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*Please let me know if you have any questions or would like any clarification. Thanks.*

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**IIRA European Congress, 28 June-1 July 2010, Copenhagen**  
**Special Symposium**  
**International and Comparative Employment Relations:**  
**Beyond ‘Varieties of Capitalism’**

**Co-Convenors**

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and

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The symposium will include the following papers, before a discussion. Each paper would be summarised at the symposium in 10 minutes. Only a short version of the first paper is included in the Congress Proceedings (USB stick). Full versions of each of the papers are included in a new book (Bamber, Lansbury & Wailes eds, (2010); see References below), which is being launched at this Congress.

**International and Comparative Employment Relations:**

**Beyond ‘Varieties of Capitalism’ – Symposium Introduction**

**Nick Wailes and Russell Lansbury (both University of Sydney, Australia); Greg Bamber (Monash University, Melbourne, Australia)**

Several theories have been suggested to help understand the dynamics of comparative employment relations. Some scholars have developed debates about the old convergence thesis under the label of ‘varieties of capitalism’ (VoC). The debates were also rejuvenated by the apparently increasing pace of globalisation and of the evident strength of deregulated capitalist economies (at least before the post-2008 global financial crisis). However, there are powerful arguments that such Developed

Market Economies (DMEs) as those in Scandinavia, Germany and Austria are different from those in the USA, UK and Australia. We can characterise the three latter as liberal market economies. These can be contrasted with the relatively more coordinated market economies (Scandinavia, Germany and Austria). Hall and Soskice (2001) elaborate a distinction between 'liberal' and 'coordinated' market economies as two ideal types. Debates about the different varieties of capitalism and their strengths and weaknesses involve several academic communities (including: political economists, political scientists, sociologists and international business and employment-relations specialists).

### **Germany: Is it Still a Coordinated Market Economy?**

**Berndt Karl Keller (University of Konstanz, Germany) and Anja Kirsch (University of Sydney, Australia)**

Germany is in the category of developed market economies. But does Germany still belong to the group of coordinated market economies? The change of various national institutions (among others, collective bargaining) in the ongoing processes of internationalization, especially Europeanization, indicates that this is not the case. Existing trends of (more or less organized) decentralization have increased the importance of the firm or micro level. Furthermore, union density at company as well as sectoral level have decreased since the mid 1990s, density ratios at both levels are also (much) lower than they used to be. The heyday of corporatism is over. It remains to be seen if the importance of the macro- or state-level will gain in importance again. Moves towards convergence are an unlikely result of the present crisis.

### **Fair Work Australia: The Emergence of a Hybrid Variety of Industrial Relations?**

**Russell Lansbury and Nick Wailes (University of Sydney, Australia) and Greg J. Bamber (Monash University, Melbourne, Australia)**

The election of Labor government in Australia in 2007 was heralded as a victory for the union movement against the previous conservative coalition government which had sought to introduce a more individualised approach to industrial relations. However, despite legislative reforms which saw the enactment of 'Fair Work Australia' and a return to collective bargaining as the pre-eminent form of workplace regulation, the union movement remains weak and many vestiges of the previous

government's industrial-relations regime are still in place. We argue that Australia is something of a hybrid based on a liberal-market economy, in its approach to industrial relations, but that under the current Labor government it has also adopted some aspects of a coordinated-market economy.

### **The Silent Transformation of French Industrial Relations: Towards the End of 'French Exceptionalism'?**

**A. Jobert (CNRS-IDHE, University Paris West, France) and J. Goetschy (CNRS-IDHE, University Paris West, France)**

In recent years the legal framework of French IR has been subject to major changes which took place in the collective bargaining structure, the rules regarding the representativeness of unions, and the organization of certain type of strikes. To what extent do those changes question the thesis of 'French exceptionalism'? Are they only partial, or do they announce a coherent frame? How can they be interpreted by the variety of capitalism approach? What about their implementation in the recent period of crisis which has led again to renewed state interventionism?

