

*Sage Handbook of Human Resource Management*  
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CHAPTER 6

THE EMPLOYMENT RELATIONSHIP

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The employment relationship is the connection between employees and employers through which individuals sell their labor. This might consist of an immigrant day laborer paid by the bushel to pick fruit in the hot sun, a salaried manager who has been working in an air-conditioned office for the same company for 40 years, or innumerable other situations. Irregardless, all employees and employers have fundamental interests they pursue through the employment relationship, all forms of this relationship are mediated by labor markets and states, and each instance of this relationship is governed by some form of a contract ranging from explicit union contracts and civil service rules to implicit expectations and understandings. These common building blocks of the employment relationship—employees, employers, states, markets, and contracts—are the first topic of this chapter.

These common denominators make it possible to craft a singular conceptual basis for analyzing the employment relationship that applies to the otherwise diverse forms of this relationship across occupations, industries, countries, and time. This is not to say that there is universal agreement on the nature of this common model of the employment relationship. In fact, scholars and practitioners from different schools of thought see the employment relationship quite differently—as a mutually-advantageous trade among self-interested agents in a free market, a long-term partnership between employees and employers with common interests, a bargain between stakeholders with some competing economic interests, or an unequal power relation embedded in complex socio-political inequalities. The second part of this chapter therefore develops four models of the employment relationship based on different conceptualizations of the common building blocks.

The third and final major section of this chapter demonstrates that these four models of the employment relationship, in turn, provide very different perspectives on key issues in human

resource management. Depending on one's frame of reference, human resource management practices, for example, can be seen as administrative mechanisms for implementing the dictates of the free market, essential strategies for creating productive employment relationships by aligning the interests of employees and employers, employer-driven initiatives that inadequately represent workers' interests when they clash with employers' interests, or manipulative managerial tools for shaping the ideology and structure of the workplace to favor employers over employees. Similarly powerful contrasts can be developed for other issues in human resource management, such as equality and diversity, labor unions, and the globalizing employment relationship. In sum, a deep understanding of the field and practice of human resource management is impossible without fully appreciating the elements of the employment relationship, their conceptualizations, and the resulting four frames of reference for human resource management.

### **ELEMENTS OF THE EMPLOYMENT RELATIONSHIP**

In this section we sketch the major conceptualizations of the elements of the employment relationship. Each subsection starts with a description of the relevant dimension, but of central importance are the alternative conceptualizations of each dimension embraced by individuals with differing perspectives. The objective is to provide a foundation for understanding the employment relationship generally; readers interested in specific forms of this relationship in practice are encouraged to also consult other chapters in this Handbook. A more extensive discussion of the interests of employees, employers, and states can be found in Budd and Bhawe (forthcoming).

## **Employees**

The legal landscape is littered with cases that seek to define who exactly is an “employee” as employment relationships change and as the definition of employee can vary from law to law. An ongoing controversy, for example, is whether temporary and contingent employees are legally considered employees. For the purposes of this chapter, however, it is sufficient to define an employee as anyone who sells their labor. Executive, managerial, and supervisory employees might also have roles as agents of their employers, but when they sell their labor, conceptually they are employees.

Employees are frequently conceptualized as an economic or a behavioral being (Kaufman, 1999). An economic or purely rational person (“homo economicus”) is seen as making self-interested, utility-maximizing decisions in well-defined situations by optimally choosing actions from the entire set of possible alternatives. In this perspective, the central objective of homo economicus employees is defined as maximizing utility which increases with both income and leisure. As such, there is a labor-leisure trade-off in which work is desirable only to the extent that it produces income, at least on the margin when deciding whether or not to work a little bit harder (Lazear and Oyer, forthcoming). This approach further sees employees as factors of production, or “instruments” (March and Simon, 1958: 29), to be optimally allocated by employers to maximize profits.

However, the “homo economicus” assumptions pertaining to rationality, self-interest, and information are extremely strict (Kaufman, 1999; March and Simon, 1958). As such, the behavioral alternative to “homo economicus” sees individuals as making satisfactory rather than optimal decisions that reflect a variety of intrinsic goals beyond selfish desires for income and leisure—such as equity and voice (Budd, 2004), justice (Folger and Cropanzano, 1998), power

and control (Edwards, 1986; Kelly, 1998), individual fulfillment (Donovan, 2001; Latham and Pinder, 2005; Maslow, 1943), social identity (Tajfel, 1978; Turner, 1982), full citizenship rights and self-determination (MacLean, 2006), pursuit of a “calling” (Weber, 1904/1976), social exchange (Emerson, 1976; Kirchner, Fehr, and Evans, 1996), and altruism (Piliavin and Charng, 1990).. Seeing employees as behavioral rather than economic entities also means seeing labor as more than just a commodity or a factor of production (Kaufman, 2005); rather, employees are seen as complex human beings motivated by intrinsic rewards and, by some, entitled to fairness and justice.

## **Employers**

An employer is a buyer of labor. At its core, an employer is comprised of the owners of a private, for-profit organization, or those who control a non-profit or public sector organization. Executive, managerial, and supervisory employees are also often considered part of an “employer” as they frequently act as an agent of their employer in managing other employees. Employers are typically modeled as maximizing profits (Manning, 2003; Wachter, 2004), or optimizing an analogous objective function for non-profit and governmental employers. The Anglo-American shareholder model of corporate governance reflects this importance of profit maximization. In this system, shareholders are residual claimants; all other stakeholders are seen as receiving fixed payments such as wages and salaries for their services. As such, shareholders are viewed as single-handedly bearing the risk of making a profit or loss and economic performance will consequently be optimized when corporate decisions maximize shareholder value (Blair, 1995). Maximizing profits and maximizing shareholder value are therefore equivalent.

