series.
HD8391.W75 2000
331′.0941–dc21 99–20174 CIP

ISBN 0 521 64005 9 hardback

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1 Introduction

The key theme of this book is how economic crisis shaped the management of workrules in unionised companies in Britain between 1979 and 1991. During this period, many of the advanced industrialised countries experienced product market collapse and labour market slump. Britain endured an especially harsh recession in the early 1980s. Commentators have argued that these competitive shocks weakened the collective organisation of labour on the shopfloor, and engendered the radical restructuring of working practices in unionised companies. But there has been less attention to the processes by which such change took place, and in particular to the interplay between economic pressures, the 'strategic choices' made by managers, and the pattern of change to formal rule structures and informal practices at the workplace.

These themes are explored through a comparison of fifty highly unionised companies in Britain in 1979 and 1991. Semi-structured interviews were undertaken with senior personnel managers in each company in both years. Reference will also be made to a panel of fifteen employers' associations, interviewed in 1979 and again in 1990. The comparative advantage of these data is that they highlight the broad patterns and specific processes of reform. The study aspires neither to the richness of the detailed case study nor to the coverage of the large-scale questionnaire survey. Rather, the aim is to explore the process of adjustment in a panel of organisations which have in common strong labour organisation and deeply entrenched collective-bargaining institutions.

This first chapter is set out in four further sections which examine the nature of economic crisis in Britain and the other advanced economies; economic crisis and industrial relations reform; strategic choice and industrial relations change; and strategic choice under crisis conditions.

Economic crisis in Britain and the other advanced economies

Economic crisis has afflicted much of the Western industrialised world in the past twenty years, most especially the decentralised market-driven economies, such as Britain and the United States. Between the end of the Second World War and the middle of the 1970s, many of the advanced economies enjoyed historically high rates of unbroken economic growth. Compared to the slumps of the inter-war era, demand for manufactured goods and services was buoyant, unemployment was low and skilled labour was scarce. In most Western industrialised countries, trade union membership was rising and penetrating into previously unorganised sectors of the economy and into traditionally non-union occupational groups.

Since the middle of the 1970s the Western economies have suffered a sustained economic downturn. National economies have experienced lengthy periods of recession, while unemployment has risen to and persists at historically high rates. These trends are in part a consequence of the globalisation of competition, a process which has accelerated in the past twenty years. The range of product lines and branded goods has expanded, and products markets have become further segmented. With advances in microprocessor technology, there has been a quickening in the frequency with which products and services are re-specified, and production systems are reconfigured.

In response to the failure of the economy, governments in several countries, including the United States, have attempted to 'deregulate' labour markets, and to weaken the bargaining position of trade unions. In few countries was the economic crisis as severe, or the reframing of employment law as marked, as in Britain. For much of the 1950s and 1960s, the British political economy was characterised by Keynesian demand management to sustain high rates of consumption together with low rates of unemployment (for reviews, see Dunn 1979, MacInness 1987). To this might be added a preference for 'voluntarism', or free collective bargaining between employees and trade unions, in which the role of employment law was largely confined to setting a 'minimum floor' of wage and health and safety standards. This system came to be associated with the post-war economic boom conditions of high output and scarce labour which prevailed until the early 1970's.

Concern at Britain's relatively slow economic growth, balance of payments difficulties and persistent inflation grew during the 1960s. Trade unions and the voluntarist industrial relations system were considered a factor in the sluggish rate of growth, so much so that the Donovan Commission was established in 1965. The report of the Commission (Donovan 1968) argued that tight labour markets and expanding product markets had enabled groups of workers on the shopfloor to exert bargaining pressure over supervisors and junior management. The outcome was a disjuncture between the 'formal' system of collective bargaining at industry level, and the 'informal' system at the workplace. The unofficial and fragmented nature of bargaining on the shopfloor led to wage 'drift', or a disparity between rates stipulated in national agreements and those paid on the shopfloor, together with 'restrictive practices' including overmanning and systematic overtime, and unconstitutional or 'wildcat' strike action (Dunn 1979: 10). Donovan's prescription, consistent with the voluntarist ethos, was the extension of the system of formalised collective bargaining to the workplace, and the development of written, comprehensive collective agreements at this level.

With the Industrial Relations Act 1971, passed by the Heath government, came an initial incursion into the voluntarist 'space' (Dunn 1979: 1). The Act required trade unions to register to preserve their immunity from liability for inducing breaching of contract. It also provided for a mandatory 'cooling-off' period, as well as compulsory balloting, in the case of 'unfair industrial practices'. Collective agreements were also assumed to be legally enforceable contracts, unless the parties stipulated otherwise.

By the middle of the 1970s, the trade-off between inflation and unemployment upon which Keynesian demand management was founded appeared to be breaking down, and conditions of 'stagflation' prevailed – persistent price inflation combined with low economic growth. Between 1974 and 1975, unemployment increased from 0.6 million to above 1 million, while inflation also rose from 9.3 per cent in 1973 to over 26 per cent in 1975 (Dunn 1979: 26). The Labour government turned to the Social Contract, in which union wage restraint was traded for the repeal of the Industrial Relations Act 1971 and a new employment law framework, along with measures to boost demand and reduce unemployment. The Social Contract began to unravel in 1977–8, with union leaders increasingly unwilling or unable to impose wage restraint upon their members. With it, the Labour government turned to measures to restrict the money supply, in an attempt to combat inflation.