### **Varieties of Employment Relations: Italy as a mixed case?**

**Lucio Baccaro (University of Geneva - Switzerland) and Valeria Pulignano (Catholic University of Leuven – Belgium; Associate Fellow at University of Warwick, UK)**

The Italian employment relations system has traditionally baffled comparative scholars, who have had hard time placing it into cross-country classificatory schemes, both those issuing from the literature on corporatism and, more recently, those based on the Varieties of Capitalism approach (Hall and Soskice, 2001). We argue that the Italian employment-relations system can be considered a mixed case between VoC 'coordinated' and 'liberal-market' economies. This is reflected in the distinctive "new" type of Italian corporatism, one that involves the social partners in virtually all major economic policies, but produces few, if any, of the redistributive, egalitarian, and de-commodifying outcomes of the traditional corporatism of the old days. More controversially, the paper argues that the distinctive features of Italian corporatism may be seen as having contributed to the current economic crisis (stagnating growth rates, more dispersed wage and income distributions, and a pervasive sense of

economic insecurity) by introducing and enforcing a multi-year policy of wage restraint.

## **Locating South Korean Employment Relations in the Varieties of Capitalism**

### **Approach**

#### **Byoung-Hoon Lee (Chung-Ang University, South Korea)**

South Korea is a success model of the newly industrializing economies, by achieving its 'compressed development' over the past 40 years. Korea's economic success was accompanied with labour control policy of the authoritarian developmental regime. However, the industrial relations regime was reshaped by democratization in 1987, and again by the economic crisis, in 1997. Democratization helped unions obtain substantial societal leverage and get involved in labour politics of industrial relations reforms, initiated by the democratic governments. The economic crisis promoted the neo-liberal restructuring and resulted in the shaping of market-dominated industrial-relations regime. Over the last two decades, the Korean industrial-relations regime has departed from the developmental state-led model and come close to the liberal-market economy model, in light of the weakening of union power and growing market-driven dominance.

### **References**

- Bamber, G.J., Lansbury, R.D. & Wailes, N. (eds) (forthcoming 2010), *International and Comparative Employment Relations: Globalisation and Change*, 5<sup>th</sup> edn, Allen & Unwin, Sydney/Sage, London. To obtain the book in Australasia, go to: [www.allenandunwin.com](http://www.allenandunwin.com). In all other countries, go to: [www.uk.sagepub.com/booksProdDesc.nav?prodId=Book234753&](http://www.uk.sagepub.com/booksProdDesc.nav?prodId=Book234753&)
- Hall, P., & Soskice, D. (2001), *Varieties of Capitalism: The Institutional Foundations of Comparative Advantage*. Oxford University Press, Oxford. For details of the book, go to: <http://ukcatalogue.oup.com/product/9780199247752.do?keyword=soskice&sortBy=bestMatches>

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International Industrial Relations Association (IIRA)  
28 June-1 July 2010, University of Copenhagen  
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Special Symposium

## **International and Comparative Employment Relations: Beyond Varieties of Capitalism – Symposium Introduction<sup>1</sup>**

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<sup>1</sup> For more detailed arguments than there is space for in this paper see Bamber, Lansbury and Wailes (forthcoming 2010): chapter 1. To find the book in Australasia, go to: [www.allenandunwin.com](http://www.allenandunwin.com). In all other countries, go to: [www.uk.sagepub.com/booksProdDesc.nav?prodId=Book234753&](http://www.uk.sagepub.com/booksProdDesc.nav?prodId=Book234753&)

## **ABSTRACT**

This paper argues that an internationally comparative approach is required to understand the dynamics of employment relations which increasingly extend beyond the boundaries of a single country. The varieties of capitalism (VoC) approach distinguishes between liberal and market economies. It highlights the different institutional arrangements which influence and shape how different market economies function, particularly with the expansion of globalisation, and the implications for employment relations. However, Asian market economies (among others) do not easily fit the VoC categories. Furthermore, the increasing importance of multi-national corporations and other international agencies should be accorded greater recognition in the international dimensions of employment relations in the global economy.

## **INTRODUCTION**

Dramatic events gripped the world economy after Lehman Brothers filed for bankruptcy in September 2008. This was the largest bankruptcy in US history; Lehman held more than USD \$600 billion in assets. This precipitated a global financial crisis. National economies have become increasingly interconnected. This is a form of *globalisation*. At least since the 1990s, international employment relations scholars have been considering how globalisation is reshaping the employment relationship across companies, industries and countries. The global financial crisis has increased the priority of this consideration. In 2009, General Motors (one of the world's largest automakers) filed for bankruptcy and announced it would close plants and cut many thousands of jobs in a range of countries; British Airways asked its staff to work for nothing for a month; and more than 20 million factory workers in southern China lost their jobs and returned to the rural areas from which they had originally come. These examples are repeated in other countries; they illustrate that the global financial crisis and its aftermath have potentially far-reaching implications for employment relations in many countries.

