

**TRUST, COOPERATION, AND FLEXIBILITY:
INTERNATIONAL COMPARISONS
Edward H. Lorenz
Working Paper #149 - November 1990**

Edward H. Lorenz is Assistant Professor of Economics and a Fellow of the Kellogg Institute at the University of Notre Dame. He is the author of a number of articles on managerial strategies and industrial relations, including "Neither Friends nor Strangers: Informal Networks of Subcontracting in French Industry" in *Trust: Making and Breaking Cooperative Relations*, Diego Gambetta, ed. (1988). His book *The Logic of Competitive Decline: The British Shipbuilding Industry 1890-1970* is scheduled to be published in 1991 by Oxford University Press.

This paper was presented at the 1989 Annual Meeting of the Industrial Relations Research Association held in Atlanta, Georgia. The author wishes to express his appreciation to Frank Wilkinson, Michael McPherson, and David Hachen for their comments on earlier versions or on related work. Special thanks go to Gerald Berk. A number of the key ideas presented in this paper were worked out jointly while coteaching a course on comparative political economy during 1988-89. The author remains responsible for their presentation prior to all the difficulties being ironed out. The research for this work was funded in part by the Economic and Social Research Council (UK) under its Postdoctoral Research Fellowship Scheme. Its contents are the responsibility of the author and do not necessarily reflect the views of the Economic and Social Research Council.

ABSTRACT

This paper develops a hypothesis concerning the success of manufacturers in West Germany and Japan, in comparison with their counterparts in Britain and France, in achieving organizational flexibility at the level of the firm. The key dimensions of organizational flexibility are the use of workers with wider skills to achieve more flexible divisions of labor and the involvement of employees in task-related decisions to improve product quality and to increase the firm's capacity for process innovation. The paper argues that in the case of the European nations under consideration, perceptions of mutual dependency between labor and management stemming from labor's organizational strength at the plant level encourage management to involve workers in the determination of working conditions. Owing to labor's organizational strength, management recognizes that the condition for the exercise of its authority is workers' consent. In the case of Japan, the rational argument based on power is supplemented by reference to the way the widely espoused social norm of exercising power with benevolence encourages management to consult the work force. The purpose of the paper, however, is not to suggest that all the actions of management and labor in Japan are blindly motivated by social norms while those of their passionless counterparts in Europe are strictly instrumental in achieving egoistic aims. The paper proposes an eclectic explanation. Japanese managements consult their work force in part because they believe it to be in their best interest, but also because they believe it to be the right thing to do. Normative and rational motivations combine and reinforce each other. In Europe, where comparable norms are lacking, the rational argument concerning labor's strength and perceptions of mutual dependency carries the entire burden of explanation.

RESUMEN

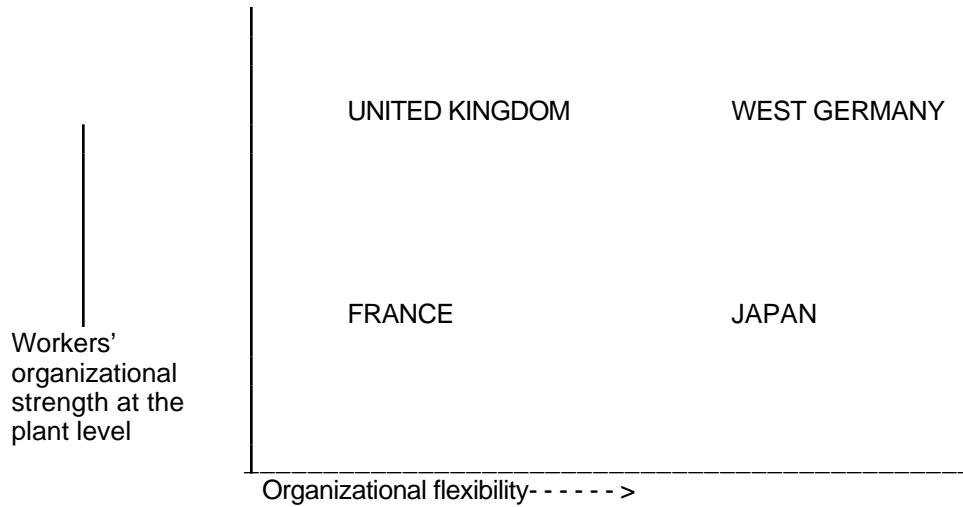
Este trabajo analiza la hipótesis sobre el éxito de los productores de manufacturas para alcanzar flexibilidad organizativa a nivel de las empresas, comparando los casos de la República Federal Alemana y el Japón con Gran Bretaña y Francia. Las dimensiones claves de la flexibilidad organizativa son el uso de trabajadores con un alto grado de especialización para alcanzar una flexibilidad mayor en la división del trabajo y la participación de éstos en decisiones relacionadas con el mejoramiento de la calidad de los productos y así aumentar la capacidad de los procesos innovadores de las empresas. En el caso de las naciones europeas consideradas el trabajo sostiene que el enfoque de dependencia mutua entre trabajadores y empresas, debido a la fuerza organizativa de los trabajadores a nivel de planta, alienta a las empresas a la participación de los trabajadores en la determinación de las condiciones de trabajo. Las empresas reconocen que, ante la fuerza organizativa de los trabajadores, la condición para ejercitar su autoridad es el consenso con los trabajadores. En el caso de Japón, el argumento racional basado en esta relación de poder se complementa haciendo referencia a la forma en que las extensas interrelaciones de las normas sociales de ejercer poder con benevolencia alienta a las empresas a consultar a la fuerza laboral. Sin embargo, la intención del trabajo no es la de sugerir que en Japón todas las acciones de las empresas y los trabajadores están ciegamente motivadas por normas sociales, mientras que las de su insensible contraparte en Europa son estrictamente instrumentales para alcanzar propósitos egoístas. El trabajo propone una explicación ecléctica. Las empresas japonesas consultan su fuerza laboral en parte debido a que creen que esto las beneficiará, pero también porque creen que es lo correcto. Las motivaciones normativas y racionales se combinan y refuerzan entre sí. En Europa, a falta de normas comparables, la explicación se basa en el argumento racional sobre la fuerza de los trabajadores y el enfoque de mutua dependencia.

