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EMPLOYEE VOICE: A TRANSACTION COSTS PERSPECTIVE

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Abstract

Whether it is better to adopt voice or exit depends on the nature of the transaction for both parties. The strongest voice-sustaining equilibrium is where both parties see voice as preferable to exit. This is likely where both parties have substantial sunk costs. In other circumstances, there is no voice-sustaining equilibrium. We apply insights from transaction cost economics to voice and exit in the employment relationship. We consider which types of employment relationship are likely to sustain voice and which are not using a model of the employment contract that originates with Oliver Williamson. Based on this, we use a simple cost benefit model which deals with two related questions. First, where is voice likely to emerge and, second, what type of voice is it likely to be? We then apply the model empirically to workplace data for Britain to shed light on the size and composition of the "no voice" sector; the emergence of a sizeable "non-union" voice sector; the persistence of unionization among existing establishments; and the economic outcomes associated with voice choice by firms.

1.   Introduction.

Transaction costs are, in Arrow's memorable term, the costs of running the economic system (1969;48). To use Williamson's simple analogy, they are analogous to friction in physical systems (1985;19). In many forms of positive, mathematical economics, they do not exist, just as frictions are assumed away in the abstract modelling of physical systems. Transaction costs are subversive of pure market models because, by definition, they imply something is not working or that there is a cost involved in making it work. .

Voice is at root a transaction costs concept. Markets should work by exit; if consumers or employees are not getting what they want, they should switch supplier or employer. Voice is the obverse of switching. The existence of voice is premised on the empirical occurrence that people often try to sort out their problems rather than simply finding a better option somewhere else. For Hirschman (1970), there are potentially a large number of such situations in both consumer and labour markets. Moreover, he sees collective voice as more effective than individual voice; but collective voice is difficult to organise, since there are collective action problems. It is not just a matter of what is to be done but a matter of who will do it.

This is quite a disturbing set of observations for some economists; not only do markets sometimes not work, but people are prepared to engage in costly collective action to resolve problems in a wide set of circumstances. The conclusion for an economist is obvious. If voice is widespread, it must be more efficient for both parties in a wide set of transactions, so one must study the efficiency properties of voice mechanisms.

This is significant for the following reasons. The most widely cited approach to voice used in the employment relations field is essentially Hirschman's (Morrison 2011), and its import by Freeman and Medoff (1984) into the mainstream of labour relations. More precisely, it is Hirschman's with a few key assumptions added since Freeman and Medoff argued that *only* collective voice is important and that collective voice is to be equated with trade unions. The first is a stronger version of Hirschman's argument. The second is arbitrary, based probably on overreliance on the American model of legal collective action (the "Wagner Act" model).

Interestingly, over fifty years prior to Hirschman, William Basset's book *When the Workmen Help You Manage* (1919) included the use of the term voice and did not restrict observations to the union establishment only (Kaufman, 2012). What goes missing in the traditional ER conception of voice is central; it is the transaction. Whether it is better to adopt voice or exit depends on the <u>nature of the transaction</u> for both parties.

Let us take the employment relation. The strongest voice-sustaining equilibrium is where both parties see voice as preferable to exit. This is likely where both parties have substantial sunk costs. In other circumstances, there is no voice-sustaining equilibrium. Critically, though both sets of authors greatly contributed to the current interest in the voice concept, neither Hirschman nor Freeman and Medoff spend much time examining which transactions sustain voice and which do not.