Globalisation in general, and the global financial crisis in particular, raise some fundamental questions. Will we see major changes in traditional patterns of employment relations as employers and countries deal with the aftermath of this global financial crisis? To what extent will these changes have an impact in particular countries and sectors? Will the global financial crisis accelerate recent trends in employment relations (such as the decentralisation of bargaining, the decline in union membership and the rise of contingent, less stable forms of employment) or will it reverse some of these changes? Will the global financial crisis and its aftermath promote or undermine employee involvement and participation in decision-making at workplaces? When economic growth slows, are workers in developing countries more likely to form unions than they were in the past? Will governments strengthen or dilute legal protections for workers in the wake of the global financial crisis? Will changes in regulations, designed to prevent further turmoil in financial markets, encourage or erode corporate social responsibility?

This paper discusses some of the benefits and the complexities of adopting an internationally comparative approach to employment relations, provides an overview of some of the frameworks of analysis associated with the comparative literature and introduces the *varieties of capitalism* (VoC) approach, an influential framework for comparative analysis. Finally, the paper briefly outlines some of the international dimensions that have influenced national patterns of employment relations, particularly during the post-2008 global financial crisis.

## WHY ARE INTERNATIONAL AND COMPARATIVE EMPLOYMENT RELATIONS RELEVANT?

There are a broad range of factors that shape the relationship between employers and employees and the similarities and differences in these relationships over time and across countries. As Heery et al. (2008: 2) note, industrial relations (IR) scholarship traditionally has tended to focus on three aspects of the employment relationship: the parties to the employment relationship; the processes through which the employment relationship is governed; and the outcomes of these processes. IR scholars have therefore tended to focus on the formal and informal *institutions* of job regulation, including collective bargaining, unions, employers' associations and labour tribunals. Human resource management (HRM) scholars, on the other hand, tended to focus more at the level of the individual and/or the organisation, and are concerned with 'the effective overall management of an organisation's workforce in order to contribute to the achievement of desired objectives and goals' (Nankervis et al. 2008: 9–10). HRM has thus generally focussed on issues such as recruitment, selection, pay, performance and human resource development. IR and HRM perspectives are each valuable for understanding the factors that shape the relationship between employers and employees. Therefore we use the term *employment relations* (ER) to encompass HRM as well as IR perspectives.

Although the study of ER focuses on the regulation of work, it should also take account of the wider economic and social influences on the relative power of capital and labour, and the interactions between employers, workers, their collective organisations and the state (Kochan, 1998). A full understanding of ER requires an interdisciplinary approach that uses analytical tools drawn from several academic fields, including accounting, economics, history, law, politics, psychology, sociology and other elements of management studies.

Adopting an *internationally comparative approach* to employment relations requires not only insights from several disciplines, but also knowledge of different national contexts. Some scholars distinguish between *comparative* and *international* studies in this field. Comparative employment relations may involve describing and systematically analysing two or more countries.

There are a number of reasons why it is beneficial to study internationally comparative employment relations. First, this area can contribute to our knowledge of employment relations in different countries. One of the consequences of globalisation, with increased levels of cross-border trade and investment, is that IR and HR professionals often need knowledge about ER practices in more than one country (Strauss, 1998). A second benefit of the internationally comparative study of employment relations is that other countries may provide models for policy-makers, managers and workers. At various times over the past 50 years, aspects of ER in the United States, Sweden, Japan and Germany have been seen as models to emulate. In recent times, Denmark has emerged as an important country as its system of flexicurity is seen by some as a potential model for other developed market economies.

Interest in different national models of ER is not confined to ER scholars. Political scientists have long been interested in how the ways in which employers and workers are organised affect national politics and, since the early 1990s, economists have increasingly focused on the role that labour market institutions play in explaining difference in aggregate economic performance (Freeman, 2008: 640).