Alternatively, stakeholder theory asserts that all stakeholders—not only shareholders and owners, but also employees, customers, suppliers, local communities, and others—are sufficiently affected by corporate actions to deserve the right to be considered in corporate decision-making (Donaldson and Preston, 1995). Within the context of the employment relationship, then, an employer as a collection of stakeholders rather than shareholders seeks to balance employee interests with the interests of shareholders and other stakeholders. A third conceptualization of employers sees them as complex social institutions with their own norms, cultures, and bureaucracies (Perrow, 1986; Weber, 1919/1946). Ospina (1996: 5), for example, models employers as “stratified social system[s] embedded in a broader system of stratification.” Along similar lines, Marxist thought conceptualizes employers as controllers of the means of production. In this perspective, employers are not simply black boxes of production technologies seeking to maximize profits; rather, corporations are seen as bundles of power relations in which employers use their socio-politico-economic power to continue their dominance over the working class (Bowles, 1985).

### **States**

The state is the third important actor in the employment relationship, and has four roles beyond that of an employer in its own right (Godard, 2005). The role that receives the most attention is the regulative role—that is, in regulating the employment relationship through employment law (in North American terms) or individual labor law (in European terms) that specifies individual employment rights and standards such as minimum wages and nondiscrimination, and through labor law (in North American terms) or collective labor law (in European terms) that regulates employees, works councils, unions, employers, and employers’ associations as they interact with each other collectively. The state is a major actor in the

employment relationship as the creator and enforcer of these laws. Not to be overlooked, however, are a facilitative role in which the state establishes social norms, a structural role consisting of economic policies that influence the economic environment, and a constitutive role which determines the fundamental nature of the employment relationship by the type of socio-politico-economic system embraced by the state, such as a market-based capitalist economy or a state socialist economy.

Within these roles, the state has fundamental interests in the employment relationship. The state assures freedom and the rule of law by protecting property rights and instituting legal systems for establishing and enforcing contracts (Posner, 1986). Pluralist political theory sees the state as also balancing competing power groups such as employers and employees to promote equitable outcomes (Dunleavy and O'Leary, 1987; Faulks, 1999). A Marxist perspective views the state as a mechanism for maintaining the power of the ruling class or other elite segment of society (Faulks, 1999; Pierson, 1996). Based on how state interests are conceptualized, therefore, the state's role in the employment relationship and labor markets can be considered to be those of laissez-faire promoter, an interventionist regulator, or even as an instrument that engenders domination by one group.

## **Markets**

Buyers and sellers of labor are brought together by the labor market in capitalist societies. For some jobs, this might be a spot market in which employees bid for work and employers look for workers on a daily basis. For a long-term employee, the employee-employer labor market match might have been made many years ago, but the contemporary labor market nevertheless likely continues to influence the terms of this match by establishing the parameters for compensation and working conditions that will sustain the relationship.

In theory and practice, a key issue is whether labor markets are perfectly competitive (Manning, 2003). Perfectly competitive labor markets exist when both employees and employers are price takers such that labor demand and supply completely determine wages and working conditions. In mainstream neoclassical economic thought, the invisible hand of perfectly competitive markets guides self-interested employees and employers to optimal outcomes that maximize aggregate welfare and allocate scarce resources to their most productive uses. In layperson's terms, nearly all markets appear "competitive", but perfect competition requires solely private transactions, perfect information, and no transactions costs. Some therefore argue that externalities, information asymmetries, mobility costs, liquidity constraints, and transactions costs render labor markets imperfectly competitive (Kaufman, 1997; Manning, 2003). If employers have monopsony power in imperfect labor markets, employees and employers are bargainers rather than price takers, and labor market outcomes are not necessarily socially optimal. Debates between neoclassical economists and others over whether labor markets are perfectly competitive are longstanding (Kaufman, 1988) and continue to attract supporters to each side of the debate.

## **Contracts**

The terms, conditions, and expectations under which an employee sells his or her labor to an employer are captured in a contract. This contract might be an explicit written document. CEOs, professional athletes, and unionized workers are examples of employees that are frequently covered by written contracts. An employee handbook can be another form of a contract. Employment contracts may or may not be legally enforceable depending on a country's legal doctrine, but whether legally enforceable or not, written contracts are incomplete as all of the tasks and performance expectations of employees are not specified in advance. As such, it is

common to think of the employment relationship as also governed by implicit contracts of informal, legally unenforceable promises that are economic, psychological, or social in nature.

In economic theorizing, implicit contracts are rooted in uncertainty such as unknown future labor market conditions (Rosen, 1985). Rather than receiving wages that vary over time with changes in labor market conditions as in a spot market for labor, risk averse employees prefer an implicit arrangement in which the employer and employee agree to a predictable, fixed wage over time (Beaudry and DiNardo, 1991). The use of corporate pay policies rather than pure market forces to set wages is seen as consistent with this type of implicit arrangement which is not explicitly written down and is not legally enforceable (Bertrand, 2004). The agreements are seen as self-enforcing because of transactions costs (it's costly to find a new employee or job) and the importance of maintaining one's reputation (Bull, 1987).

In psychological theorizing, the key implicit contract in the employment relationship is seen largely from the perspective of the employee and is labeled a "psychological contract"—the employee's perception of the employer's and employee's mutual obligations in the employment relationship (Rousseau, 1995). When an employee's perceptions are fulfilled, positive work outcomes such as job satisfaction and trust are expected to result (Robinson and Rousseau, 1994; Robinson, 1996). If an organization violates what an employee believes to be the terms of the psychological contract, counterproductive work behaviors are expected (Greenberg, 1990).