There is widespread evidence from advanced industrial nations that manufacturers, responding to the pressures of intensified international competition based on quality, as well as product and process innovation, are seeking greater flexibility. Researchers in a number of countries have argued that management's efforts to increase organizational flexibility at the enterprise level are resulting in a fundamental restructuring of work, making obsolete the established organizational paradigm based on Taylor's principles of scientific management (Atkinson, 1985; Hirst and Zeitlin, 1989; Maurice et al., 1986b; Piore and Sabel, 1984; Regini, 1987). The dimensions of this restructuring are twofold. First, there is a set of changes designed to increase the firm's capacity to adapt to unanticipated changes in product mix associated with market uncertainty. The key changes are the use of computer-based technology to increase flexibility in retooling and the use of workers with wider skills. Second, in an effort to improve the firm's capacity for process and product innovation, firms are creating institutions designed to draw on the knowledge specific to shop-floor workers. These include such participatory schemes as quality circles, which aim to enhance cooperation between workers and managers.

While there is considerable evidence that manufacturers in advanced industrial nations are seeking to restructure work in some or all of the ways outlined above, there is also considerable evidence that the desired flexibility proves to be elusive in some nations and comparatively attainable in others. On the one hand, there are countries such as Britain and France where, though the widening of skills and job descriptions appears to be within management's grasp, participatory schemes are of doubtful effect and, in general, the desired increase in cooperation between the shop floor and the production, engineering, and planning divisions proves out of reach (Batstone, 1988, pp. 195-200; Batstone and Gourlay, 1986; Blanchflower and Oswald, 1986; Bunel and Bonaff-Schmitt, 1984, pp. 140-46; Campbell et al., 1989; Dale, 1984; Eyraud and Tchobanian, 1985; Eyraud et al., 1988; Jones, 1989; Lorenz, 1988b; Maurice et al., 1986b, pp. 423-37; Wilkinson, 1983, pp. 82-92).¹ On the other hand, there are countries such as Japan and Germany, where the comparative ease with which firms have adapted to the altered conditions of international competition belies the use of the words "fundamental restructuring of work" to describe the changes taking place at the plant level. Arguably it is more appropriate to talk of an incremental adjustment, or even a fortuitous fit, of an existing institutional arrangement to a changed environment (Campbell et al. 1989; Dore, 1986 and 1987; Jones, 1989; Katz and Sabel, 1985; Maurice et al., 1986b; Streeck, 1984; Thelen, 1988).

¹ For an overview of the literature on employee involvement and organizational flexibility in the UK, see Batstone (1988), pp. 195-200.

A prevalent view is that the limits to achieving organizational flexibility are determined by the strength of worker organization at the plant level. According to this perspective, increased flexibility constitutes work intensification, or in any case the cooptation of workers' interests to those of management, and is made possible by a weakening of workers' institutional controls over the organization of work (Fine, 1987; Hyman, 1988).² Yet, as the diagram below suggests, the link between achieving flexibility and the strength of worker organization at the plant level in the four countries referred to above is, at best, tenuous.



In what follows I shall be focussing primarily on the more problematic dimension of flexibility of achieving cooperation between labor and management, or possibly cooperation among groups of employees at the same level in the enterprise hierarchy. In the case of the European countries under consideration, I shall argue that a necessary, but not sufficient, condition for cooperation is that workers are sufficiently well organized at the plant level that labor and management perceive a mutual dependency in their relation. This perceived mutual dependency leads them to behave as conditional cooperators; that is, one side cooperates if it is believed that the other side will cooperate.³ However, I shall argue that given this perceived mutual dependency, and given the perception that cooperation would potentially result in mutual benefits, the key intervening variable in achieving cooperation is the level of *trust* between the actors. A perceived mutual dependency creates the *possibility* of cooperation. Trust *confirms* it.

² For the case of the US, see Shaiken et al. (1986) and Parker and Slaughter (1988).

³ This ranking of outcomes is analogous to that in Sen's Assurance Game, where the actors are assumed to be conditional altruists. The best outcome is mutual cooperation, while the worst outcome remains, as in the Prisoner's Dilemma, being the sucker, cooperating while the other defects.

Japan illustrates an alternative route to the possibility of cooperation, one based on social norms. Drawing on Ronald Dore's (1987, p. 94-5) comparative analysis of authority styles in Japan and Britain, I shall argue that in Japan conditional cooperation emerges as a by-product of a social norm that is held for other reasons, that of exercising power with benevolence:

Two things follow from the dominance of such an ideology in a society (Japan)... First...some people *must* be induced by internalized norms of conscience to be more responsible in the exercise of power than they otherwise would be. Secondly, given the expectation on the part of subordinates of the *possibility* of power being exercised with benevolence, benevolence actually becomes an efficient strategy for the retention of power. In such a society, a little benevolence can go a long way to evoking trust, much farther than in a society where expectations are lower and suspicion of power more deeply ingrained.

The remainder of this paper is structured in the following manner. In the first section, I contrast plant-level industrial relations in France and Germany, which are often depicted as low and high trust societies respectively. My aim is to present a persuasive argument for the first assertion made above, that a precondition for the success of organizational flexibility in Germany is a perceived mutual dependency between labor and management based on the strength of worker organization at the plant level. In the case of France, following the analysis of Crozier (1964), I shall argue that the fact that management is led to act *as if* they could anticipate all contingencies in a plan and unilaterally impose its provisions on the work force through monitoring has the unintended consequences of limiting the ability of the firm to adapt.

In Section Two, drawing on the insights from the comparison between France and Germany, I examine plant-level industrial relations in Britain. My aim here is to support the second general assertion made above, that the key intervening variable in achieving organizational flexibility is the level of trust between vertically and horizontally stratified groups. I shall argue that, from the perspective of trust and cooperation, Britain can be seen as the decentralized equivalent of France, where managerial structures are poorly developed and the shop floor retains considerable discretion over the organization of work.

In the concluding section, I focus on the alternative route to conditional cooperation illustrated by the case of Japan. I consider the implications for achieving cooperation in Europe of the possibility that cooperative behavior is motivated by social norms, and I consider the implications of this line of argument for industrial relations research generally.

Before proceeding with this, it will be helpful to define what I mean by trust. The notion of trust I am using here is the "thin" one of credible commitments rather than the "thick" idea of trust associated with friendship. More precisely, *trusting behavior* consists in action that (1) increases one's vulnerability to another whose behavior is not under one's control, and (2) takes place in a situation where the future penalty suffered if the trust is abused would lead one to regret the

action. In short, there is no best strategy independent of trust (Gambetta, 1988, p. 271; Lorenz, 1988a, p. 197).

Trust presupposes decision making under uncertainty, where the uncertainty is attributable to strategic considerations and the possibility that others will behave opportunistically. By opportunism I have in mind not only such blatant forms as stealing and lying, but also more subtle techniques such as withholding information in an effort to confuse (Williamson, 1985, pp. 64-7). The possibility of such behavior is a necessary condition for the question of trust to arise (Dasgupta, 1988, p. 53).