The third, and for us the most important, reason for the internationally comparative study of ER is its potential to provide theoretical insight into the factors and variables

that shape the relationships between employers and employees (Bean, 1994). Both IR and HRM, as fields of study, have been criticised as overly descriptive and for their apparent inability to develop causal explanations of relevant phenomena (see, for example, Barbash & Barbash, 1989; Sisson, 1994; Kelly, 1998).

### **GLOBALISATION AND EMPLOYMENT RELATIONS**

Issues of convergence and divergence have dominated debates about the impact of globalisation on ER. As Wade (1996) notes, globalisation usually refers to changes in the international economy that are associated with increases in international trade in goods and services, greater flows of foreign direct investment (FDI) and the growth of international financial transactions. These changes include higher levels of interconnectedness in international economic activity.

Several authors, including Hirst and Thompson (1996), as well as Wade, have argued that national economies have become 'internationalised' rather than globalised, and that the pressures associated with globalisation are not as strong as others claim. However, as Perraton et al. (1997) demonstrate, there are contemporary changes in the international economy, which can be usefully summarised by the term 'globalisation'. These include changes in the extent and intensity of international trade, international financial flows and the operations of MNCs. On the basis of this evidence, Perraton et al. (1997: 274) argue that, while:

the world does fall short of perfect globalised markets ... this misses the significance of global processes. Global economic activity is significantly greater relative to domestically based economic activity than in previous historical periods and impinges directly or indirectly on a greater proportion of national economic activity than ever before.

One approach to the impact of globalisation on ER has emphasised the extent to which globalisation has created common pressures across all countries, and is likely to produce similar ER outcomes. We call this the *simple globalisation approach*. This approach assumes that international economic activity has become so interconnected and that the pressures associated with globalisation are so overwhelming that they leave little scope for national differences in economic activity, including ER policies and practices (Ohmae, 1990). This perspective has tended to be the most prominent in popular debates about the effects of contemporary changes in the international economy on working conditions and the relations between workers and their employers.

In its extreme form, this approach predicts a 'race to the bottom' in terms of wages and other labour standards across most economies and the erosion of nationally specific labour market regimes, including those that may provide for union security or encourage the pursuit of equity as well as efficiency (see, for example, Ohmae, 1995).

The *simple globalisation* approach, and particularly the view that globalisation has eroded national policy autonomy, has been criticised widely. Garrett (1998), for example, argues that just because national governments are faced with similar economic pressures, it does not follow that they have no choice over how to respond to these pressures. He supports this argument with evidence to show that there is considerable diversity in monetary and fiscal policy-setting across countries. In line with arguments put forward by Evans (1997) and Weiss (1998), Garrett cites evidence that the pressures associated with globalisation may increase the role the nation state can play in some areas, including the labour market, to ensure the maintenance of international competitiveness.



Criticisms of the simple globalisation approach and evidence of continued diversity in national patterns of ER have contributed to the development of the *institutionalist approach*—a second perspective on the impact of globalisation on employment relations. The institutionalist approach suggests that differences in national level institutions are likely to refract common economic pressures in different ways. As Locke and Thelen (1995) put it, according to this view, 'international trends are not in fact translated into common pressures in all national economies but rather are mediated by national institutional arrangements and refracted into divergent struggles over particular national practices' (1995: 338). Because differences in national-level institutions are relatively enduring, this approach suggests that globalisation is unlikely to lead to a general convergence in national patterns of ER (Locke et al. 1995). Rather, it predicts continuity and even increased divergence between national patterns of ER. This approach draws on arguments from several disciplines about the independent role institutions play in shaping economic and political outcomes.

Examples of the institutionalist approach in the ER literature are studies by Turner (1991) and Thelen (1993) of German industrial relations in a comparative framework. Both argue that the 'dual system' of industrial relations in Germany has enabled German unions to withstand the pressures of globalisation better than their counterparts in the United States and Sweden. Turner (1991) compares the involvement of unions in industrial restructuring in Germany and the United States, and places heavy emphasis on the role that differences in institutional arrangements have played in determining the reaction of employers and workers to international economic pressures. Similarly, according to Thelen (1993), the German system—with national and industry-level bargaining plus separate legally enriched rights for workers at the workplace level—has allowed pressures for decentralised bargaining to be accommodated within the existing institutional configuration. In Sweden, by contrast, the absence of institutionalised rights for workers in the workplace, and the divisions created between blue-collar and white-collar workers by the centralised bargaining system, has meant that pressures for decentralised bargaining could not be accommodated within the existing structure of bargaining.