Economic and psychological perspectives on the employment relationship therefore both view implicit contracts as a tacit agreement between the employer and the employee about the terms and conditions of employment. The economic perspective focuses on the role of implicit contracts in establishing expectations for the economic exchange of work effort and pay. In contrast, the literature on psychological contracts focuses on perceived mutual obligations

regarding the broad manner in which employees are treated and encompass dimensions such as fairness and respect (Robinson and Rousseau, 1994). Another difference is that psychological contracts are continually adapted during the tenure of the employee with a particular organization (Rousseau and Parks, 1993), but economic contracts are mainly revised at discrete time points, particularly in responses to changes in the economic environment.

While implicit economic and psychological contracts focus on individual employee-employer interactions, a social contract is more of a macro-level perspective in which social values shape the expectations of the employment relationship. Kochan (1999: 138), for example, argues that the postwar social contract embodied the norm that “hard work and good performance, and loyalty would be rewarded with security, fair treatment, dignity, and status.” Others argue that in today’s global economy, the liberal market value system has created a new social contract of personal responsibility and short-term economic opportunism in which layoffs, job-hopping, contingent employment, and variable compensation are the norm (Cappelli, 1999).

#### **FOUR MODELS OF THE EMPLOYMENT RELATIONSHIP**

The discussion to this point shows that the key elements of the employment relationship can be conceptualized in very different ways. Employees can be seen as commodities, or as human beings. Employers might be black boxes of profit-maximizing technologies, or complex webs of power relations set within a broad socio-politico-economic system of class conflict. States play at least five different roles in the employment relationship. Markets are seen by some as perfectly competitive, and as imperfectly competitive by others. Contracts can be explicit or implicit, economic, psychological, or social. Moreover, these different conceptualizations of individuals, employers, states, markets, and contracts can be bundled together into four key models of the employment relationship—the egoist, unitarist, pluralist, and critical employment

relationships (see Table 6.1). Appreciating the roots and implications of these four models is essential for understanding all aspects of work, including human resource management.

### **The Egoist Employment Relationship**

The egoist employment relationship focuses on rational agents pursuing individual self-interest in economic markets, and is most closely associated with mainstream neoclassical economic thought (Boyer and Smith, 2001). Employees' objectives are assumed to be income and leisure; the objective of employers is profit maximization. Labor is seen as a commodity no different from other productive resources, except in its tendency to shirk and therefore in its need to be monitored or motivated with economic incentives. The state's role is to protect property rights and enforce contracts in order to foster free economic transactions. Labor markets are generally seen as perfectly competitive and therefore as the primary driver of the employment relationship—wages and salaries, benefits, and other terms and conditions of employment are not set by individual employees, employers, or states, but by the invisible hand of the labor market. Under these assumptions, the egoist employment relationship is one in which employees and employers engage in voluntary, mutually-beneficial transactions to buy and sell units of productive labor based on what the market will bear.

It should be noted that the egoist label used here is not intended as a pejorative term with negative connotations; rather, it is intended to highlight the centrality of self-interest rather than conflict and power. In fact, power and conflict in the egoist model are generally sterile constructs that are treated in market-based terms. Conflicts are resolved by the marketplace such that employees and employers agree to terms that are mutually beneficial, or look for other employers or employees when the terms are not mutually beneficial. Similarly, power is market-driven and is seen as what someone can command in the marketplace. But this is largely

determined through supply and demand. Self-interested trades, not power and conflict, are central to the egoist employment relationship.

Employment-at-will—the right to hire and fire, or take a job and quit, at anytime for any reason—is a key element of the egoist model of the employment relationship. Employers and employees should be able to enter into any explicit or implicit contract involving any mutually-agreeable terms and conditions of employment, including compensation, hours, duration of employment, job duties, and the like. In the interests of both economic optimization and individual freedom, employers and employees should likewise be able to end these arrangements when conditions or preferences change, or if a better deal comes along (Epstein, 1984). Note carefully that the egoist employment relationship critically depends on embracing a value system in which efficiency is the primary objective of the employment relationship and whatever the market bears is best. Moreover, if employees and employers are equal in terms of economic power, legal expertise and protections, and political influence, then neoclassical economic theory shows that abuses and exploitation are prevented by perfect competition in the labor market. Wages are never too low or too high, they simply reflect each employee's economic value and the impersonal forces of supply and demand.

### **The Unitarist Employment Relationship**

The second model of the employment relationship tends to see employees as psychological rather than economic beings, and is most closely associated with scholars in industrial/organizational psychology and human resource management (Coyle-Shapiro, Shore, Taylor, and Tetrick, 2004; Roehling, Cavanaugh, Moynihan, and Boswell, 2000). Coldly rational decision-making is de-emphasized in favor of behavioral elements such as fairness, social pressure, and cognitive limitations. Narrow economic interests are de-emphasized in favor of

psychological interests. Perhaps most famously, Maslow (1943) hypothesized that employees seek love, esteem, and self-actualization after their physiological and security needs are met. The literature in psychology on work motivation therefore stresses intrinsic work rewards over pay and other extrinsic rewards (Donovan, 2001; Latham and Pinder, 2005). Markets are seen as imperfectly competitive, and are therefore not completely deterministic. As such, profit-maximizing employers have a range of strategies for pursuing their organizational goals. Moreover, a key assumption is that employees and employers share a unity of all of their interests—hence, the “unitarist” employment relationship (Bacon, 2003; Fox, 1974; Lewin, 2001)—which means that the optimal employer strategies are those that align the interests of employers and employees.

The unitarist employment relationship, therefore, is seen as a long-term partnership between employees and employers with common interests. Profitability and other organizational goals go hand-in-hand with fulfilling work, fair treatment, and the satisfaction of employees’ other intrinsic desires. This model of the employment relationship is therefore the foundation for contemporary human resource management and its focus on creating policies that simultaneously benefit employees and employers (Pfeffer, 1998; Ulrich and Brockbank, 2005).