Further, the action, and hence the risks of being abused, must be perceived as avoidable: one does not have to cooperate with management, but this implies forgoing the potential benefits. Being able to avoid the relation is fundamental. If you could not, you might say something like: "I have no choice but to trust this person, institution, etc." Clearly, where there is no choice, we do not have to invoke trust to explain our behavior (Lorenz, 1988a, p. 197).

Finally, it is important to distinguish between uncertainty associated with the behavior of others and that attributable to acts of Nature or unpredictable changes in demand or prices. Trust, in this latter context, is unrelated to our concerns of possible opportunism and the violation of commitment. However, environmental uncertainty, associated with unanticipated contingencies that cannot be fully specified in a comprehensive contract, does provide an opening for opportunistic behavior (Williamson, 1985, p. 59).

As Lloyd Ulman observed in a seminal article (1974), European nations evidence a common duality in their collective bargaining structures, with minimum wages being set through industry-wide bargaining by national employers' associations and unions, while actual earnings and working conditions are determined independently of the unions at the plant level. There is considerable variation in the systems of plant-level industrial relations in Europe, though, with work rules being determined unilaterally by management in some nations and in others through bargaining with worker representatives.

One way of categorizing models of plant-level industrial relations is to distinguish between those systems based on narrowly defined jobs, where management retains considerable discretion over layoffs, and those systems where workers accept more broadly defined jobs in exchange for employment guarantees (Katz and Sabel, 1985). I would like to suggest that a more general criterion for distinguishing systems of plant-level industrial relations, one that will allow us to take into account the apparently anomalous case of France, is between systems based on participatory rights versus those grounded on substantive work rules.⁴ A further distinction, the usefulness of which will shortly become clear, is between those systems where informal bargaining is recognized and accepted as legitimate by the actors and those where it is comparatively hidden and of doubtful legitimacy.

When we examine work relations in German plants, a distinctive feature is not only that jobs are broadly defined, but that their very boundaries are comparatively fluid, subject to an ongoing process of negotiation of varying degrees of formality between labor and management. Pay is correspondingly determined by a combination of seniority and ability criteria. In France, on the other hand, although the state guarantees workers a high degree of employment security, participatory rights are comparatively weak. Narrowly defined jobs grouped in career ladders are determined unilaterally by management. Minimum wages are attached to individual jobs in accordance with a nationally negotiated classification grid, and seniority determines access to jobs and minimum wages. The difference between minimum wages and actual earnings can be substantial (Eyraud, 1978; Maurice et al., 1986a, Ch. 2; Reynaud, 1975a, pp. 205-14; Sellier, 1984, Ch. 6).

At the most formal level, bargaining over jobs and the allocation of work in German plants is the province of the works council, whose jurisdiction is strictly separate from that of the unions. The latter are agents of collective bargaining which is voluntary and carried out at the regional

⁴ This distinction was suggested to me by Gerald Berk.

level. The members of the works council are elected by the entire plant work force regardless of whether they are affiliated to unions, which organize about 40 per cent of the work force nationally. While the works councils are prohibited from engaging in collective bargaining over wages, they have the legal right of codetermination or consultation with management over a range of issues including manpower planning (Gunter and Leminsky, 1978; Streeck, 1984).⁵

Despite the formal independence of the works councils and the unions, it would be wrong to see them as competitors. Works council members are frequently union officers and the works council performs important functions for the unions. The works council is required by law to ensure that the terms of the regionally negotiated collective agreements are upheld at the plant level. Further, it would be incorrect to see the works council as powerless due to the legal prohibition from initiating strike action. If the codetermination process results in an impasse there is a legal requirement to use third party arbitration. Management's concern to avoid outside interference encourages them to seek compromise with the works council and sets limits to managerial prerogatives (Neal, 1985; Streeck, 1984).

Alongside the comparatively formal process of codetermination involving the works council and, primarily, upper-level personnel management, an extremely effective informal process of consultation among foremen, shift leaders, and union representatives is characteristic of German plant-level industrial relations. Through informal bargaining among these actors, as well as between shift leaders and workers, communication is established and grievances are resolved without recourse to the more formal due process provisions involving the works council and possibly binding arbitration (Maurice et al. 1986a, pp. 150-53). The fluidity of job definitions in German plants and the ability of firms to readily adapt to unanticipated contingencies can be explained as much by the success of cooperation at this informal level as at the formal level of codetermination.⁶

Industrial relations in France present a number of significant contrasts with the German case. It is well known that union density is comparatively low in France, with about 15 per cent of the work force organized nationally. The unions, divided along ideological lines, compete for membership within the same bargaining unit and often prove incapable of coordinating their actions in the case of strikes or other collective actions.

⁵ Pay bargaining between works councils and employers can be disguised as codetermination through the "application" of provisions in the industry-wide agreements concluded at the regional level. In this manner, supplementary bargaining over wages may result in a works agreement. See Streeck (1984), pp. 24 and 33-35.

⁶ The importance of informal cooperation for firm performance in Germany can be supported by the fact that a strategy used by works councils to encourage employers to make concessions is excessive insistence on legal formalities, which obstructs managerial decision making. This is the German equivalent of US work-to-rule actions. See Streeck (1984) pp. 24-25 on the works councils' sources of bargaining power.

From the German perspective, one of the most distinguishing features of French industrial relations is the weakness of worker organization at the plant level, institutionalizing the joint determination of job allocation and pay (Dubois and Monjardet, 1979; Eyraud, 1981; Gallie, 1978; Lorenz, 1984). This has been a persistent feature of plant-level industrial relations in France despite the repeated efforts of the French state since the Second World War to institute a system of worker representation at that level.

For example, following the *événements* of 1968, the *constat de Grenelle*, though not signed by the unions, provided for the right of unions to form branches and sign agreements at the enterprise level (Reynaud, 1975b, pp. 247-48). The wave of enterprise agreements that followed gave rise to speculation that a stable system of collective bargaining at the plant level was emerging in France. The breakdown of bargaining and the eradication of many agreements subsequent to 1975, however, pointed to the continuing fragility of any system of joint regulation at this level (Reynaud, 1978, pp. 132-34; Gallie, 1978, pp. 151-56; Slack, 1980).⁷

Informal bargaining around the organization of work in France also shows distinctive features in comparison to Germany. As François Eyraud (1981, p. 196) has observed in his comparative study of shop floor industrial relations in Britain and France, work groups do strike private deals in France, but the motives are defensive and the tacit agreements are of doubtful legitimacy:⁸

We have seen that the essential difference is that custom and practice rules are recognized and perfectly acceptable (in Britain) while informal work rules are barely tolerated in France. This difference is crucial, for it implies that in the British case the action which work groups take to protect their status is at once defensive and offensive. By contrast, in the French case, as this type of action is not recognized as legitimate, it can only be defensive and hidden.