For the incoming Conservative government in 1979, tight monetary policy was one of the cornerstones of its economic policy. Interest rates were raised, in an attempt to halt the growth of cash and credit. As the value of the pound soared, and exports became more expensive and imports cheaper, the British economy moved sharply into recession. The fall in output and employment in Britain in the early 1980s was much greater than in the other industrialised economies (see Table 1.1). British manufacturing output fell by 17 per cent between 1979 and 1981, and by 9 per cent in 1980 alone. Product market collapse was accompanied by labour market slump. The manufacturing and processing sectors, where union organisation was at its strongest, were affected by job shedding on a scale unprecedented in the post-war period. Seasonally adjusted unemployment increased. Between 1975 and 1978, unemployment averaged just above 1,000,000. From 1979 to 1982, this figure averaged approximately 2,000,000, and then between 1983 and 1986, more than 3,000,000.

Table 1.1 *Maximum two-year percentage decline after 1979*

Country	Output	Employment
UK	3.5	5.7
US	0.4	(0.4)
France	(1.6)	1.3
Germany	0.4	3.2
Italy	(0.7)	(0.6)
Sweden	(0.5)	0.9
EEC	(0.6)	2.1

Source: Layard and Nickell (1989: 13)
Figures in brackets indicate increase.

The Thatcher government also profoundly altered the legal and political status of organised labour. The government took an aggressive stance towards bargaining with public sector unions, the outcome of which was a series of industrial disputes in the public sector, most notably in the coal mining industry in 1984–5 but also in water, rail transport, local government and secondary and higher education. Union recognition and the right to be a member of a trade union were withdrawn at GCHQ, the government intelligence communications headquarters. Government also refused to condemn employer action to derecognise unions in the print industry, as with the Stockport Messenger and News International industrial disputes.

Far-reaching changes were made to the framework of trade union and employment law between 1979 and 1991 (for reviews, sees Brown, Deakin and Ryan 1997, Dickens and Hall 1995, Dunn and Metcalf 1996). The closed shop, whereby union membership is made a requirement in order to obtain ('pre-entry' shop) or retain ('post-entry' shop) employment, was made legally unenforceable. The scope for unions to organise effective industrial action was narrowed. Trade union immunity for inducing breach of contract was withdrawn for strike action other than with the workers' own employer and at their own place of work. Immunity was also denied where the action takes place without a postal ballot of union members.

In addition to the magnitude of the changes in the political economy, their unanticipated nature also denotes this period as one of crisis. The collapse in corporate profitability came against a backdrop of a thirty-year period of relative stability and prosperity. Several major companies, such as the construction group BICC, recorded their first operating loss in the post-war era within the first three years of the Thatcher administration. The early 1980s also reversed long-standing trends in the UK labour market, such as the extension of union membership to traditionally non-union sectors of the economy, including private services, and to historically unorganised occupational groups such as white-collar, clerical, supervisory and managerial employees. The 1977–9 period marked a post-war high not only in aggregate union membership and union density, but also in the percentage of employees covered by collective agreements, and in the total number of days lost through industrial action. Cognitive psychologists commonly argue that perceivers' expectations of the future are informed by their experience of the recent past (e.g., Reger 1990). Any expectations of a continued and rising tide of trade union and labour influence into the 1980s were quickly confounded.

Economic crisis and industrial relations reform

The main question posed by the present study is how the economic and political shifts outlined above impacted upon the institutional framework of industrial relations in unionised companies. Fortunately, several large-scale surveys were conducted in the 1980s, which offer detailed and comprehensive data on industrial relations change. These include the Workplace Industrial Relations Survey (WIRS), which examined some 2,000 establishments with twenty-five or more employees in 1980 (Daniel and Millward 1983), 1984 (Millward and Stevens 1986) and 1990 (Millward *et al.* 1992); the Warwick Company Level Industrial Relations Survey (CLIRS), of 143 companies in 1985 and 176 companies in 1992 (Marginson *et al.* 1993); the survey by Gregg and Yates (1991) of industrial relations practices in 558 UK companies for the periods 1980–4 and 1985–9; and Edwards' (1987) survey of 229 factory managers in plants with 250 or more employees. Finally, there is the earlier company-level survey of manufacturing enterprises by Brown and his colleagues (Brown 1981).