It is important to note that the unitarist employment relationship assumes away issues of power and conflict. Because employees and employers are assumed to share unified interests, power is unimportant and conflict is seen as a suboptimal state of affairs. Scholars in this tradition certainly recognize that diverse forms of conflict are an organizational reality (De Dreu and Gelfand, 2008), but this literature frequently focuses on conflict between employees, and the presence of such conflict in a particular organization is largely perceived as an opportunity for improved human resource management practices to reduce this conflict. If employer-employee

conflict exists in a particular employment relationship, it is seen as stemming from poor human resource management practices that need fixing. Sustained conflict is an anathema in the unitarist model, and contemporary human resource management therefore tries to manage conflict away rather than embrace it as an inherent part of the employment relationship.

### **The Pluralist Employment Relationship**

The pluralist model of the employment relationship rejects the egoist perspective that employees are simply commodities (Kaufman, 2005); rather, employees are seen as complex economic and psychological agents that, as human beings, are entitled to key rights such as equity and voice (Budd, 2004). This perspective also rejects the unitarist view and instead believes that there are a plurality of interests in the employment relationship (Clegg, 1975; Fox, 1974). In other words, employees and employers are seen as having a mixture of common and conflicting interests. Both parties to the employment relationship want profitable organizations and productive workers, but conflicts are also seen as inherent such as those between wages and profits, flexibility and security, or speed and safety. Imperfect labor markets are also a key element of the pluralist model dating back to Sidney and Beatrice Webb, John R. Commons, and other founders of industrial relations (Kaufman, 1997). Today, pluralist academic views of the employment relationship are most likely found in industrial relations (Budd, Gomez, and Meltz, 2004; Kaufman, 2004) and institutionalist labor economics (Champlin and Knoedler, 2004).

Putting the above assumptions together means that the pluralist employment relationship is a bargained exchange between stakeholders with some competing interests in which the terms of this exchange are influenced by the varied elements of the environment—including states and markets—that shape each stakeholder's bargaining power (Budd, Gomez, and Meltz, 2004). The egoist model's complete determinacy of competitive markets is replaced by the indeterminacy of

monopsonistic labor markets; the unitarist reliance on employer policies to simultaneously satisfy employers' and employees' interests is replaced by a concern for ways to balance interests such as efficiency, equity, and voice, such as through government regulations or labor unions (Budd, 2004). Economic incentives and markets are seen as important mechanisms for allocating and effectively using scarce resources as in the egoist model, but pluralist thought also includes more of a role for institutions to help overcome market imperfections and serve non-economic goals.

In contrast to the unitarist model, the pluralist model sees some conflict as a natural, healthy feature of the employment relationship. As such, conflict is to be managed, not eradicated and avoided. Conflict is often managed through bargaining, and power is therefore seen as bargaining power—the leverage one has to win economic gains in the employment relationship within some range of market indeterminacy.

### **The Critical Employment Relationship**

The fourth and final model of the employment relationship is labeled the critical employment relationship, and is most closely associated with radical, heterodox, and feminist scholarship in economics, sociology, and industrial relations (Bowles and Gintis, 1990; Kelly 1998; Thompson and Newsome, 2004). This model shares the labor-as-more-than-a-commodity and labor-markets-as-imperfectly-competitive assumptions of the unitarist and pluralist models. But this perspective emphasizes the socio-political embeddedness of the employment relationship, and the resulting broad-based conflicts. Employers are seen as the owners and controllers of the means of production which provides a power advantage in the labor market, and in the broader socio-political arena (Bowles, 1985). In fact, the labor market and the state are seen as elements of a socio-politico-economic system throughout which elites are able to

perpetuate their dominance (Hyman, 1975). Unlike the pluralist model in which employer-employee conflict is largely economic in nature and confined to the employment relationship, the critical perspective is that employment conflict is part of a broader societal clash between competing groups (Kelly, 1998).

The critical employment relationship is therefore conceptualized as a struggle for power and control between competing groups (Gall, 2003; Hyman, 1975, 2006). The employment relationship is not seen as a voluntary or bargained exchange, but as a contested exchange (Bowles and Gintis, 1990). The critical model encompasses Marxist, feminist, and other sociological theories rooted in the division and control of labor. A Marxist perspective assumes that employer-employee conflict is one element of unequal power relations between the capitalist and working classes throughout society. A feminist perspective focuses on unequal power relations between men and women; a critical race perspective focuses on segregation and control along racial lines (Amott and Matthaei, 1996; Delgado and Stefancic, 2001; Gottfried, 2006; Greene, 2003; Lustig, 2004).

Compared to the other models of the employment relationship, power and conflict are given the greatest importance in critical scholarship. In fact, the defining feature of the critical employment relationship is broad-based socio-politico-economic conflict such that the employment relationship is largely seen as a complex power dynamic—that is, a contested exchange (Bowles and Gintis, 1990). Marx's (1844/1988) view that workers are alienated under capitalism is rooted in powerlessness—the product of their labor does not belong to them, they have no control over what is produced, and no power over how it is produced. In Marxist thought, as employers control the means of production, they are able to extract labor's surplus value which further empowers the capitalists at the expense of workers, not only in the economic

arena, but in the socio-political arena, too. This extraction perpetuates the importance of power relations and reinforces the broad-based nature of class conflict. Kelly's (1998) application of mobilization theory to industrial relations is another example of critical scholarship in which power and conflict are key.