This paper will try to do both and to use that approach to explain the emergence of voice and its variance. The next section will look at which types of employment relationship are likely to sustain voice and which not; it develops a model of the employment contract that originates with Oliver Williamson. Based on this, section 3 uses a simple cost benefit model which deals with two related questions. First, where is voice likely to emerge and, second, what type of voice is it likely to be? Section 4 illustrates how empirically this approach may be developed. Section 4 concludes.
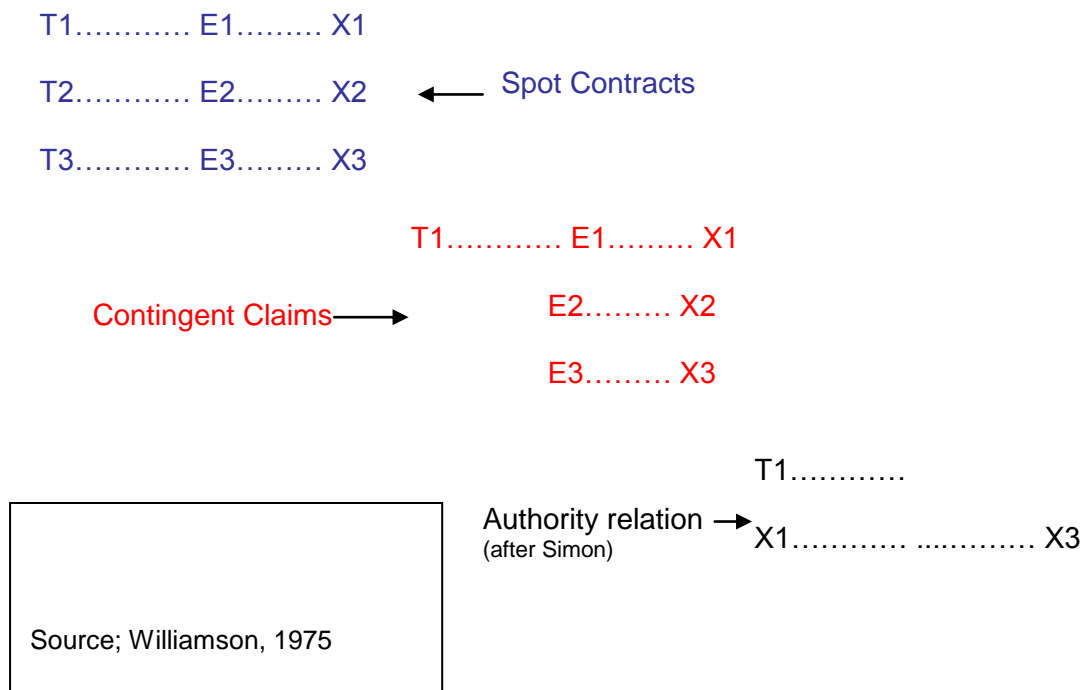
2.   The Employment Relationship

Williamson (1975; see also Willman 1986;89-96) identifies three broad types of employment contract; spot contracting, contingent claims contracting and, explicitly borrowed from Simon, an 'authority relationship'. Each are in his terms, different 'governance mechanisms', and each has different transaction costs properties. He does not deal directly with this, but as we show below, each is likely to lead to demands by one or both contractual parties for voice mechanisms, primarily to control what Williamson terms 'opportunism'. ("self interest seeking with guile").

Consider Figure 1. In spot contracting, at time t_1 the parties agree a price for the supply of labour services x_1 at the occurrence of the event e_1. They do the same again at, t_2 and again at t_3 and so on. This is in effect a description of a casual labour market and its effects have been documented by Willman (1986; 108-144) for two empirically important historical examples, dock (longshore) work and newspaper printing; in many countries, these industries have through much of the twentieth century been associated with high levels of collective voice, particularly high union density and high levels of collective conflict. Both were also characterised by high levels of product market volatility which could translate into volatile and uncertain levels of demand for labour. In dock work, ship arrival times were unpredictable, and demand for labour to unload the ship was high, but short lived; particularly if the product was perishable, the employer has incentives for very short spot contracts for large groups of employees. The employer incentive

for short term employment, treating labour as a variable cost, arose since fast unloading meant lower berth costs and better use of capital (the ship and berth). Employees had incentives to extend employment and to control earnings volatility. In newspapers, there is similar volatility in demand for labour. This emerges because, although the publication time of the newspaper may not be in question, the content and size of it is; one cannot produce the news element of a paper until as late as possible. The product is highly perishable; no-one wants yesterday's paper.