Evidence suggests that the combination of product market pressures, increased unemployment and legal restrictions on the organising ability of trade unions led to widespread restructuring of work practices (Metcalf 1989, 1994, Oulton 1995). As Layard and Nickel (1989: 13) argued: 'the collapse in output and employment, accompanied as it was by an enormous rise in closures and bankruptcies . . . gave both workers and management little alternative but to increase productivity or go under.' Fear of bankruptcy, it is argued, disciplined employers into confronting overmanning and union job controls (Metcalf 1989: 19). Legislative change, combined with fear of redundancy, left unions less capable of opposing such changes and workers more inclined to comply with managerial demands (Oulton 1995, Metcalf 1989). Substantive change in unionised workplaces was commonly negotiated through collective-bargaining procedures. Where unions proved to be a material obstacle to restructuring, management were increasingly prepared to terminate union recognition in whole or in part, and to refute union membership agreements. These changes in union status may have signalled to employees a greater assertiveness on the part of management, together with the need to work harder, which may have been a factor in raising labour productivity in unionised establishments (Gregg, Machin and Metcalf 1993).

Such an argument implies a measure of continuity in collective-bargaining arrangements, for which there is some supporting evidence. The large majority of establishments that recognised trade unions in 1984 continued to do so in 1990 (Gregg and Yates 1991). Shop steward organisation in union companies remained little changed, although the total number of stewards had fallen in line with the total employed in the unionised sector. Procedures for industrial disputes and individual employee grievances also remained largely intact. While there is evidence of continued union presence in the majority of establishments that were unionised in 1979, this has been accompanied by widespread restructuring of collective-bargaining arrangements. The scope of issues which were covered by collective bargaining contracted. Union derecognition, while confined to a minority of enterprises, became more common. WIRS found that 9 per cent of the panel of trading sector workplaces reported the complete withdrawal of collective-bargaining rights between 1984 and 1990 (Millward *et al*. 1992: 75). Even where collective-bargaining procedures were retained, the level of bargaining had frequently been decentralised away from the multi-employer or corporate level. Walsh (1993) interviewed personnel managers in eighteen large, private-sector organisations in 1990 about their pay-setting arrangements. Nine companies had withdrawn from multi-employer bargaining or had decentralised collective bargaining in the 1980s (1993: 413). But the devolution of pay bargaining was often accompanied by the corporate centre monitoring or directly controlling pay levels in subsidiaries and establishments, to minimise the scope for pay leapfrogging.

Perhaps most notable was the reported decline in the presence of the closed shop, which has long been considered a symbol of union power (McCarthy 1963, Dunn and Gennard 1984). The pre-entry closed shop especially has been associated with union power to drive up the relative pay of workers covered by it (Metcalf 1993). An expansion in the coverage of the closed shop was registered in the 1970s, as closed shop arrangements extended to previously uncovered sectors such as food, drink and tobacco, clothing and footwear, transport and communications, the public utilities, and into non-manual occupational groups (Dunn and Gennard 1984: 15–16). These 'soft' closed shops were more likely to result from managerially sponsored procedural reform, than were the 'hard' closed shops in industries such as engineering, print and port transport, which had been imposed upon management, or in which management had acquiesced in order to promote stability and workplace order (Dunn and Gennard 1984: 41–55). In line with legislative change, WIRS shows a steep fall in the incidence of the closed shop in the 1980s. Compulsory unionism became ‘far less numerous’, diminishing from 20 per cent of establishments in 1984, to 4 per cent in 1990 for manual workers, and from 9 per cent to 1 per cent for non-manuals.

While collective-bargaining procedures may have remained extant in the majority of union establishments, there is evidence to suggest that management were increasingly able to define the bargaining agenda and to secure their preferred outcomes in negotiations. Morris and Wood (1991) interviewed personnel managers at a range of levels in fifteen large, private-sector organisations that were surveyed in the first CLIRS (Marginson *et al*. 1988). Morris and Wood (1991) found considerable continuity in procedural arrangements, such as union recognition, bargaining structures, consultation arrangements and shop steward facilities. But management had been changing the way that institutions worked. Management was becoming more confident about gaining ‘what they wanted’ from bargaining (1991: 269): ‘In all but two of the [thirteen] unionised firms in our sample, managers said they took the initiative in negotiations more now’ (1991: 270). Even where the number of shop stewards had remained unchanged, management had frequently attempted to reduce their influence, using methods such as limiting the number of shopfloor meetings allowed in work time and returning full time stewards to their work roles (1991: 271).

Storey (1992) finds that attacks on procedure in his fifteen case study companies were rare. But management had ‘seized the initiative’ and were more inclined to take an aggressive stance towards unions without having an agenda to replace them (1992: 77 and 246). Gregg and Yates (1991) report managerial perceptions of union strength. In what they admit to be a crude test, in the period 1984–9, 57 per cent of respondents felt that unions had become weaker, as against 7 per cent who felt that unions had become stronger. Case studies, such as in the coal industry after the 1984 strike, indicate that management were becoming better able to push through changes to working practices which increased labour productivity (Richardson and Wood 1989).