The importance of differences in national-level institutions for explaining differences in patterns of ER is emphasised also by Ferner and Hyman (1998) in their comparative European studies. In particular, they point to the re-emergence of 'societal corporatism' in some European economies during the 1990s as evidence that 'states possess a key role in the reconfiguration of the relations between social regulation and markets (including labour markets)' (Ferner & Hyman, 1998: xxi). They also develop the notion that some forms of labour market institutions can adapt to international economic changes better than others. Further support for the institutionalist perspective on globalisation and industrial relations is provided in an empirical study by Traxler et al. (2001), who argue that divergence is likely because 'market pressures affect labour relations institutions indirectly, in that they are processed and filtered by institutions' (2001: 289).

The institutionalist approach represents a useful correction to the simple globalisation model. The focus on the mediating role of institutions helps to explain patterns of persistent national differences and demonstrates that the relationship between globalisation and national employment relations is neither simple nor deterministic. It also points to key variables that play a decisive role in determining distinctive national patterns of industrial relations, many of which may be national in character. In particular, it suggests that to understand the impact of globalisation on ER in a particular country, it is important to know the type of specific details outlined in the national sections that follow.

While the institutionalist approach provides a correction to the convergence logic of the simple globalisation thesis, there are at least three limitations to this approach. First, by focusing on the role of national-level institutions, the institutionalist approach tends to emphasise differences between countries and struggles to explain common developments across countries with differences in their institutional arrangements (Pontusson, 1995). Thus, for example, even though there are significant institutional differences between Britain, the United States and Australia, each of these countries has experienced significant declines in union membership in recent decades. Second, it is widely acknowledged that institutional approaches have difficulty accounting for change (Thelen, 2000). In technical terms, institutionalist arguments tend to treat institutions as an *independent* variable and examine how particular institutions (like bargaining systems) affect ER outcomes. However, one of the dominant features of ER in many countries is the degree of change in the institutions of labour market regulation. Just as important is the extent to which the same set of institutions can produce different outcomes over time. Hassel (2006), for example, demonstrates how, in the context of increased international competition, the traditional institutions of labour market regulation in Germany have produced markedly different outcomes.

### **THE VARIETIES OF CAPITALISM APPROACH**

An important development in comparative analysis has been the emergence of theories of diversity (for an overview, see Deeg & Jackson 2007). We focus on Hall and Soskice's (2001) *Varieties of Capitalism* (VoC) approach because, as Howell (2003: 103) notes, it '[has] achieved a level of theoretical sophistication, explanatory scope and predictive ambition that has rapidly made it close to hegemonic in the field'. We introduce the VoC approach and assess its potential as a framework for the comparative analysis of ER. The VoC and similar approaches are developed from the field of political economy. This perspective has much potential for trying to understand and compare patterns of employment relations in different countries. We conclude that a modified form of the VoC approach provides a promising basis for the advancement of internationally comparative employment relations.

As noted in the previous section, there were differences in the policy reactions of market economies to the end of the Long Boom and scholars began to identify different families (or varieties) of market economy (for an overview, see Hamann & Kelly, 2008). This project was given added impetus by the rise of neo-liberalism in the 1980s (which was led by President Reagan in the United States and Prime Minister Thatcher in the United Kingdom) and the collapse of Soviet communism at the end of the 1980s. Neo-liberals argued that the economic problems that had beset many market economies during the 1970s and 1980s were the consequence of excessive government interference in the free functioning of markets, including notably the labour market, and pointed to the collapse of Soviet communism as an extreme version of the problems associated with market interference. In reaction to neo-liberal claims that there was one best way to organise a market economy—or, in Mrs Thatcher's famous words, 'there is no alternative'—comparative scholars pointed to different patterns in the social organisation of capitalism. The relatively strong economic performance of Japan and Germany—two countries with very different institutional arrangements to those prevalent in the United Kingdom or the United States—during the 1980s cast doubts over the veracity of neo-liberal claims, as did evidence that the state played a significant role in the rapid economic development of the East Asian Tiger economies like Korea and Taiwan (see Wade, 1996).