Unlike the case of Germany, where the cooperative nature of informal bargaining facilitates a ready adaption to the unanticipated contingencies associated with market uncertainty, in France uncertainty motivates the actors to take defensive protective action resulting in a rigid informal power structure characterized by a lack of communication between vertically stratified groups. Probably the most successful explanation for this phenomenon is Crozier's (1964, pp. 187-94) analysis of vicious French bureaucratic circles. Crozier shows how the efforts of French management to resolve the dysfunctions that result from the creation of interpersonal power, through unilaterally establishing formal rules to eliminate uncertainty, has the unintended consequence of increasing bureaucratic rigidity.

⁷ See the discussion of Eyraud and Tchobanian (1985) concerning the more recent obstacles to instituting an effective system of company-level bargaining as envisaged in the 1982 Auroux reforms.

⁸ Also see Crozier (1964, pp. 107-11) and Bernoux (1979).

Crozier's analysis of vicious bureaucratic circles starts with the assumption of a lack of trust between the actors making up the firm and in particular distrust between superiors and subordinates. Subordinates, fearing manipulation by superiors, seek protection behind formal rules that aim to regulate all aspects of behavior in the firm. The substantive rules are set by a centralized, and hence distant, authority whom the actors need not engage in face-to-face bargaining in their daily work activities. The impossibility of specifying a complete set of rules that anticipate all contingencies, however, results in the creation of interpersonal power around points of ambiguity, designed to protect the status of particular individuals or groups. These areas of uncertainty might emerge, for example, with the introduction of a new technology. In such cases, each actor, fearing manipulation by the others, seeks to secure some advantage for himself or his work group. In an effort to resolve the dysfunctions that result, or possibly in response to the demands of the losers for protection, management acts to extend the formal network of rules, thus reinforcing the bureaucratic internal organization (Crozier, 1964, p. 111):

Finally, new power relationships develop around the loopholes in the regulatory system. Groups fight for control of the ultimate strategic sources of uncertainties, and their fates in the group struggle depend on their ability to control these. New power relationships will have, as a consequence, new kinds of dependencies and frustrations, which will exert pressure for more centralization and reinforce the demand aspect of the subordinate-superior relationship, creating a sort of vicious circle that, at least at this level, it will be impossible to evade.

It should be obvious that such behavior is antithetical to flexibility. By definition organizational flexibility implies a willingness on the part of the actors at different levels of the hierarchy to cooperate in adapting to unanticipated changes in market conditions and production requirements. In the French case, the interest of the actors in seeking protection from manipulation behind detailed formal rules, or through the creation of informal parallel power relations, results in a highly rigid internal organization.

A legalistic view might argue that the comparative success of cooperation in Germany can be explained by the formal system of codetermination, which requires consultation over manpower planning. This interpretation is belied, not only by importance of informal bargaining in shaping outcomes but also by the ineffectiveness of similar French participatory legislation designed to foster cooperation between labor and management.

The institution of the "Works Committee" (Comité d'Établissement) owes its existence to legislation immediately after the Second World War. The intent behind the creation of Works Committees was not to contest breaches of the law but to provide a forum for cooperation between labor and management, and in particular to facilitate discussion over organizational changes. The law intentionally encouraged union influence over the consultation process by providing that the representatives to the Works Committee would be selected by the work force

from a list of candidates provided by the unions (Gallie, 1978, p. 153; Reynaud, 1975a, pp. 57, 143, and 239-42).

There is little evidence to suggest that the institution of Works Committees in 1945 has fundamentally challenged the unilateral determination of formal work rules by management in France (Delamotte, 1959; Reynaud, 1975a, pp. 241-42). The observations of Duncan Gallie (1978, p. 155), based on his comparative study of British and French refineries, are representative of the general trend:⁹

The amount of power that management was prepared to allow the Committees did indeed appear to be very small. At the very most they were allowed to discuss the implementation of management decisions and secure certain alterations of detail. They were entirely excluded from the strategic choice that lay at the roots of management's plans. On the whole...management interpreted its obligation to inform and consult as an obligation to inform.

This contrast between French and German participatory institutions suggests that formal rules designed to institutionalize cooperation will be of little import if the actors lack the interest or political resources to make use of them. In the case of France, management, because they are propelled to act as if they can anticipate all relevant contingencies in a plan and impose its provisions through monitoring, give no support to participatory schemes. Management acts *as if* there were no mutual dependency. Workers, seeing themselves as powerless at the plant level to influence key management decisions over work organization and pay, look upon participatory machinery with the utmost cynicism.¹⁰ Paradoxically, neither side gets what it would like. The bounds on managerial rationality and the limits to effective monitoring preclude comprehensive planning of production. The protection workers seek from uncertainty by striking informal deals flounders on their doubtful legitimacy, which precludes effective political opposition to their eventual violation.

The German case suggests that a highly propitious condition for achieving flexibility is a work force sufficiently well organized at the plant level that management perceives a mutual dependency. This makes it in management's interest to act as conditional cooperators, while workers are persuaded that they have sufficient power to ensure that participatory machinery will be applied in a manner that protects their interests and that informal deals will be openly recognized and will not spell manipulation. Workers' organizational power at the plant level opens the *possibility* of cooperation. The reason for stressing the word "possibility" will become clear in a

⁹ For some evidence of similar obstacles to instituting the provisions of the 1982 law providing for the "expression directe des salariés" in the Rhône-Alpes region, see Bunel and Bonaff-Schmitt (1984), Ch. 5.

¹⁰ The unions, for their part, tend to look upon such institutions as competitors for workers' allegiance and as distracting from their nationally oriented political strategies. See Bunel and Bonaff-Schmitt (1984), and Eyraud and Tchobanian (1985).

moment, as we turn to the case of the United Kingdom which, from the perspective of achieving cooperation, can be seen as the decentralized equivalent of France with managerial hierarchies being poorly elaborated.