There is also evidence of widespread work restructuring, particularly of an attack on union job controls over effort and output, upon demarcation lines between labour of different crafts or skills, the introduction of new technology and the reduction of staffing levels (e.g., Metcalf 1989, Storey and Sisson 1993). Dunn and Wright (1994) examined the contents of fifty collective agreements in 1979 and 1990. They found that procedural indices, such as the scope of union recognition, disputes procedures and the administrative facilities that were granted to shop stewards, had remained largely intact. Substantive indices, such as productivity clauses, job structures and flexibility agreements had been much more extensively overhauled. However, there is little evidence to suggest that a more fundamental redesign of jobs has occurred. Storey and Sisson (1993) note that profound alterations in job content have been rare and changes are more likely to have taken the form of 'financially driven cost reductions' (1993: 34–5). 'Advanced' teamworking systems, the core of which are self-governing work groups, remain confined to a small minority of establishments (Geary 1995).

In summary, the competitive crisis of the early 1980s forced management to uproot union job controls and to implement more efficient forms of work organisation, while legislative reforms reduced the ability of trade union to resist these changes. Much of this change was negotiated through collective-bargaining procedures, although such procedures had often been decentralised away from the multi-employer and corporate level. Closed shop arrangements had commonly been rescinded, while in a minority of establishments, union recognition had been partly or completely withdrawn.

The context and processes of industrial relations change

In addition to the above broad developments, there is also evidence that management industrial relations policies and styles became increasingly diverse in the 1980s. Certain authors have argued that the Donovan model of formalised, decentralised collective bargaining may have come to dominate management thinking in unionised companies in the late 1970s. Dunn (1993) argues that management 'got incorporated' by Donovan logic, which stunted their ambition and unionised their imagination. There is certainly evidence to support such a view. Written collective-bargaining agreements, including grievance and disputes procedures, became more common at establishment level in the 1970s (Sisson and Brown 1983, Storey 1983). Shop steward organisation, such as formal entitlements to time off work and access to office facilities, was strengthened. There was, as noted above, a broadening in the coverage of the closed shop (Dunn and Gennard 1984). Storey (1980) suggests that the range of issues that were subject to joint workplace control expanded during the 1970s, which would be consistent with the formalisation of shopfloor procedures. These developments may have been especially well represented among the present panel of firms, which was determined in 1979 by high union membership and likely operation of a closed shop. It was to companies such as these, with strong collective organisation, to which Donovan primarily directed its reform proposals.

By the early 1990s, Dunn (1993) argues, management had 'deincorporated' itself from Donovan, and a 'more diverse pattern' of management policy was evident, with companies having embarked on widely differing courses of reform. Others detect a similar fracturing of personnel management orthodoxy. Purcell and Ahlstrand's (1994) study of multi-divisional companies (1994: 209) found a shift away from the previously numerically dominant policy which centred upon formalised collective bargaining – what they term 'bargained constitutionalism'. Companies were turning to a whole host of other policies. One popular route was towards a 'sophisticated consultative' policy, which combines a union presence with a more developmental approach to employees (1994: 197 and 213). Others were shifting towards a 'traditional' style of cost minimisation and labour subordination, or towards the 'sophisticated human relations' style, in which non-unionism is allied with 'commitment-empowerment' employee management.

Storey (1992) observed a 'retreat from proceduralism', along with a 'welter of initiatives' and a 'bewildering variety of approaches' (1992: 2). Management were experimenting with schemes which included 'an emphasis upon adaptability, direct communication with employees, "managerial leadership", and the moulding of a more tractable employee stock' (1992: 77). These initiatives were usually placed alongside existing collective bargaining and employee representation arrangements. Ahlstrand's (1990) study of the Fawley refinery shows how management turned away from its long-standing policy of negotiating formal productivity agreements, following their 'obvious failure', in favour of union derecognition, and the introduction of personal employee contracts with individual appraisal and reward.

The factories in Scott's (1994) three case studies had started to follow quite different labour relations policies, with the biscuit works remaining committed to Donovan-style pluralism, while the frozen food works had reorganised production into autonomous teams of workers. At the chocolate works, management had chosen to introduce single status, extend the incentive payments scheme to the shopfloor, eliminate direct supervision and transfer tasks such as minor maintenance duties and quality checking to production operatives.

Strategic choice and industrial relations change

Accounting for the greater diversity of industrial relations policies and styles apparent by the early 1990s is plainly fundamental to any assessment of the overall pattern of change. Perhaps the most influential studies to have addressed these processes are the US 'strategic choice' studies (Kochan, Katz and McKersie 1986, Capelli 1984, Kochan *et al.* 1984). Examining the competitive pressures faced by large US enterprises in the late 1970s and early 1980s, Kochan and his colleagues argued that the major industrial relations actors – government, unions and, especially, management – must be seen as active agents with a degree of choice over their preferences and behaviour. Actors exercise choice at three levels of the system (Table 1.2): over long-term strategic business policy and human resource issues, such as investment, plant location and new technology; over collective bargaining and personnel policy, such as personnel and negotiation strategies; and over workplace relations, such as supervisory style, worker participation and work organisation. Decisions are 'strategic' in that they bind the three levels of the system together.