In keeping with this tradition, Hall and Soskice (2001) reject the notion that there is one best way to organise a market society and point to the role that institutional

arrangements play in shaping how market societies function. Drawing on what they describe as 'the new economics of organisation', they develop a firm-centric theory of comparative institutional advantage. Hall and Soskice (2001: 6–9) argue that, in market economies, firms are faced with a series of coordination problems, both internally and externally. They focus on five spheres of coordination that firms must address:

- industrial relations
- vocational training and education
- corporate governance
- inter-firm relations and
- relations with their own employees.

Hall and Soskice argue that it is possible to identify two institutional equilibria (or solutions) to these coordination problems that produce superior economic outcomes. *Liberal market economies* (LMEs) are those in which firms rely on markets and hierarchies to resolve the coordination problems they face. LMEs are therefore more likely to be characterised by, amongst other things:

- well-developed capital markets
- 'outsider' forms of corporate governance
- market-based forms of industrial relations, with relatively few long-term commitments by employers to workers and
- the use of market mechanisms and contracts to coordinate their relations with supplier and buyer firms.

The United States is the prime exemplar of an LME, but the literature also often includes the United Kingdom, Australia, New Zealand, Canada and Ireland in this category.

The second variety of capitalism identified by Hall and Soskice, *coordinated market economies* (CMEs), includes countries in which firms make greater use of non-market mechanisms to resolve coordination problems internally and externally. In comparison with LMEs, CMEs are more likely to be characterised by:

- 'patient' forms of capital
- 'insider' forms of corporate governance
- industrial relations systems based on bargaining, which reflect a longer term commitment to employees and
- the use of non-market mechanisms, such as industry associations, to coordinate relations between firms within and across industries and sectors.

Germany is the prime exemplar of a CME, but the literature also often includes other northern European countries, as well as Austria, Japan and sometimes Korea, within this category.

Central to Hall and Soskice's argument, and the identification of distinct varieties of capitalism, is the concept of *institutional complementarities*. In the VoC model, institutional complementary refers to two related, but separate effects. First, institutions are said to be complementary to the extent that the existence of one enhances the effectiveness of another. Thus, for example, the existence of a cohesive industry association may enhance the economic efficiency of industry-wide collective bargaining (Franzese & Hall, 2000). In this sense, institutional

complementarily helps explain why two contrasting institutional configurations, LMEs and CMEs, are able to produce superior economic outcomes.

The VoC model also suggests that institutional arrangements are likely to converge on one or other institutional equilibria over time. Thus Hall and Soskice (2001: 18) argue that 'nations with a particular type of coordination in one sphere in the economy should tend to develop complementary practices in other spheres as well' (see also Amable, 2003: 54–66). For example, the VoC model suggests that in countries characterised by well-developed capital markets and outsider forms of corporate governance, it is difficult to sustain industrial relations practices that imply a long-term commitment to employees. Over time, there are likely to be pressures for the adoption of more market-based forms of industrial relations. As Gospel and Pendleton (2005) have demonstrated, there appear to be close relationships between forms of firm financing and labour management practices.

There is empirical support for this notion of institutional complementarity, particularly in relation to the link between corporate governance and ER. Hall and Gingerich (2004), for example, estimate the impact of complementarities in ER and corporate governance on economic growth, drawing on measures of shareholder power, dispersion of control, size of the stock market, level and degree of wage coordination, and labour turnover (Hall & Gingerich, 2004: 3). Their results suggest not only that there is a strong degree of institutional congruence across countries (the higher the level of coordination in corporate governance factors, the higher the level of coordination in labour relations factors), but also provide strong empirical support for the assertion that these practices are complementary (each raises the returns to the other) (Höpner, 2005).

There are features of the VoC approach, then, that may provide a fruitful framework for internationally comparative analysis of ER in general, and an understanding on the impact of globalisation on national patterns of ER in particular. First, many of the coordination problems on which the VoC model focuses relate to variables and issues that have long been a concern of ER scholars, including industrial relations, skill development and relations with employees.

Second, the VoC approach suggests that it is not possible to understand ER issues in isolation and that comparative analysis needs to place changes in ER in a broader context. While this insight is consistent with the traditions of comparative analysis, the VoC approach has the added advantage of specifying a limited number of relevant variables. While some have argued that the range of factors that the VoC approach considers is too limited (which we address in more detail below), one of the advantages of this approach is that it directs the focus of comparative analysis to a limited number of issues.