Figure 1
Employment contract types

T1………… E1……… X1

T2………… E2……… X2   ⟵   Spot Contracts

T3………… E3……… X3

T1………… E1……… X1

Contingent Claims ⟶   E2……… X2

E3……… X3

T1…………

Authority relation ⟶ X1………… ...……… X3
(after Simon)

Source; Williamson, 1975

Similar institutional responses emerged in both industries across several countries. The employer wishes to use spot contracts so that all the risk in labour demand volatility is borne by the employee. She also has no incentive to build a relationship with any individual employee across a contract sequence. The usual way of implementing this was through the use of casual labour and the 'hiring hall' in which the employer shows up on any event e_j and picks labour from a pool. The usual response by employees was collective action to implement rules for hiring (work sharing of several forms), setting minimum labour prices and minimum manning levels. Three further points are of interest, both emerging once collective organisation is established. First, the union has no incentive to encourage relationships between individual employees and firms (i.e. 'decasualisation' or long term employment). Second, collective action needs to cover the whole labour market to be effective, so closed shops are preferred by the union. Third, firms have a

strong incentive for collective action in wage bargaining to take labour costs out of competition, so industry bargaining emerges.

So, the contractual pattern, itself a response to product market conditions, encourages strong union voice. However, this is not necessarily an equilibrium. Employers are faced with higher labour costs and have no incentive themselves to invest in voice. Empirically, both cases disappeared when technology was substituted for labour, in circumstances of very high levels of conflict. In general terms, more stable employment contracts emerged.

Let us return again to Figure 1 to examine contingent claims contracting. In contingent claims contracting, at time t_1 the parties agree a price for the supply of labour services x_1 to x_3 at the occurrence of the events $e_1 ... e_3$. So the underlying assumption is of a longer term employment relationship, but across a specifiable range of events which each lead to demand for a predictable set of labour service ($x_1 ..... x_3$). Empirical examples of this sort of contract in industries such as shoemaking in a variety of countries go back as far as Commons (1906). They take the form in that industry of price lists for particular types or elements of shoe (normally the shoe is priced by the element combination). However, almost all piecework arrangements where prices are attached either to labour inputs or outputs are forms of contingent claims contract. For example, the application of Taylorist production systems would normally be based on a complex contingent claims contract (Braverman, 1974).

This Taylorist example gives a clue to the limitations and also the voice implications of this form of contracting. A key element in Taylorism is the separation of conception from execution; i.e. employers decide on, design and specify the tasks and the employee delivers the service. So for this form of contracting to be useful in the employment relationship, the employer must be able, at t_1, to specify both a large set of events ($e_1 ..... e_j$) and the specific set of labour services triggered by each event ($x_1 ..... x_j$). Where there is product market volatility or technological change, the efficiency of the approach is compromised and it can degenerate into a sequence of spot contracts with similar voice implications to those above. Williamson uses Simon's term 'bounded rationality' to describe the cognitive limitations of this form of contracting.

However, even in steady state, there are two sets of voice implications. First, what governance mechanism is in place to establish whether a particular e_j generating a requirement for x_j has occurred? Second, what do the parties do in the face of the unexpected (i.e. unspecified) event? The first points to some mechanism for consultation and communication backed up by a process such as arbitration to establish what the state of the world is. The second points to a procedural arrangement in which a new event generating a new demand for labour service is identified,

classified and priced. These may both be part of a collective agreement between management and union but there is nothing here that excludes the possibility of non-union voice.

However, Williamson still regards contingent claims contracting as either *ex ante* or *ex post* inefficient. By *ex ante* is meant that the parties can spend enormous efforts trying to identify and price contingencies and the complexity of the contract is enormous. By *ex post* is meant that haggling over unforeseen contingencies remains a high probability. Williamson (1975, 1985) regards the 'authority relation' which he also borrows from Simon as more efficient. It is worth quoting his approach.

"The authority relation mode involves capitalist ownership of equipment and inventories coupled with an employment relationship between capitalist and worker. The employment relationship is, by design, an incomplete form of contracting. Flexibility is featured as the employee stands ready to accept authority regarding work assignments provided only that the behaviour called for falls within the 'zone of acceptance' of the contract." (Williamson 1985 218-9).