Kochan *et al.* (1986) advance a link between the external environment and the institutional structure of firm-level industrial relations (Figure 1). This link is mediated by the values and strategies of the main actors, and by their history and current structures. Thus a destabilising incident, such as aggressive market moves by competitor firms, sets in motion a stream of business and industrial relations decisions (Kochan *et al.* 1984: 22). A firm must first decide upon its commitment to its existing lines of business, whether it wishes to continue to compete in these sectors or to withdraw from them. There then follow a series of 'competitive strategy' decisions, such as whether to compete on the basis of low cost, high quality or to be a niche player; such considerations frame downstream industrial relations issues, including collective-bargaining priorities.

Capelli (1984) shows for the airline industry that following deregulation, carriers pursued quite differing competitive strategies, and varied in their decisions to compete in the heavily contested, high volume trunk routes, or to avoid competition by concentrating upon the more sheltered, low-volume regional routes. These business decisions were informed by the carrier's financial position and available aircraft and by management's view of the market and the goals of their own firm (1984: 321). Such matters set the context for collective-bargaining negotiations, in terms of the need to secure concessions from the union, and their ability to finance any agreement with trade unions. For example, the 'strong competitors', such as American and Delta, had the financial resources to respond to route and price competition, and were better able to negotiate changes to workrules and wage savings, in return for job security guarantees. 'Weaker' competitors, such as Continental and Eastern, pursued short-term business strategies aimed at achieving financial stability and avoiding insolvency. These carriers were generally able to negotiate wage reductions and costs savings but not changes to workrules, which unions were reluctant to make permanent.

Kochan *et al.* (1984) make a similar point about the response of US tyre producers to import penetration in the rapidly growing US radial tyre market in the late 1970s. Goodyear, the market leader in sales volume, chose

Table 1.2 *Three levels of industrial relations activity*

Level	Employers	Unions	Government
Long term strategy and policy-making	Business strategies Investment Human resource strategies	Political strategies Representation strategies Organising strategies	Macroeconomics and social policies
Collective bargaining and personnel policy	Personnel policies Negotiation strategies	Collective bargaining strategies	Labour law and administration
Workplace and individual–organisation relationships	Supervisory style Worker participation Job design and work organisation	Contract administration Worker participation Job design and work organisation	Labour standards Worker participation Individual rights

Source: Kochan *et al*. (1986: 17)

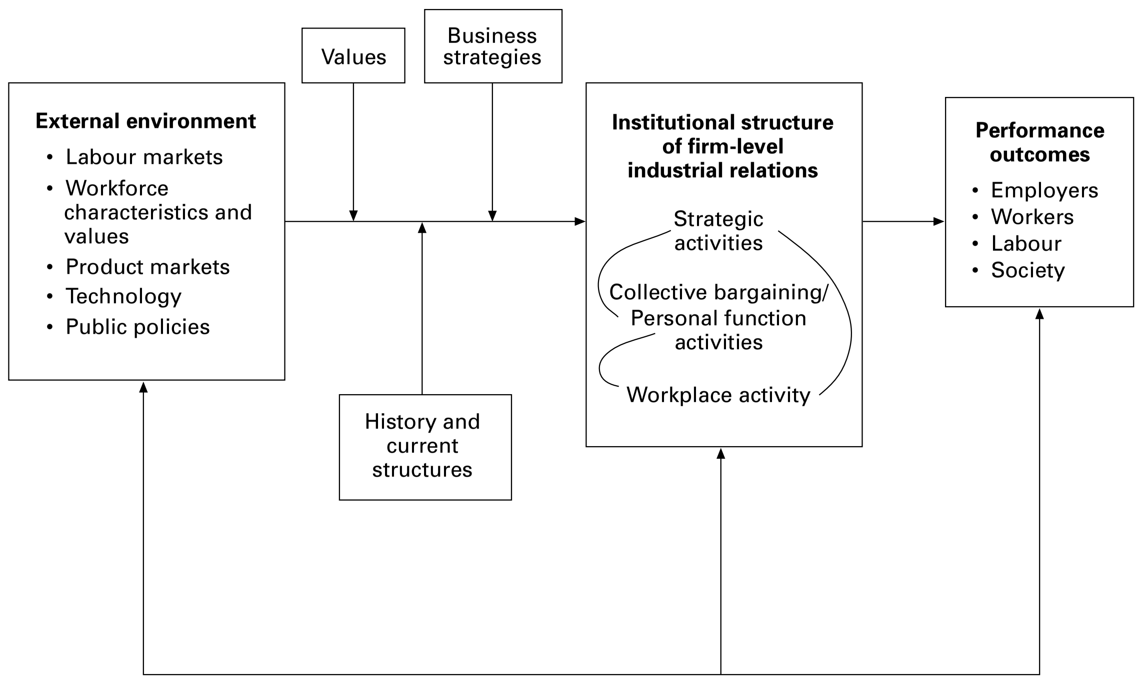

Figure 1.1 Strategic choice and industrial relations theory

to compete on price in every market, and was successful in tying investment in new plant and operations to concessions on workrules (1984: 32). Firestone sought to consolidate its operations and to compete in those markets where it could maintain a high market share. It had the largest reduction in employment, and was the most successful in gaining concessions, partly because it was closing some plants but staying in the tyre business. Goodrich had been diversifying out of the tyre business and was less successful in negotiating concessions, since it had already consolidated much of its operations. Uniroyal faced the worst financial position, and found itself competing in all markets but not in volume and without low-cost modern plants. It closed three of its five plants but was less able to achieve concessions because of pressure to cut its losses.