II

The British system of industrial relations, as with the French and German, can be described as a dual structure, with multiemployer bargaining at the industry level setting minimum wages and basic conditions while plant-level bargaining determines actual wages and working conditions. Bargaining at the plant level typically has been described as informal, fragmented, and autonomous (Clegg, 1979, p. 16; Flanders, 1968; Sisson and Brown, 1983). Bargaining may be described as informal because wages and working conditions are set through understandings that have the status of custom and practice rules as opposed to formal written agreements (Brown, 1972). Bargaining tends to be fragmented in that agreements are arrived at occupational group by occupational group rather than for the entire plant work force. Bargaining can be described as autonomous because it is largely in the hands of shop stewards, elected by the work force, and lower-level management, as opposed to union officials and upper-level personnel management.

Although the empirical basis for this description is weighted towards conditions in the metal-working trades, there is little dispute that, from a comparative perspective, it captures distinctive tendencies of British plant-level industrial relations. In particular, informal bargaining between shop stewards, representing work groups, and shop floor management, resulting in job demarcation rules that subsequently acquire the status of custom and practice, is characteristic of a wide range of industrial sectors.¹¹

The manner in which job control practices and shop stewards' organization was instituted in Britain is a matter for historical research, different industries and regions displaying different evolutions. In the case of the West Midlands auto industry, Tolliday and Zeitlin (1988, pp. 103-4) have described a pattern that Brown (1972) found to be characteristic of metal working more

¹¹ For the case of printing, see Sisson (1975), pp. 66-75. For the case of electrical engineering, see Dore (1973), and for rubber, Maitland (1983). For demarcation rules amongst maintenance workers in the steel industry, see Owen Smith (1971), pp. 192-94 and 288-89, and Zweig (1951), pp. 66-75. For the importance of shop stewards' organization during the 1970s in the public sector, see Clegg (1979), pp. 31-40. For an attempt to explore the social origins of the distinctively job control focus of British industrial relations, see Fox (1985). There is considerably more dispute over how well shop stewards' organization has held up during the 1980s. For generally positive assessments, see Batstone (1984 and 1988) and Batstone and Gourlay (1986). For more nuanced assessments, see Terry (1988) and Willman (1986). According to Sisson and Brown (1983) during the 1970s there was a progressive formalization of wage bargaining and its centralization at the company level, while bargaining over managerial relations remained largely fragmented and informal.

generally in the region after the Second World War. Managerial slackness or omission in the auto industry, associated with weakly elaborated managerial hierarchies, allowed for the informal negotiation of work rules that workers viewed as legitimate to defend even in the absence of union pressure.¹² With the general consolidation of union organization in the industry during the 1960s, these customary practices became rigidified and subject to productivity bargaining with increasingly well entrenched shop stewards' organizations.¹³

Two key points emerge when the above observations concerning British plant-level industrial relations are juxtaposed with the German system. First, that recognized informality in collective bargaining should not necessarily be equated with a high degree of flexibility in work organization. Informality, as the British case shows, can coincide with a rigid organization of work. Second, that considerable workers' power at the plant level and a mutual dependency between labor and management that is perceived by both sides should not necessarily be equated with an ease of achieving cooperation. The possibility of cooperation in Britain stumbles up against the obstacle of distrusting beliefs about others.

As Fox (1985, p. xi) has pointed out, distrust is not absolute in the British system of industrial relations. Relations between labor and management have shown a continual adversarial win-lose posture, which nonetheless has rarely manifested itself in destructively aggressive stances by employers or revolutionary positions by workers. There is enough trust to produce the necessary cooperation to sustain production but not enough for workers to forgo the creation of narrow substantive rules, which managerial slackness allows, that are designed to protect them from an abuse of authority.¹⁴

The fact that motives for cooperation are necessary, but not sufficient, for cooperation to come about, and that the key intervening variable in achieving cooperation is trusting beliefs, can be given a theoretical grounding in one of the most important, if discouraging, results from game theory. Work on the iterated Prisoners' Dilemma has shown that even in a situation where both actors are conditional cooperators, cooperation need not emerge. If one side believes the other side to be an unconditional defector, or believes that the other believes that he is an

¹² For the comparatively poor development of managerial hierarchies in British manufacturing generally, see Elbaum and Lazonick (1986) and Hannah (1980).

¹³ For a similar evolution in the machine tool industry, see Lorenz (1988b). It would be a mistake to see the development of informal job control practices as a largely post-World War II phenomenon. In the case of iron and steel shipbuilding, for example, informal demarcation lines in the trade emerged during the 1870s and 1880s, becoming increasingly rigid and openly recognized during the 1890s with the strengthening of union organization in the industry. The creation of demarcation boards composed of employer and union representatives after 1900 lent these demarcation rules an increasingly formal status. See Lorenz (1984); Pollard and Robertson (1979, Ch. 8) and Wilkinson (1973).

¹⁴ A number of authors have pointed out that British work groups are prepared to pragmatically adapt substantive work rules, through negotiations, to the firm's changing requirements. See Elger and Hyman (1981) and Tolliday and Zeitlin (1988).

unconditional defector, then mutual defection can be the result even when all would prefer cooperation (Axelrod, 1984; Binmore and Dasgupta, 1986). Further, as Gambetta (1988, p. 233-34) has noted, the tragic irony in the situation is compounded by the fact that, given the possibility of opportunistic behavior, it is relatively easy to find evidence that can be interpreted as justifying distrust while it is virtually impossible to find ocular evidence supporting the polar opposite belief.

These results from game theory are overly pessimistic. We do not start at each point in time with a clean slate. Our beliefs about others are not entirely undetermined but rather shaped by the prior history of our interactions. As Stinchcombe (1986, p. 266) has noted, in arguing against the necessity for contractual exchange of some precontractual predisposition to trust grounded in religious faith, "there are a lot of paths to complex normative developments in which an evolutionary sequence of Pareto-rational movements exist. In short, the precontractual element of contract can perfectly well be a previous contract."

In other words, we do not require some cataclysmic "leap of faith" or a non-rationally grounded predisposition to trust to get to a state of successful cooperation. What we need is to be willing to take the initial *risk* of embarking on a slow process of trust building, in which our experience of the other at each stage will confirm, or not, the wisdom of taking the next step. If the objective conditions do in fact allow for mutual benefits to result from cooperation, then a virtuous circle of cooperation can be engendered, confirming the validity of our trusting beliefs.¹⁵

Of course, the learning process can equally operate to engender unending mutual recriminations, the defection of the other at each stage confirming the wisdom of our distrust. It may be true, as Axelrod (1984, pp. 119-20) has argued, that when there is a danger of this, it is in our interest to be forgiving. But how often? And what's to preclude our forgiveness from being interpreted as "blind cooperation," inviting deception and exploitation?