In relation to the study of the impact of globalisation on ER, the VoC approach overcomes some of the limitations of the institutionalist approach noted in the previous section. By focusing on the interconnections between institutional arrangements, it overcomes the tendency of the institutionalist approach to treat ER institutions in isolation. Moreover the firm-centric nature of the VoC approach overcomes the tendency of institutionalist analysis to treat institutions as separate from the social actors who engage with them. In particular, the focus on the coordination problems that individual firms face makes it possible to bring employers back into the analysis of change in ER (Swenson, 1991).

Further, in contrast to the simple globalisation and institutionalist approaches outlined in the previous section, the VoC approach can be used to explain similarities *and*

differences between countries. For example, the VoC framework can help explain why globalisation appears to be associated by significant declines in union density and collective bargaining coverage in some countries (mainly the LMEs) but has not produced identical outcomes in other countries (the CMEs). Indeed, one of the main implications of the VoC approach is that globalisation is likely to have differential impacts on ER processes and outcomes across varieties of capitalism (Hamann & Kelly, 2008). Thus, while increased international competition is likely to create incentives for firms in LMEs to adopt more market-based ER practices (including decentralisation and individualisation of bargaining, individualised payment systems and more contingent forms of employment), the institutional dynamics of CMEs suggest that increased international competition may reinforce, rather than undermine, traditional forms of coordination between employers and employees. Thelen (2000, 2001), for example, argues that the pressures associated with globalisation have reinforced rather than undermined the commitment of German employers to industry-wide bargaining and works councils. The VoC approach also suggests that pursuing a neo-liberal industrial relations agenda in a CME has the potential to erode, rather than enhance, economic competitiveness. For example, Harcourt and Wood (2007) show how the erosion of employment protection in CMEs has undermined the effectiveness of the vocational training systems that play such an important role in making these economies internationally competitive.

The VoC framework has become influential in comparative ER scholarship. It has been used to help explain cross-national similarities and differences in, amongst other things, union membership and density, the gendered nature of labour markets, employee participation, vocational training systems as well as governments' employers' and unions' ER strategies more generally (Frege & Kelly, 2004; Lansbury & Wailes, 2008; Estevez-Abe, 2006; Harcourt & Wood, 2007; Bamber et al. 2009; Bamber & Pochet 2010).

### **CRITIQUES OF THE VARIETIES OF CAPITALISM APPROACH**

Despite the potential benefits of the VoC framework, Hall and Soskice's work has been subject to a number of criticisms. These criticisms suggest that the VoC approach needs to be modified if it is to provide a suitable framework for the comparative analysis of ER. One of the main criticisms of the VoC approach is that it does not contain enough variety (Allen, 2004). The VoC's focus on only two varieties of capitalism—CMEs and LMEs—has serious implications. First, it limits the range of countries to which the model can be applied. Hall and Soskice (2001: 21) themselves acknowledge that six European countries—France, Italy, Spain, Portugal, Greece and Turkey—are difficult to accommodate within either the LME or CME category, and they raise the prospect of a Mediterranean variety of capitalism. However, they leave this idea relatively under-developed. Second, the CME and LME categories are so large that the framework has the potential to ignore important differences between countries said to be of the same variety. As the contributions to two volumes edited by Streeck and Yamamura (2001 and 2003) demonstrate, while Japan and Germany are classified as examples of CMEs, there are important differences between them that are overlooked by the VoC approach. Jackson (2001), for example, notes that even though German and Japanese corporate governance arrangements produce similar outcomes, they differ both in terms of the institutional foundations on which they are based and the historical forces that shaped them. Thus, for example, while employees in both Japan and Germany have a greater role in corporate governance, in the German case workers' corporate governance rights are contained in legislation; this is not the case in Japan.

If the VoC approach is to form the basis of comparative analysis of ER, it is important to increase the number of varieties of capitalism to capture differences in the social

organisation of market economies. Comparative scholars have developed models that include more varieties of capitalism. Schmidt (2002), for example, adds a third variety of capitalism to accommodate the statist tradition in France. Hancke et al. (2006) argue for four varieties of capitalism, which they suggest make it possible to extend the model to Eastern European countries. Wailes (2007) introduces the notion of an Asian Market Economy (AME) variety to capture some of the distinctive elements of the social organisation of capitalism in Japan, Korea and China.