The central contribution of the strategic choice studies lies in showing how choices over business policy and industrial relations policy structure the response of industry firms to a largely common product market threat; and how these responses in turn may give rise to wide variation in the nature and extent of workrule reform. The primary weakness of these studies is their failure to detail the process by which such choices are arrived at. As Sisson and Marginson (1995: 93) note, the model implies a straightforward process of strategy formulation and implementation. It says little about the degree of choice available to management, nor about how choice is shaped by the interest groups, such as trade unions, with which management interacts. Edwards (1995) observes that the strategic choice model 'does little more than list the parties to industrial relations and their interactions' and, that it is a representation of choice-making with 'much of the politics removed' (1995: 93).

Other studies have been criticised for under-playing the degree of discretion which may be available to management in formulating industrial relations policy. Storey and Sisson (1993), for example, criticise the 'Harvard' model of HRM (Beer *et al.* 1984), with its stress upon responding to the interests of organisational 'stakeholders', and for its advocacy of 'one preferred and superior set of HR policy choices' (1993: 53). Others have argued that industrial relations policy is essentially contingent upon business policy and the external economic context. Schuler and Jackson (1987), for example, derive a set of human resource policies which are consistent with Porter's (1980) competitive strategy alternatives of low cost, high quality or differentiation. For instance, a firm competing on the basis of low cost may logically adopt an anti-collective-bargaining stance intended to drive down wages (1987: 209–13). Friedman (1977) argued that the utilisation of the alternative managerial strategies of 'direct control' or 'responsible autonomy' may be conditional upon external market conditions. For example, 'responsible autonomy', which implies a relaxation of close labour supervision and, possibly increased job satisfaction, may be more appropriate in a tight labour market where management affords a high priority to labour retention. Storey and Sisson (1993) criticise such contingency models for their rational planning assumptions, in that management is implicitly attributed with the power and information sufficient to align its human resource policies with the external environment. Such a view neglects the complexities and uncertainties of managerial strategic choice.

Other studies have gone further by analysing the degree to which markets limit the choice available to management. Marchington and Parker (1990) conducted case studies of four firms in different industry sectors. They show how the room for manoeuvre in management policy is framed by product market 'power', which comprises the degree of competitive pressure from other producers, such as barriers to entry, and the extent of pressure from consumers, such as the level and stability of consumer demand. For example, the chemical company's more orderly product market permitted a developmental approach to employee relations (1990: 248), while the engineering company's more turbulent environment was linked to its confrontational management style. Similarly, Pauuwe (1991) distinguishes between management's 'adaptive' behaviour, which is determined by the competitive context, and 'idiosyncratic' behaviour, which is more discretionary. He maintains that the leeway for idiosyncratic behaviour will increase as firms trade in monopolistic, rather than highly competitive markets, as firms pursue quality rather than low-cost competitive strategies, as the ratio of labour costs to total cost (LC/TC) decreases, and as financial resources increase. These studies usefully analyse the extent to which economic pressures may constrain managerial choice but they give less attention to how any available discretion is actually exercised.

Studies of public enterprises have shown that the political environment may be thought of as emitting a sequence of ambiguous signals which are interpreted by management. The Post Office, for example, was set 'multiple and incommensurate' goals by the array of state bodies responsible for its regulation (Batstone, Ferner and Terry 1984). For example, telecommunications management had to reconcile demands for long-term investment in a digital infrastructure, with short-term needs to maintain and update the existing system. In the light of these disparate obligations, the corporation enjoyed some latitude in formulating its strategy of greater 'commercialism', in the extent to which it conformed to cost and revenue targets and pricing guidelines, and in reconciling its twin objectives of operating efficiency and labour consent.

Ferner's (1988) comparative study of British Rail and the Spanish state-owned railway, RENFE, shows that in neither case was the state able simply to impose its demands for more commercial efficiency upon the enterprises in question. Rather, the states' interpretation of 'commercialism' was itself variable and rapidly shifting. The state was able to shape the environment of the public corporations, by changing the costs and benefits to management of pursuing different policies (1988: 154). The enterprises had to be attuned to the need for politically symbolic action but in so doing, they could deploy their power resources to adjust their industrial relations priorities in terms of co-operation or conflict with trade unions.

Management's role in mediating and translating economic pressures into specific courses of action also has application in private-sector organisations. Child and Smith (1987) distinguish the 'objective' conditions of firms' environment, such as the degree of product market concentration or the height of entry barriers, from the 'cognitive arena', senior managers' constructs of the market environment and its operating dynamics (1987: 566). Smith, Child and Rowlinson (1990) show that choice-making at Cadbury was an essentially political process, in which several strategic visions were held by those in power, with the advocates of these positions competing to determine the strategic outcome. The adopted policy reflected a distinct set of corporate relationships, which included a company history of Quakerism and a 'benevolent' approach to employee welfare. Management style became more aggressive following the merger with Schweppes. 'Contextual economic pressures' were clearly relevant, but these were 'attenuated and mediated by cultural and social factors peculiar to the history and life of the particular organisation' (1990: 98).