When we consider the question of achieving cooperation in Britain and France from the perspective of the necessity of trusting beliefs, the obstacles are considerable, though clearly less insurmountable in the case of Britain. In Britain, an, admittedly adversarial, form of joint regulation of work is the norm. One can imagine, given the appropriate objective conditions, a stepwise process whereby the mutual benefits of increased cooperation between labor and management progressively confirm our decision to trust cooperation.

The distance is greater in France. There, management acts as if there were no mutual dependency. The significant bits of information (informal power relations resulting in dysfunctions) that might confirm for management its dependency on labor are kept hidden and viewed as illegitimate. A necessary precondition for achieving cooperation in France would

¹⁵ For a discussion of the gradual construction of trusting relations among French firms and their subcontractors, see Lorenz (1988a).

appear to be a considerable strengthening of worker organization at the plant level. But, as a number of observers of French industrial relations have noted, the route to this end is unclear.

The considerable involvement of the state in shaping industrial relations outcomes at the plant level in France has the result that one set of key actors, the unions, are led to stress political strategies aimed at influencing state policy, particularly at the national level. Their lack of concern with the day-to-day process of bargaining at the plant level, in turn, engenders a certain apathy on the part of the work force as regards collective organization, which is seen, at best, as a comparatively ineffectual means to achieving some improvement in working conditions (Crozier, 1964, pp. 244-51; Sellier, 1961, pp. 29-34). Paradoxically, the state is frustrated in its efforts to institute joint regulation at the plant level by the pervasiveness of its interventions, which persuades the actors that their interests would be better served by refraining from voluntary face-to-face negotiations at the enterprise level.

Even assuming a considerable strengthening of plant-level worker organization in France, achieving cooperation would run up against the obstacle of the distrust that has been engendered by a long history of acrimonious relations between labor and management. The likely outcome would be the joint determination of a set of narrow substantive rules which, though possibly going some of the way to meeting workers' notions of justice at work, would leave French firms as rule-bound as in the past.

What of the alternative norm-driven route to conditional cooperation illustrated by Japan? Does this hold any promise for reforming European industrial relations? In the concluding section I shall briefly consider the implications of the Japanese case.

III

I propose to start this concluding section by presenting an argument that we don't need to introduce the notion of "social norm" to account for the possibility of cooperation in Japan. All we need to do is to take into account the distinctive nature of the competitive strategy of Japanese management, which stresses quick adaptations to changing market conditions and ongoing product and process innovation. By pursuing such a strategy Japanese management has, perhaps unintentionally, made itself especially dependent on cooperation between workers and management at the informal level. For purposes of innovation, management relies heavily on the tacit firm-specific knowledge of workers concerning particular machines and processes. It can be argued that management's recognition of labor's crucial role in sustaining competitiveness leads it to act as a conditional cooperator. Labor, for its part, is in a position to withdraw the necessary cooperation if management violates any of its commitments, say that of providing lifetime employment.

Certainly there is something in this argument, and some may wish to adopt it on grounds of parsimony. Yet numerous observers have attested to the fact that something like a social norm of exercising authority with benevolence is widely distributed in Japanese society (Abegglen, 1958; Dore, 1987; Ichiro, 1975, pp. 270-84; Morishima, 1982; Okochi et al., 1974). My intuition here, following the line of persuasion of Elster (1989, pp. 248-87), is to choose realism over parsimony and allow for multiple motives for cooperation, both rational and norm-driven ones.

While this does open the door to *ad hoc* assumptions and argument, it also allows us to explain apparently perplexing attitudes and behavior. For example, if, for whatever reason, there is a high expectation of the possibility that authority will be exercised with benevolence in Japan, then we have a rational reason for the perplexing (from a Western perspective) lack of interest Japanese workers typically express in instituting organization controls over work at the plant level. Correspondingly, the comparative weakness of comparable norms in Europe would help to account for workers' interest in strong plant-level organization, which lends credibility to their commitments and threats.

If it is accepted that social norms are part of the explanation for the possibility of cooperation in Japan, it would nonetheless be unwise to see in this a program for reform of industrial relations in Europe. As a number of social scientists have noted, the attempt to intentionally establish norms or beliefs, which must be held for other than rational reasons, in order to rationally pursue some goal (economic efficiency), is likely to be self-defeating (Elster, 1983; Hawthorne, 1988).

Even those such as Stinchcombe (1986, Ch. 12), who are most persuasive in their attempt to provide a rational basis for norms, do this by arguing that norms emerge in an *unintended* evolutionary manner, serving to sustain a particular distribution of property right that is desirable for reasons of efficiency.

A possibly more satisfactory explanation for norms, since it does not functionally assume that norms necessarily serve efficiency purposes, is that of Sugden (1989). Harking back to Menger's [1883 (1963)] notion of "organic institutions," Sugden argues that conventional patterns of behavior congeal spontaneously, the unintended consequence of individual actors pursuing their interests. These conventions can subsequently be transformed into norms through a psychological mechanism, the human desire for the approval of others. This argument similarly provides no solace for those who would hope to create norms intentionally.

From the perspective of industrial relations research, as opposed to reform, one implication of this admittedly less than satisfactory discussion of norms is the need for careful empirical research into the relation of social norms in different societal contexts to the gradual process of trust building, based on rational interests and learning, outlined above. In particular, if Japan is benefiting from the fortuitous fit between widely distributed norms and forms of

cooperation well suited to competitive success in the marketplace, is it possible that European nations are suffering from the lack of such a fit? There is some *prima facie* evidence to suggest this is the case in Britain, for example, where managers tend to place considerable value on “commanding” assent and workers on defying authority (Dore, 1987, pp. 91-95). Cooperation in Britain may not only be stumbling up against the barrier of distrust but also against the motives for not cooperating in pervasive social norms.

Assuming this to be the case, one interesting question to pose (amongst many), is what will happen if the actors can be persuaded to take the initial risk of embarking on a gradual process of trust building around new forms of cooperation, *even when* these forms of cooperation contradict existing norms? This is likely to require an exceptional circumstance, such as the threat of bankruptcy or closure, which is perceived as external to the firm. Or it may require the entrepreneurial intervention of what Selznick (1957) has termed, “institutional leadership.” In such circumstances, will the actors, through a mechanism that is largely opaque to their immediate consciousness, elaborate new norms that infuse the novel forms of cooperation with value?¹⁶

In this light, it might prove rewarding to reexamine the history of those countries, such as Sweden and Germany, that have successfully established new forms of cooperation between labor and management during the twentieth century. Careful empirical study of these cases, focussing on the relation between the emergence of the new cooperative arrangements and existing beliefs and norms, should open our imaginations to alternative possible futures for those nations where labor and management seem destined to play out an endless cycle of mutual recrimination.