## **IMPLICATIONS FOR UNDERSTANDING HUMAN RESOURCE MANAGEMENT**

As we can now see, the employment relationship can be modeled as a mutually-advantageous transaction in a free market, a long-term partnership of employees and employers with common interests, a bargain between stakeholders with some competing economic interests in imperfect markets, or an unequal power relation embedded in complex socio-political-economic inequalities. Each of these four models provides very different perspectives on the fundamental aspects of human resource management, such as human resource management practices, equality and diversity, labor unions and work-related public policies, and globalization. As such, these four models, which we illustrate through the examples below, are essential for understanding the scholarship and practice of human resource management.

### **Human Resource Management Practices**

Human resource management practices are the policies and procedures used by employers to manage their employees—including key functions such as selecting, evaluating, rewarding, training, promoting, and terminating employees. Such practices, however, are seen very differently through the lenses of the four models of the employment relationship (see Table 6.2). In the egoist employment relationship, such practices are seen as essentially dictated by the labor market—fall behind the market, and employees will quit; get too generous relative to the market, and the employer will be unable to sell products and services at a competitive price. And by assuming a homo economicus approach, the economic aspects of such policies are

emphasized, such as pay-for-performance plans, while intrinsic rewards are overlooked or assigned monetary values (Lazear, 1995). So-called low road human resources strategies that include low wages and managerial control are perhaps also most consistent with the egoist theory because such strategies are rooted in a narrow conception of employee interests and in an emphasis on what the labor market will bear. In the egoist model, then, human resource management practices are largely administrative mechanisms for implementing the dictates of the labor market.

The other perspectives see human resource management practices as rules and procedures that govern the employment relationship within a particular firm through an internal labor market. But the origins and consequences of these practices are interpreted quite differently in each of these perspectives. In the unitarist model, well-designed human resource management practices are seen as the key managerial mechanism for creating profitable organizations because these practices are the way to align the extrinsic and intrinsic interests of employees and employers. Human resource management practices such as valid and reliable selection measures to hire and promote employees; training and development opportunities; respectful methods of supervision; compensation that provides more than a living wage while also rewarding performance; benefits that foster personal growth, security, and work-life balance; and open channels of communication to prevent conflict therefore directly embody the central unitarist belief in the commonality of employee and employer interests. As a result, a plethora of management consulting programs now focus on employee engagement and alignment.

In the pluralist employment relationship, in contrast, job ladders and other elements of the internal labor market result from a mixture of pressures, such as economic efficiency, relative bargaining power, and customs (Doeringer and Piore, 1971; Osterman and Burton, 2005). But

compared to egoist theorizing, limited ports of entry from the external labor market into the internal labor market are seen as shielding some human resource practices from competitive pressures (Kerr, 1954). From this pluralist perspective, then, the determination of human resource management practices occupies a conceptual middle ground between the complete determinism of competitive (external) labor markets in the egoist model and the unilateral managerial control of the unitarist model. Moreover, whereas the unitarist perspective is generally comfortable relying on employer self-interest to promote both employee and employer objectives (since by assumption these can be aligned), the pluralist perspective rejects a sole reliance on employer goodwill (since by assumption there are some interests that clash). As will be described below, the pluralist school of thought therefore sees a productive role for government regulation and labor unions to complement human resource management practices.

In the critical employment relationship, human resource management practices are also seen as rules for governing the workplace, but through a different interpretive lens. Because of the socially-rooted, ongoing conflict between employers and employees assumed in this model, human resource management practices are not seen as methods for aligning the interests of employee and employer, but rather as disguised rhetoric that quietly undermines labor power and perpetuates the dominance of capital (Legge, 1995). The design of routine low-skill jobs (Braverman, 1974; Montgomery, 1979) and organizational structures such as bureaucracies that create management routines through rules and procedures (Edwards, 1979) are seen as examples of employer strategies to obtain power and control over the employment relationship through the manipulation of human resource management practices. Above-market compensation policies and informal dispute resolution procedures are viewed as union substitution strategies to prevent employees from gaining more power by unionizing. Some critical scholars further contend that

human resource management practices seek to redefine how individuals relate to employers and to employment itself, and aim to gain employees' adherence to a value system in which the values of business trump all other social values (Keenoy and Anthony, 1992).

As a specific example, consider employee monitoring. Psychological research sees monitoring as an activity to collect performance data on individuals, teams, and other organizational units (Larson and Callahan, 1990). Consistent with the unitarist view, monitoring is hypothesized to influence productivity only when it is used in conjunction with mechanisms such as providing feedback and removing barriers to effective work performance. In contrast, agency theory in economics sees monitoring as a mechanism to curb the opportunistic behavior of self-interested workers ("agents"), especially when worker effort is reasonably easy to observe (otherwise, economic incentives are needed to solve these principal-agent problems) (Fama, 1980; Jensen and Meckling, 1976). This theory is squarely within the egoist approach to theorizing about the employment relationship. In the critical model of the employment relationship, in contrast, monitoring is seen as a strategy to enhance managerial control over labor, and further augment the power of capital (Braverman, 1974).

These differences are further reflected in the fact that scholars from the various perspectives differ considerably about how they think about jobs and promotions. In the egoist model, work is pursued to earn income so self-interested workers will only exert the minimum level of effort required. Jobs, then, are seen as bundles of tasks designed to allow monitoring of effort, or when effort is difficult to observe, as bundles of tasks designed to reveal information about effort. Similarly, promotions are seen as incentive mechanisms for eliciting effort. Economics research therefore devotes a lot of attention to the incentive effects of jobs and promotions (Dewatripont, Jewitt, and Tirole, 1999; Ito 1994; Lazear and Oyer, forthcoming). In

the unitarist perspective, employers and employees are seen as having common interests so jobs are instead seen as bundles of tasks designed to promote the most efficient and effective completion of these tasks, and promotions allocate workers to these tasks based on skills. Psychology research therefore analyzes task complexity, autonomy, the worker's immediate social context, and other factors that may promote or inhibit task completion (Hackman and Oldham, 1980; Salancik and Pfeffer, 1978). In the critical perspective, jobs are seen as bundles of tasks designed to reinforce managerial control. Task specialization is therefore seen as a way of deskilling work to reduce the knowledge and therefore power of workers (Braverman 1974).