These studies point to an 'interpretative' view of strategy as a 'pattern in a stream of decisions' (Mintzberg 1978, quoted in Storey and Sisson 1993: 69). This perspective conceives strategy as a social process, which emerges from decisions taken at several levels of the organisation. These decisions are shaped by individual managers' frames of reference, by the culture and norms of the organisation and by its organisation structure. Such a position may aid considerably our understanding of how economic crisis may give rise to a diversity of change management policies within any single industry sector, and is considered at greater length in the following section.

Strategic choice under crisis conditions

Commentators in a range of disciplines have portrayed economic crisis as a triggering event, in that the shift in market conditions is of such a magnitude that it necessitates remedial action in the form of organisational change. Evolutionary economics, for example, assumes that ingrained routines are dislodged, and that the search for more efficient practices is set in train, by external events such as intense competitive pressures or a shift in available production technology (Aldrich 1979, Nelson and Winter 1982). In strategic management, writers have conceived of 'action thresholds, where stimuli accumulate to the point where they must be recognised by management (Mintzberg, Raisinghani and Theoret 1976), or 'perceived imbalances', where the cost of inaction increases to the point where it can no longer be tolerated by management (Dutton and Duncan 1987: 282).

An additional quality of economic crisis is that it increases uncertainty. One of the defining characteristics of a crisis is the rupturing of precedent; the conditions which pertain in a crisis are qualitatively different to those which preceded it. In addition, events may change rapidly, as was the case with the economy moving quickly into recession in the early 1980s in Britain. The effect may be that crisis conditions create a strong imperative for management to implement reforms, such as measures to reduce operating costs, in order to secure the immediate survival of the firm. But such decisions must be taken in a context in which the available information signals are ambiguous and contradictory, and must be discerned amid a backdrop of irrelevant 'noise' and other interference (Hodgson 1988). In short, management may be faced with a situation in which it is required rapidly to solve complex and ill-defined problems, what Mason and Mitroff (1981) term 'wicked' problems, on the basis of partial and questionable information about its environment.

In addition to raising levels of uncertainty and complexity, economic crisis has a further effect in that it disturbs established procedures for problem formulation and solution. Since one of the defining conditions of a crisis is the absence of precedent, the problems which it occasions may be highly irregular, if not unique. Consequently, there may be no established framework – 'no proven algorithm', as Lyles and Thomas (1988: 132) put it – for defining and analysing such issues. As such, the method management employ to diagnose and formulate a problem may be critical to the outcome that is reached.

Much will depend upon managerial 'frames of reference' – the accumulation of beliefs, assumptions and presumed cause and effect relationships – which are brought to bear upon an issue. This is what psychologists term 'cognitive schema', a 'general term for the knowledge structure or set of expectations that an individual draws upon to guide interpretation, inference and action in any particular situation' (Boland *et al.* 1990: 197). Individuals' belief structures are in part subconscious, and perceivers may not be fully aware of how their preferences and orientations inform their reading of a problem situation. Groups of senior managers may also evolve frames of reference which are similar in certain respects. Prahalad and Bettis (1986) for example, speak of a 'dominant managerial logic', whereby interaction leads members to develop features of their schemata that they share. Others have spoken of 'shared understandings' among elite managers which 'filter' the perceived realities facing the firm (Donaldson and Lorsch 1983: 79).

Cognitive schema may vary widely, even among managers competing in a single industry segment. Reger (1990), for example, found that Chicago bankers had a 'surprisingly low level of agreement' over the main strategic dimensions of their industry, such as the implications of deregulation. Such variation may in part be attributable to differences in the background of individual managers, such as their education and functional expertise. Underlying personality traits may shape decision-making styles, as may factors such as individual managers' ability to sort and code information, and their tolerance of risk (Haley and Stumpf 1989, Wally and Baum 1994).

Given the high level of uncertainty in crisis situations, managers may be prone to accept more readily information signals that are consistent with their cognitive schema, and, even subconsciously, to discount or ignore data that contradict their underlying belief systems. Such information may be disregarded for several reasons (Kieseler and Sproull 1982, Beyer *et al.* 1997). First, the quantity and/or quality of data may be such that it fails to reach a threshold level of significance. Secondly, alternative streams of data may be deemed more relevant or more reliable. Thirdly, the available information may not fall into any pre-existing categories, so that it is not subject to analysis. Managers' judgment of the likelihood of an event may also be biased towards events that are easily recalled by the memory, such as those that occurred recently, or those which are associated with intense emotions (Schwenk 1988: 43).

Managers are also constrained in their ability to absorb and process information. Behavioural economists have long accepted the notion of 'bounded rationality', that rational actors are significantly constrained by limitations of information and calculation (Cyert and March 1992: 214). Such considerations may be especially apt in the context of a crisis, where the time-span for decision-making may be unusually short. To cope with information overload, managers may draw upon heuristics – rules of thumb – which simplify and accelerate the process of decision-making. This may introduce a further bias into choice, by limiting the scope of search for alternatives, or by skewing the process towards one outcome above others.