By way of concluding this section, I want to stress that while the emphasis I have placed on social norms in this discussion may seem apart from the principal concerns of the industrial relations research program, a moment’s reflection will suggest that, to the contrary, it is very much in the mainstream. I am thinking of John Dunlop’s (1958, p. 16) pathbreaking study, *Industrial Relations Systems*, in which he referred to “a further element required to complete the system...an ideology...commonly held by the actors that helps to bind or to integrate the system together as an entity.”

¹⁶ See, for example, Markovits and Allen (1984), pp. 91-2:

German unions came to accept the legitimacy of the postwar German political economy for a number of reasons. The combination in the 1950s of the Cold War, which eradicated German labor radicalism, and postwar boom, which brought substantial payoffs to labor, was of essential importance... In addition, the postwar settlement encapsulated German unions in a network of institutional obligations which deepened their commitment to existing economic arrangements.

REFERENCES

- Abegglen, J. C. 1958. *The Japanese Factory*, Free Press.
- Atkinson, J. 1985. "Flexibility: Planning for an Uncertain Future," *Manpower Policy and Practice*, Vol. 1.
- Axelrod, R. 1984. *The Evolution of Cooperation*, Basic Books.
- Batstone, E. 1984. *Working Order*, Basil Blackwell.
- _____ 1988. *The Reform of Workplace Industrial Relations*, Oxford.
- Batstone, E. and S. Gourlay. 1986. *Unions. Unemployment and Innovation*, Oxford.
- Bernoux, P. 1979. "La résistance ouvrière à la rationalisation: la réappropriation du travail," *Sociologie du Travail*.
- Binmore, K. and P. Dasgupta. 1986. "Game Theory: A Survey" in K. Binmore and P. Dasgupta (eds.), *Economic Organizations as Games*, Basil Blackwell.
- Blanchflower, D. and A. Oswald. 1986. *Profit Related Pay: Prose Discovered?* New Bridge Street Consultants.
- Brown, W. 1972. "A Consideration of Custom and Practice," *British Journal of Industrial Relations*, Vol. 10.
- Bunel, J. and J.P. Bonaff-Schmitt. 1984. *Le Triangle de l'Entreprise*, Groupe Lyonnais de Sociologie Industrielle, Université Lyon II.
- Campbell, A., W. Currie, and M. Warner. 1989. "Innovation, Skills and Training: Micro-Electronics and Manpower in the United Kingdom and West Germany" in P. Hirst and J. Zeitlin (eds.), *Reversing Industrial Decline*, Berg Publishers.
- Clegg, H. 1979. *The Changing System of Industrial Relations in Great Britain*, Basil Blackwell.
- Crozier, M. 1964. *The Bureaucratic Phenomenon*, Chicago University Press.
- Dale, B. 1984. *A Study of Quality Circle Failures*, UMIST.
- Dasgupta, P. 1988. "Trust as a Commodity" in D. Gambetta (ed.), *Trust: Making and Breaking Cooperative Relations*, Basil Blackwell.
- Delamotte, Y. 1959. "Conflit industriel et participation ouvrière," *Sociologie du Travail*, No. 1.
- Dore, R. 1973. *British Factory—Japanese Factory*, University of California Press.
- _____ 1986. *Flexible Rigidities: Industrial Policy and Structural Adjustment in Japan 1970-1980*, Athlone Press.
- _____ 1987. *Taking Japan Seriously*, Stanford Press.

- Dubois, P. and D. Monjardet. 1979. *La Division du Travail: Etude du cas anglais et français*, Tome 1, Les Ouvriers, CNRS, Université Paris VII.
- Dunlop, J. 1958. *Industrial Relations Systems*, New York.
- Elbaum, B. and W. Lazonick. 1986. *The Decline of the British Economy*, Oxford.
- Elger, T. and R. Hyman. 1981. "Job Controls, the Employers' Offensive and Alternative Strategies," *Capital and Class*, No. 15.
- Elster, J. 1983. *Sour Grapes*, Cambridge.
- _____ 1989. *The Cement of Society*, Cambridge.
- Eyraud, F. 1978. "La fin des classifications Parodi," *Sociologie du Travail*, No. 3.
- _____ 1981. "Action syndicale et salaire: Une comparaison France/Grande Bretagne," Thèse pour le Doctorat ès Sciences Economiques, Université d'Aix-Marseille II.
- Eyraud, F. and R. Tchobanian. 1985. "The Auroux Reforms and Company Level Industrial Relations in France," *British Journal of Industrial Relations*, Vol. XXIII, No. 3, 9.
- Eyraud, F., A. d'Iribain, and M. Maurice. 1988. "Des entreprises face aux technologies flexibles: Une analyse de la dynamique du changement," *Sociologie du Travail*, No. 1.
- Fine, B. 1987. "Segmented Labour Market Theory: A Critical Assessment," discussion paper in Economics, Birkbeck College, University of London.
- Flanders, A. 1968. "Selected Written Evidence," Royal Commission on Trade Unions and Employers Associations 1965-68, (Donovan Commission), London, HMSO.
- Fox, A. 1985. *History and Heritage: The Social Origins of the British Industrial Relations System*, George Allen and Unwin.
- Gallie, D. 1978. *In Search of the New Working Class*, Cambridge.
- Gambetta, D. 1988. "Can We Trust Trust?" in D. Gambetta (ed.) *Trust: Making and Breaking Cooperative Relations*, Basil Blackwell.
- Gunter, P. and G. Leminsky. "1978. The Federal Republic of Germany" in J. Dunlop (ed.), *Labor in the Twentieth Century*, Academic Press.
- Hannah, L. 1980. "Visible and Invisible Hands in Great Britain" in A. Chandler and H. Daems (eds.), *Managerial Hierarchies*, Harvard University Press.
- Hawthorne, G. 1988. "Three Ironies of Trust" in D. Gambetta (ed.), *Trust: Making and Breaking Cooperative Relations*, Basil Blackwell.
- Hirst, P. and J. Zeitlin (eds.). 1989. *Reversing Industrial Decline*, Berg Publishers.
- Hyman, R. 1988. "Flexible Specialization: Miracle or Myth?" in R. Hyman and W. Streeck (eds.), *New Technology and Industrial Relations*, Basil Blackwell.
- Ichiro, N. 1975. *Industrialization and Labor-Management Relations in Japan*, Tokyo.