A second feature of the VoC framework that has elicited both criticism and debate is what some have described as its *determinism*. This is nicely captured by Crouch (2005: 1):

The main emphasis of the [VoC approach] ... was that there was no single form of capitalism ... But I was increasingly struck by the paradoxical determinism behind this ostensibly liberating message: There were two but only two viable forms of capitalism. Nation states possessed one of the other of these two, the institutions appropriate to which extended in a coherent way across a wide range of economic, political and social areas, determining their economic capacities over most products and types of production. And once a country had a particular set of such institutions, there was very little it could do to change it.

This determinism, and the related difficulty that the VoC approach has in accounting for change, can be in part explicable since the VoC approach is based on *comparative statics*, the comparison of two cases at the same point in time. However, others have suggested that these features are more deeply rooted in assumptions about the nature of social action. Consistent with earlier institutionalist analysis, the VoC approach tends to assume that the behaviour of social actors, such as employers and unions, is largely determined by the institutional context in which they operate (Pontusson, 1995; Allen, 2004). This implies that once an institutional order is established, social action is *path dependent*. Such a view leaves very little scope for agency, politics and conflict to play a role in shaping social outcomes (Howell 2003).

The determinist tendency of the VoC framework is particularly problematic for scholars interested in examining ER issues. First, it has long been understood that issues of material interest and conflict are central to understanding the employment relationship. Second, understanding change is one of the most important challenges for students of ER. While national ER patterns may not be converging towards a single neo-liberal model, there is overwhelming empirical evidence that change is a common feature of ER in many countries (see Traxler et al. 2001). Third, even more important than change in the institutions regulating the employment relationship is change in the outcomes produced by these institutions. For example, while some countries have retained centralised bargaining systems, there have been significant shifts in the wage and working conditions outcomes associated with these patterns of bargaining (Hassel, 2006). It is not easy to explain such types of change using the VoC approach.

Comparative analysis of ER should be based on a less deterministic view of the role of institutions. As Deeg and Jackson (2007: 159–61) note in rejecting the view of path dependence that characterises Hall and Soskice's 2001 work, the comparative capitalism literature has moved away from treating institutions, and the complementarities between them, as determinant of social action. Rather, there is an increasing tendency to emphasise a more complex view of institutions as *resources* that actors can use to help them achieve their aims. This reconceptualisation of

institutions as resources not only brings issues of agency, power and conflict to the centre of the analysis but also provides a framework for identifying sources of change (see also Crouch, 2005). For example, in a recent seven-country study of the impact of globalisation on ER in the automobile assembly industry, Wailes (2007) shows that, while there are differences between varieties of capitalism, there is also evidence of considerable within-variety diversity. They argue that this within-variety diversity suggests that the agency of managers and workers influences how individual companies in the automobile assembly industry respond to the challenges posed by globalisation.

A third set of criticisms directed at the VoC approach focuses on the relative lack of attention it gives to international factors. As Hancke et al. (2006: 7) note, the VoC approach has a tendency to treat 'nation-states as "hermetically sealed" and [to] neglect the linkages between them'. Hall and Soskice's original VoC model is largely based on a closed economy in which institutions are seen to have relatively homogenous effects within national boundaries. As a result, the VoC approach tends to downplay or ignore the role of international factors, other than the competitive pressures associated with economic globalisation.

## **CONCLUSIONS**

In this paper we have reviewed the influential VoC approach and assessed its suitability as a framework for the international comparative analysis of ER. We favour a modified version of the VoC approach that includes more varieties of capitalism than Hall and Soskice's model, adopts a more dynamic and less deterministic view of the role of institutions, and is attentive to connections between countries and the potential role of international factors. This approach offers a promising framework for the internationally comparative analysis of ER in an era of globalisation.

This paper has argued that the emerging VoC approach, appropriately modified, provides a promising framework for the internationally comparative study of ER. The VoC approach—which examines the broader institutional context within which patterns of employment relations develop—has the potential to account for similarities and differences in national patterns of ER. We propose a VoC approach that includes more than two types of market economy, adopts a dynamic view of institutions and is attentive to the possible interconnections between countries. This provides a fruitful basis for the development of internationally comparative study of ER.

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