The scope for action that managers perceive may also frame the decision which is eventually reached. The degree to which a problem is considered solvable depends in part upon available resources, and in part upon managerial knowledge of the barriers that it faces (Dutton and Duncan 1988). Weick (1979) has argued that managers are much more ignorant than is commonly realised about the constraints in their environment. Managers, he maintains, collude to avoid tests which may lead to learning because such tests may be associated with anticipations of pain or other negative emotions.

Cognition is also shaped by the prevailing institutional and organisational structure, which may determine flows of information, or influence goals, such as the importance of short-term profitability. Wally and Baum's

(1994) survey of 151 US CEOs found that decision speed was faster in more centralised organisations and slower in establishments with more formalised procedures. 'Political' factors, such as control over resources, or the degree of normative consensus among senior managers, may also condition decision-making outcomes (Schwenk 1989). Amason (1996), for example, argues that decision quality may be worsened by 'affective' conflict such as personal hostility between managers, but improved by 'cognitive' conflict, or disagreement over ideas. The underlying notion is that exposure to a wider pool of ideas may encourage the adoption of a more efficient solution.

In summary, crisis situations are denoted by the profusion of information cues, which must be interpreted and deciphered by management against a backdrop of high uncertainty. Managers' perception of such signals is conditioned by their system of beliefs and preferences, which they may be only partially aware of. These cognitive schemas may be deeply embedded within the personality make-up of individuals, so that managers may become 'trapped' in a set way of framing an issue (Boland *et al.* 1990: 219). The information-processing capacity of managers is also bounded, and is shaped by political and resource considerations, and by the administrative system within which a decision is taken. Consequently, firms may differ in their estimation of the perceived urgency of a crisis and in the perceived feasibility of finding a solution (Dutton and Duncan 1987). The outcome may be a spectrum of responses to a competitive crisis from firms within any single industry sector, of the sort detailed in the strategic choice studies above. These may range from (i) avoidance of the situation, based upon selective perception of the environment and a bias towards the *status quo*; (ii) adaptation, characterised by incremental change and a preference for 'satisfycing', or taking action sufficient to offset the immediate crisis; and (iii) 'decisive' change, where the stress is upon action generation and achieving momentum (e.g., Lyles and Thomas 1988).

Discussion

This first chapter has shown that there exists a great deal of data about how the economic and social structure changed in Britain in the 1980s, and also, through large scale surveys, of the formal, institutional contours of industrial relations. It has been argued that economic pressures and employment law reforms may have stimulated work restructuring, which may have some validity at the aggregate level of the economy. But it is also necessary to account for the differences in the context and processes of reform, which may be critical to the broad pattern of change. The strategic choice studies in the US have shown that a competitive crisis may lead to a wide variation in the nature and extent of workrule change among companies within a common industry group. In Britain, numerous studies have demonstrated a trend away from Donovan orthodoxy in the management of employment relations, towards a wider variety of systems and styles. The central question is how to account for this greater plurality. We have seen that the strategic choice studies fail to address the politics and the uncertainties of managerial decision-making. Other studies have suggested that the economic environment may give off a series of equivocal signals which must be interpreted by managers, and that such perceptions may be structured by a variety of cognitive, organisational, political and institutional factors, which may differ according to the individual and the firm or establishment under consideration.

In the present study, we will show that most panel firms experienced a severe economic crisis in the early 1980s. This took the form of a collapse in corporate profits, reinforced by capital market pressures, such as the threat of a stock market takeover, or by enforced changes of ownership, such as privatisation. These changes were associated with the reform of management policy, and a shift away from collective-bargaining-centred policies, together with a decline in management support for union organisation. Managers also reported an increase in their perceived bargaining power. Union security, judged by the level of union density, the presence of collective bargaining and by the informal closed shop, remained largely intact for manual and craft workers, but was much more prone to erosion for white-collar workers, among whom the ethic of union organisation may have been less well entrenched. Widespread changes to substantive work-rules were reported, but the extent of change varied widely, from firms that registered few, if any, major reforms to working practices, to those that had engaged in a major restructuring. Hence, the pattern that emerges is one of fine-grained changes to the system of procedural and substantive work-rules, the degree and nature of which differ between industry sectors, occupational groups and between individual firms and establishments. This variation is analysed in terms of the 'refraction' of competitive shocks through widely differing interpretative frameworks, which created a diverse array of industrial relations policies and varying trajectories of workrule reform. Firms differed in the degree to which the crisis situation was translated into an ongoing momentum for change, in the extent to which change was routed through collective-bargaining procedures or to which procedures were bypassed or even dismantled, and in the degree to which firms were risk-bearing or risk-averse in attempting to secure reforms.

There are a further seven chapters to the book, which deal with data and collective bargaining (chapter 2); union security (chapter 3); work organisation (chapter 4); employers' associations (chapter 5); competitive pressures (chapter 6); management policy (chapter 7); and a discussion (chapter 8).