Lastly, one of the hottest areas of contemporary human resources—specifically, high-performance work practices such as flexible work arrangements, performance-based pay, and employee empowerment (Huselid, 1995; Becker and Huselid, 1998)—further reveals the importance of using the models of the employment relationship as a foundation for a deeper understanding of human resource management practices. Within the egoist and unitarist visions, questions about the effects of these practices largely reduce to questions about efficiency and organizational performance. The effects on employees beyond efficiency-related issues are frequently ignored because in the egoist employment relationship, dissatisfied employees are free to quit, and in the unitarist employment relationship, common interests mean that what's good for employers is good for employees. But by seeing the employment relationship as including competing interests, the effects of high performance work practices on workers' stress, injury rates, pay, and job security are of equal importance to the effects on organizational performance in the pluralist employment relationship (Budd, Gomez, and Meltz, 2004). In the critical employment relationship, such high performance work practices are further seen as

“management by stress”—new employer tools for increasing the pace and effort of work while increasing the uncertainty of rewards and security (Parker and Slaughter, 1995).

### **Equality and Diversity**

Beyond human resource management practices, the four models of the employment relationship generate contrasting perspectives on policy issues related to human resources (see Table 6.3). First consider equality and diversity. In the egoist employment relationship with perfectly-competitive markets and self-interested agents, discrimination on any basis except economic value should not exist. Suppose an employer discriminates by paying white men a higher wage than women and minorities in similar jobs. In a perfectly competitive market, profit-maximizing behavior will drive down the wages of white men and bid up the wages of the other groups until they all equal the value to the organization (Becker, 1957). If there is imperfect information about worker quality, then it might be profit-maximizing to generalize on the basis of demographic characteristics (for example, by assuming that parents of young children will be absent more frequently); this is called statistical discrimination (Aigner and Cain, 1977). The unitarist perspective is similar in that discrimination is rooted in ignorance (Guion, 1998).

In any case, the existence of employment-related discrimination in the egoist and unitarist employment relationship is then seen as a type of market failure (Figart and Mutari, 2004) or managerial failure stemming from imperfect competition or information. The favored public policies are therefore skill enhancement—so that disadvantaged workers can compete better and add more value to their organizations—and non-discrimination laws that promote formal equality—that is, laws that promote colorblind or gender-blind equal opportunity for everyone, not just the traditionally-disadvantaged (Heneman and Judge, 2003). In the corporate sphere, the drive for equality has turned into a corporate-led diversity movement in which diversity

embraced not as a route toward social justice, but as a potential source of competitive advantage in which diverse employees will better serve a diverse customer base (MacLean, 2006). Managing diversity is therefore an important component of contemporary human resource management (Cleveland, Stockdale, and Murphy, 2000; Herriot and Pemberton, 1995), and starkly reveals the unitarist assumption that the right human resource management policies can align employee and employer interests—in this case, diversity and profitability.

In the pluralist employment relationship, segmented labor markets and occupational segregation are rooted in the core tenet of this model—unequal bargaining power. Women and minorities, for example, might be crowded into certain occupations because they lack the bargaining power to break into other better-paying occupations. Integration, not just diversity or non-discrimination is important (Estlund, 2003). The resulting policy solutions involve institutional changes to break down barriers between segments of the labor market (Woodbury, 1987) and the promotion of labor union representation to enhance workers' power. One could further argue that the need to study gender and race in the egoist, unitarist, and pluralist schools of thought results from a failure of these models to eradicate discrimination in practice; ideally, gender and race should be a non-issue. The concept of class is similarly assumed away in the egoist, unitarist, and pluralist models as the employment relationship is seen as a largely an individual or an economic affair.

In the critical employment relationship, however, gender, race, and class are key constructs inseparable from culture and markets. Whether in terms of gender, race, or class, the dominant elite is seen as controlling access to good-paying jobs and therefore as restricting economic prosperity to members of this elite group whether they be men, whites, or the upper class. Gender, race, and class are further seen as integral for defining the very definition of labor.

Feminist thought, for example, emphasizes that a male-dominated society equates valued work to that which occurs for pay outside the home on a full-time basis—that is, work typically done by breadwinning men (Figart and Mutari, 2004; Williams, 2000). Redressing inequalities rooted in gender, race, and class therefore require deep structural reforms that move beyond formal equality or corporate diversity programs; from this perspective, genuine equality and inclusion requires re-defining society's values and aggressively opening up good-paying jobs to traditionally disadvantaged workers (MacLean, 2006; Marable, Ness, and Wilson, 2006; Williams, 2000).

In critical scholarship, gender, race, and class are furthermore seen not only as sources of conflict and oppression, but also of identity and mobilization. It is out of this scholarship that comes important work on working class studies (Zweig, 2000), working class agency and social history (Thompson, 1963), working class consciousness (Aronowitz, 1973; Mann, 1973), whiteness (Roediger, 1991), race-conscious union organizing (Crain, 2002), and labor feminism (Cobble, 2004).

### **Labor Unions and Public Policies on Work**

The four models of the employment relationship yield starkly different perspectives on labor unions (Budd, 2008; Budd, Gomez, and Meltz, 2004) and work-related public policies (Befort and Budd, 2008). In the egoist model, labor unions are seen as labor market monopolies that reduce economic welfare by impeding the operation of competitive markets and violating the liberties of individuals to freely enter into economic relationships (Epstein 1983; Troy 1999). Work-related public policies such as those mandating a minimum wage or paid family leave are similarly seen as negative interferences with the operation of free markets.

