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Comment on H.F. Gospel’s ‘The Firm and Labour Management: A Conceptual and Comparative Perspective’**

Indeed, the assertion that ‘[...], in a market economy, the nature of markets will play a large part in shaping labour decisions and practises’1 implies more than merely stating the obvious. Rather, it constitutes the necessary prerequisite for any attempt to apply institutional economics analyses to personnel issues. Thus, the recent work of Lazear (1995) can be verified to provide a collection of models highlighting how firms in pursuit of their goals respond to labor market characteristics by designing their wage and salary policies as well as other aspects of the employment relationship. Clearly, such contributions to the newly emerging personnel economics discipline are neither exhaustive, nor conclusive in a sense of providing general strategic rules for personnel policies. While the former only provides the necessary inspiration propelling further academic interest, the latter may in fact be perceived as a conceptual deficiency as far as management applications are concerned.

Yet, whether as theoretical or managerial economists we are trained not to look so much for the desirable first-best, but rather to make choices among the available options. This should also apply when considering alternative conceptual approaches for investigating work, employment, and industrial relations. From an institutional economics point of view the citation above, thus contains two important elements. First, institutions matter. The workings of a market economy can only be properly understood by analyzing its different agents – individuals, households, and formal economic organizations – and their specific interactions. In order to fully appreciate the pathbreaking virtue of this assertion, it is sometimes useful to recall the enormous time-span ranging between Coase’s (1937) original contribution – Nobel prize winning in 1991 – up to the inclusion of these ideas in modern textbooks on the theory of the firm. Second, economic institutions reflect rational choices. Analyzing their specific features – e.g. the personnel or human resource policies adopted by firms – requires to explicitly account for the goals pursued by individuals whether these are expressed directly by trade in market environments or channeled through multi-laterally beneficial formal organizations. Firms as one variety of formal economic organizations (Milgrom/Roberts 1992: 22-25) therefore exist, respectively survive because they serve the interests of the individuals involved best.

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**  Anm. der Redaktion: Dem Autor lag nur die englische Version des Beitrags vor, weshalb er seinen Kommentar auf Englisch verfaßt hat.

1  Unless otherwise stated all quotes in this comment are taken from Gospel (1998).
Gospel primarily draws on a body of literature from or inspired by the American Institutionalism. This work’s importance for the development of managerial economics certainly reflects the explanatory lacunae associated with the almost entirely market-oriented mainstream economic theory which has dominated at least until the mid 1970s. Yet, such studies have also used their detailed empirical insights to formulate hypotheses concerning best organizational strategies. Thus introducing the second element noted above, these strategies can be – and, to a considerable extent, already have been – subjected to rational institutional economics analysis themselves. Applying appropriate statistical techniques then further allows to judge the explanatory power of a particular hypothesis. In contrast, Gospel appears to suggest that stylized facts actually provide evidence on how human resource policies respond to different market facts. This does not only mark a methodological problem. By emphasizing the aspect of ‘enacted’ strategies, the study explicitly turns away from investigating the balance of interests within the firm and the goals pursued by the strategy adoption. Rather, it intends to ‘understand the nature of labour management in a broad historical and comparative perspective’. Taken to its full consequence, this obviously implies that both the account of personnel policies and practices of firms and the international comparative view of market structures presented in the article’s main body must be purely descriptive. Neither the rational for, nor the mechanisms of adopting such strategies are revealed.

Institutional and personnel economics approaches – as the alternative analytic concept at hand – are frequently claimed to over-simplify due to their need for abstraction or, more fundamentally even, seen to lack normative quality due to the rationality assumption. However, simplification in a technical sense need not imply a loss of explanatory power (Campbell 1995: 5-7). At the same time, the investigative interest in uncovering motives and mechanisms does not require perfect rationality of all decision-makers (Lazear 1995: 7-10). The decisive and contrasting feature of such approaches must then be seen in addressing specific hypotheses. Thus, they necessarily fail to provide a ‘broad’ perspective. Following Gospel, human resource management policies reflect the different national market environments which have prevailed historically. Given an increasingly globalized market environment – today even characteristic for European labor markets and not restricted to world-wide financial markets only – the strategic tasks for both policy-makers and firm management then rather require a thorough analytical perspective, however.

References