- Jones, B. 1989. "Flexible Automation and Factory Politics: The United Kingdom in Comparative Perspective" in P. Hirst and J. Zeitlin (eds.), *Reversing Industrial Decline*, Berg Publishers.
- Katz, H. and C. Sabel. 1985. "Industrial Relations and Industrial Adjustment in the Car Industry," *Industrial Relations*, Vol. 24, No. 3.
- Lorenz, E. 1984. "Two Patterns of Development: The Labour Process in the British and French Shipbuilding Industries 1880-1930," *The Journal of European Economic History*, Vol. 13, Winter.
- _____. 1988a. "Neither Friends nor Strangers: Informal Networks of Subcontracting in French Engineering" in D. Gambetta (ed.), *Trust: Making and Breaking Cooperative Relations*, Basil Blackwell.
- _____. 1988b. "The Price of Distrust: Rigidities in British Engineering," paper presented at the Annual ASSA Meetings, New York, Dec.
- Maitland, I. 1983. *The Causes of Industrial Disorder: A Comparison of a British and a German Factory*, London.
- Markovits, A. and C. Allen. 1984. "Trade Unions and the Economic Crisis: The West German Case" in Gourevitch et al. (eds.), *Unions and Economic Crisis: Britain, West Germany and Sweden*, George Allen and Unwin.
- Maurice, M., F. Sellier, and J.-J. Silvestre. 1986a. *The Social Foundations of Industrial Power*, MIT Press.
- Maurice, M., F. Eyraud, A. d'Iribarne, F. Rychener. 1986b. *Des entreprises en mutation dans la crise: apprentissages des technologies flexibles et émergence de nouveaux acteurs*, rapport LEST/CNRS, Aix-en-Provence.
- Menger, C. 1963. *Problems of Economics and Sociology*, University of Illinois Press, 1983.
- Morishima, M. 1982. *Why has Japan "Succeeded"?* Cambridge.
- Neal, A.C. 1985. "Co-Determination in the Federal Republic of Germany: An External Perspective from the United Kingdom," *British Journal of Industrial Relations*, Vol. 25, July.
- Okochi, K., B. Karsh, and S.B. Fine. 1974. "The Japanese Industrial Relations System" in Okochi, Karsh, and Fine (eds.), *Workers and Employers in Japan*, Princeton.
- Owen Smith, E. 1971. *Productivity Bargaining*, Pan Books.
- Parker, M. and J. Slaughter. 1988. *Choosing Sides*, Boston.
- Piore, M. 1986. "Perspectives on Labor Market Flexibility," *Industrial Relations*, Vol. 25, No. 2.
- Piore, M. and C. Sabel. 1984. *The Second Industrial Divide*, Basic Books.
- Pollard, S. and P. Robertson. 1979. *The British Shipbuilding Industry, 1890-1914*, Harvard University Press.
- Regini, M. 1987. "Industrial Relations in the Phase of Uncertainty," *International Journal of Political Economy*, Vol. 17, No. 3.

- Reynaud, J.D. 1975a. *Les Syndicats en France*, Tome I, Paris, Editions du Seuil.
- _____ 1975b. *Les Syndicats en France*, Tome II, Paris, Editions du Seuil.
- _____ 1978. *Les Syndicats, Les Patrons et l'Etat*, Paris, Editions Ouvrières.
- Sellier, F. 1961. *Stratégies de la Lutte Social: France 1936-1960*, Editions Ouvrières, Paris.
- _____ 1970. "L'évolution des négociations collectives dans la sidérurgie et la métallurgie en France (1950-1961)," *Droit Social*, Nos. 9-10.
- _____ 1984. *La Confrontation Sociale en France 1936-1981*, Paris, PUF.
- Selznick, P. 1957. *Leadership in Administration*, Evanston, Ill.
- Shaiken, H., S. Herzenberg, and S. Kuhn. 1986. "The Work Process under More Flexible Production," *Industrial Relations*, Vol. 25, No. 2.
- Sisson, K. 1975. *Industrial Relations in Fleet Street*, Basil Blackwell.
- Sisson, K. and W. Brown. 1983. "Industrial Relations in the Private Sector: Donovan Revisited" in G. Bain (ed.), *Industrial Relations in Britain*, Basil Blackwell.
- Slack, E. 1980. "Plant Level Bargaining in France," *Industrial Relations Journal*.
- Stinchcombe, A. 1986. *Stratification and Organization*, Cambridge.
- Streeck, W. 1984. *Industrial Relations in West Germany*, St. Martins Press.
- Sugden, R. 1989. "Spontaneous Order," *The Journal of Economic Perspectives*, Fall.
- Terry, M. 1988. "Introduction: Historical Analysis and Contemporary Issues" in M. Terry and P.K. Edwards (eds.), *Shopfloor Politics and Job Controls*, Basil Blackwell.
- Thelen, K. 1988. "The Politics of Flexibility in the German Metalworking Industries," paper presented at the 1988 Meetings of the American Political Science Association, Washington D.C., September 1-4.
- Tolliday, S. 1985. "Government, Employers and Shop Floor Organization in the British Motor Industry, 1939-69" in Tolliday and Zeitlin (eds.), *Shop Floor Bargaining and the State*, Cambridge University Press.
- Tolliday, S. and J. Zeitlin. 1988. "Shop-Floor Bargaining, Contract Unionism and Job Control: An Anglo-American Comparison" in Tolliday and Zeitlin (eds.), *The Automobile Industry and Its Workers*, St. Martin's Press.
- Ulman, L. 1974. "Connective Bargaining and Competitive Bargaining," *Scottish Journal of Political Economy*, Vol. 21, June.
- Wilkinson, B. 1983. *The Shopfloor Politics of New Technology*, Heinemann Educational Books.
- Wilkinson, F. 1973. "Demarcation in Shipbuilding," Department of Applied Economics Working Paper, University of Cambridge.
- _____ 1987. "Flexibility, Marketing and the Organization of Production," *Labour and Society*, Vol. 12, No. 1, January.

Willman, P. 1986. *Technological Change, Collective Bargaining, and Industrial Efficiency*, Oxford.

Williamson, O.E. 1985. *The Economic Institutions of Capitalism*, Free Press.

Zeitlin, J. 1980. "The Emergence of Shop Steward Organization and Job Control in the British Car Industry: A Review Essay," *History Workshop Journal*, 10, Autumn.

Zweig, F. 1951. *Productivity and Trade Unions*, Basil Blackwell.