Labor unions and government-mandated labor standards are viewed as unnecessary in the unitarist employment relationship. When employers successfully align their interests with their employees' interests through effective human resource management practices, employees will be satisfied and will not support a labor union or need mandated employment standards. The presence of a union or employment law is taken as a signal of failed human resource management practices. Unions are further seen as outside third parties that add conflict to what should be a conflict-free employment relationship. The unitarist emphasis on individual, not collective, fulfillment and intrinsic rewards further reduces the need for these labor market institutions. Ironically, however, human resource managers in practice have greater influence in their organizations when there is a threat of unionization or new work-related government legislation even though one of their important objectives is to prevent such developments (Jacoby, 2005).

Labor unions and mandated labor standards through work-related public policies are embraced to the greatest extent in the pluralist employment relationship (Budd, Gomez, and Meltz, 2004). A core pluralist value is the rejection that labor is simply a commodity (Kaufman, 2005). Therefore, labor is entitled to equity and voice in the employment relationship (Budd, 2004). In fact, basic labor standards are increasingly argued to be human rights (Adams, 2001; Gross, 1998; Wheeler, 1994). But in contrast to the egoist and unitarist perspectives, the twin assumptions of imperfect labor markets and some inherent conflicts of interests render markets and human resources managers unreliable for guaranteeing employee rights. Rather, labor unions and government laws are seen as essential instruments for leveling the otherwise unequal playing field between employers and employees and thereby promoting rather than interfering with the optimal operation of markets (Kaufman, 1997). As argued by the Webbs (1897) over 100 years

ago, “by the Method of Collective Bargaining, the foreman is prevented from taking advantage of the competition [between workers] to beat down the earnings of the other workmen” (174). This view of unions is very different from the egoist and unitarist views because of the different conceptualizations of the employment relationship embodied within these different perspectives.

In the critical employment relationship, strong, militant labor unions are seen as important advocates for employees’ interests that can counter their exploitation under capitalism by mobilizing and raising the consciousness of the working class, and by fighting for improved compensation, better working conditions, and greater control over workplace decision-making. The anarcho-syndicalist perspective within the critical school of thought also sees radical unions as the key revolutionary vehicle for overthrowing capitalism and creating a society managed by workers. But ultimately, the pluralist reliance on collective bargaining to promote employees’ interests is seen as inadequate in critical thought because structural employee-employer inequalities are modeled as embedded in the entire socio-politico-economic system. Critical scholars and activists therefore criticize U.S. unions in particular for not doing enough to challenge employer power and raise working class consciousness (Eisenscher, 1999; Moody, 1999). As the state is further seen as largely promoting elite interests, work-related public policies under capitalism are also viewed as insufficient. For example, Lafer (2002) argues that government-funded job training programs for disadvantaged workers have largely been reduced to training positive attitudes such as a strong work ethic and submission to authority. As such, in the absence of good-paying jobs, these government-funded programs reinforce the power of employers by teaching workers to accept lousy working conditions and to not question the authority of employers.

## **Globalization and International Labor Standards**

Globalization places great pressures on the employment relationship. Some fear that globalization creates a race to the bottom as international trade, foreign direct investment, and offshoring undermine wages, benefits, and job security in locations where these terms and conditions of employment are more generous. The four key models of the employment relationship provide key insights into the major perspectives on debates over globalization and employment issues. Moreover, by now it should be apparent that the four models contain analytical as well as a normative implications—analytical in that they provide alternative methods for understanding how the employment relationship works; normative in that they provide alternative perspectives on how the employment relationship should work. As applied to globalization, a key normative issue is how the global workplace should be governed (Budd, 2004).

In mainstream economic thought, globalization is seen as a good thing as it expands consumer choices, lowers costs, and spreads economic development (Irwin, 2002). The egoist model therefore embraces free trade and the reduction of barriers to global trade and investment. Legislated international labor standards are seen as disguised protectionism, and the global workplace should be governed by free trade. In the unitarist model, international labor standards are best achieved through educating corporations as to how to align the interests of employees and employers, and to rely on self-monitoring—this is exactly what campaigns for corporate codes of conduct seek to create (Paine, et al., 2005; Tsogas, 2001). Corporate codes of conduct will be successful only if the global employment relationship is best characterized by the unitarist model.

The model of the pluralist employment relationship instead indicates a need for global institutions to help balance conflicting employer-employee interests in imperfect labor markets. Calls for fair trade, enforceable labor standards attached to global trading agreements, and transnational labor solidarity and collective bargaining (Alexander and Gilmore, 1999; Nissen, 1999) are all rooted intellectually in a pluralist perspective. This parallels traditional pluralist calls for labor standards and protections for labor unions in the domestic workplace (Budd, 2004). The critical perspective sees globalization as another example of employer domination of markets and institutions such as the World Trade Organization, and therefore sees the need not only for checks and balances in the labor market, but for deeper institutional reform, too (Coates, 2000; Cox, 1987; 2002).

## **CONCLUSION**

The employment relationship is the exchange of labor for compensation via a contract as conditioned by states and markets. The elements of this relationship—employees, employers, states, markets, and contracts—are conceptualized by scholars and practitioners in very different ways which results in four key models. In the egoist employment relationship, employment is seen as a mutually-advantageous transaction in a free market between self-interested legal and economic equals. The unitarist employment relationship consists of a long-term partnership of employees and employers with common interests. The pluralist employment relationship emphasizes bargaining between stakeholders with some common and some competing economic interests and unequal bargaining power due to imperfect markets. The critical employment relationship is an unequal power relation between competing groups that is embedded in and inseparable from systemic inequalities throughout the socio-politico-economic system. Admittedly, contemporary scholarship within these four perspectives is more sophisticated than

the models we have outlined here, but our portrayal reveals the core premises of the major approaches to thinking about the employment relationship; more nuanced portrayals of these models would not change the fundamental implications of this chapter.

A difficult issue, however, is whether these four perspectives are complements or substitutes. The models are complementary to the extent that they help us understand different aspects of the employment relationship such as the importance of economic incentives (egoist), human resource management practices (unitarist), institutional interventions (pluralist), and power (critical). Moreover, these different perspectives might reasonably characterize variation across the employment relationship in practice—terms and conditions of employment might be primarily determined by the labor market for mobile, uniquely-skilled employees or low-skilled temporary workers, by sophisticated human resource management practices for core employees in large corporations, and by formal bargaining for unionized employees. On the other hand, these four perspectives can compete with each other. Intellectually, the four models force us to think about human resource management practices, equality and diversity, labor unions, and work-related public policies in very different and largely mutually-exclusive ways. These conflicts are heightened when one's attention turns to normative questions such as the extent to which public policy should support labor unions. In such episodes, the egoist and unitarist passions can be quite hostile to the pluralist and critical passions, and vice versa.

Whether as complements or substitutes, though, these four models provide the key frames of reference and ideologies for scholars and practitioners in human resource management and other areas related to the employment relationship (Budd and Bhawe, forthcoming). When used to analyze employment relationship issues and to guide one's actions, the four models become the four key frames of reference; when used as a platform for advocacy, they become the central

ideological alternatives. Unfortunately, these frames of reference and ideologies are frequently implicit rather than explicit in scholarship and practice. A greater shared understanding of all aspects of work can result if these models are more frequently made explicit. As illustrated in this chapter, these four models have very different implications for employment practices and policies. These implications similarly underlie the typical research focus of different scholars—economists frequently focus on utility-maximizing behavior and markets, human resource management scholars on organizational performance, pluralist industrial relations scholars on labor unions, and critical scholars on race, gender, and class.

As either a field of study or a business function, human resource management is fundamentally about the employment relationship. Understanding human resource management, therefore, starts with appreciating different conceptualizations of the elements of the employment relationship, and requires understanding how these conceptualizations form four distinct models of this relationship. All too often, this intellectual grounding is implicit at best, or absent at worst. Hopefully this chapter will foster the greater level of explicitness that is sorely needed.

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Table 6.1: Four Models of the Employment Relationship

View of Employees	View of Employers	View of Markets	The Employment Relationship
<u>The Egoist Employment Relationship</u>			
Rational, utility-maximizing agents optimizing the labor-leisure trade-off; factors of production	Black boxes of profit-maximizing technologies that optimize the use of factors of production	Key driver of the employment relationship to match self-interested employees and employers; ideally, perfectly competitive	A mutually-advantageous trade in a free market by self-interested economic agents
<u>The Unitarist Employment Relationship</u>			
Psychological beings motivated by intrinsic rewards	Profit-maximizing organizations with a self-interest to align its interests with those of its employees	Important for establishing broad parameters for terms and conditions of employment, but not completely deterministic	A long-term partnership between employees and employers who share a unity of interests
<u>The Pluralist Employment Relationship</u>			
More than a commodity; economic and psychological beings with moral worth and democratic rights	Profit-maximizing organizations that have some economic conflicts of interests with employees	Imperfectly competitive so that there are imbalances in bargaining power between employees and employers	A bargain between stakeholders with pluralistic economic interests and unequal bargaining power
<u>The Critical Employment Relationship</u>			
More than a commodity; economic and psychological beings with moral worth, democratic rights, and class interests	Owners of the means of production with systemic inherent conflicts of interests with employees	But one part of a broader socio-political system that perpetuates structural inequalities between employees and employers	An unequal power relation embedded in complex socio-politico-economic inequalities

Table 6.2: Views of Human Resource Management Practices

Model of the Employment Relationship	Human Resource Management Practices Are...
Egoist	Of <b>secondary importance</b> because they are administrative or institutional mechanisms for implementing implicit contracts, incentives, and other manifestations of self-interested economic actors interacting in competitive labor markets.
Unitarist	<b>Essential</b> because they are the key method for creating productive employment relationships by aligning the interests of employees and employers.
Pluralist	<b>Useful</b> for aligning those employee-employer interests that are shared, <b>but insufficient</b> for balancing competing interests because of problems of unilateral employer authority and power.
Critical	<b>Manipulative</b> managerial tools for shaping the ideology and structure of the workplace to strengthen capital's control and power over labor.

Table 6.3: Perspectives on Public Policy Issues in Human Resource Management

Model of the Employment Relationship	Public Policy Issue		
	Equality and Diversity	Labor Unions	Globalization
Egoist	Competitive markets prevent discrimination; formal equality of opportunity is key	Unions are labor market monopolies that reduce economic welfare by impeding the operation of competitive markets	Free trade is optimal; international labor standards are harmful trade barriers
Unitarist	Discrimination stems from short-sighted managerial practices; diversity is justified as a source of competitive advantage	Unions are unnecessary third parties; their presence signals failing human resource management practices	Voluntary, self-monitored codes of conduct can effectively promote international labor standards by aligning employer-employee interests
Pluralist	Discrimination is rooted in unequal bargaining power; equality is a human right that requires institutional intervention	Unions are essential institutions for balancing bargaining power between employers and employees	Fair trade (via enforceable international labor standards) and transnational unions are necessary for redressing global imbalances in bargaining power
Critical	Discrimination and inequalities across race, gender, and class are pervasive; equality is a human right that requires structural changes	Unions are important working class advocates that counter exploitation, but are disadvantaged by structural inequalities embedded in the socio-politico-economic system	International working class solidarity and deep structural reforms are needed to prevent labor exploitation by globally-mobile capital