In terms of Figure 1, the employee, in return for an employment contract, allows the employer to specify a zone of acceptance, which may be thought of as a range of $(x_1 ..... x_3)$ services unconnected to specific events. For the transaction cost economist, this reduces costly haggling merely to whether anything falls outside $(x_1 ..... x_3)$, which is therefore more efficient than the other modes in which haggling is more likely. For other social scientists, it may beg many of the interesting questions, particularly the general one – why should the authority reside with the employer (capitalist) – and the specific one – what defines $(x_1 ..... x_3)$? In order to get to the voice-related issues involved in this contractual form, we have to look at two other conceptual building blocks of the transactions cost economics project; first, opportunism and, second, the difference between perfunctory and consummate co-operation. These are both, for Williamson attributes *only* of employees, but not because they are employees – because they are sellers.

Opportunism, as we noted above, is self interest seeking with guile. It is a much stronger assumption than simple self interest. It involves adverse selection *and* moral hazard, and the generation of 'contrived' conditions of information asymmetry. It can destroy the efficiency principles of any contractual form because "were it not for opportunism, all behaviour could be rule governed" (and we could write the rules). It destroys "actions of a joint profit maximising kind" 1985; 48). In employment contracts, opportunism is discussed as a property of employees; put colloquially, they get hired by saying they will do the job (adverse selection) and then they do as little as possible (moral hazard) while learning much more about how the job is done than the employer (information asymmetry).

'As little as possible' is perfunctory cooperation. This is performing in a minimally acceptable way; just better than the next available job applicant. The basic idea is that the supplier of labour enjoys discretion within an incomplete contract but chooses the minimum. Consummate co-operation is "an affirmative job attitude whereby gaps are filled, initiative is taken, and judgement is exercised in an instrumental way" (1985; 262-2). Joint benefits and efficiency gains are maximised.

Put differently, in Fox's (1974) terms, the 'silences' in an authority relationship can be filled by low or high trust, and this is the space for voice. Williamson (1975) opts for Doeringer and Piore's (1971) idea of an internal labour market characterised by, on the one hand, long term investments and monitoring by the employer and, on the other, promotion and skill acquisition benefits by the employee, as a contractual governance mechanism disposed towards the avoidance of opportunism and the maximisation of efficiency gains.

So, in all three forms of employment contracting, there is a clear role for voice as (in Williamson's terms) a 'governance mechanism' to increase efficiency by reducing transactions costs. And the probability of voice increases with the switching costs of both parties; scarcity of alternative employment opportunities on the one hand and alternative supplies of labour on the other should promote voice.

There have been many criticisms of the Williamson approach. Many concern the assumptions about actors therein; specifically, the assumption about pervasive opportunism (self interest seeking with guile) embeds a particularly bleak view of human nature.(Dietrich, 1994; Donaldson, 1995; Ghoshal and Moran, 1996). It has been seen as ethnocentric, specifically based on western assumptions (Dore 1983). It ignores power altogether (Francis, 1982), and it is a theoretical construct rather than an empirically grounded set of findings about employment contracts. Most significantly for the present concerns, it sees opportunism in employment contracts as a option only for the employee, when the three mechanisms underpinning it – moral hazard, adverse selection and information asymmetry - are clearly relevant for the employer (Marglin, 1962, Willman, 1982).

However, for the study of employee voice, it does generate specific predictions.
1. Because voice is a likely outcome of all forms of employment contract, it should be common; specifically it should be far more common than employment contracting without voice.

2. Because voice can be of benefit to both contracting parties, it may be sponsored and initiated by either employer or employee, or both.

3. Because voice has efficiency properties, the parties should chose the most efficient form of voice, either in terms of the costs of voice provision, or the returns (reduction in transaction costs) to any given form of voice.

In the next section, we develop a model dealing with the costs and benefits of voice.

3. The Choice of Voice Regime[1]

Transaction cost economics suggests that in exchanges characterised by asset specificity, frequency of interaction and uncertainty, choices about transaction governance structures are required. In particular, the choice whether to make or buy, or, more accurately, own or contract. All else equal, the more idiosyncratic the investments, the greater the frequency of interaction [and duration of exchange] and the greater the uncertainty facing the buyer, hierarchy rather than market will be preferred [Williamson, 1975, 1985, 1991].

The choice of governance mechanism is made by parties operating under bounded rationality, faced with the possibility of opportunism, and operating on a risk neutral basis. With single interactions [the temporary employee paid by the piece] and no uncertainty, the employer will not want voice; the classic example above is the long-shore hiring hall. However, the employer wanting voice faces a governance choice problem when seeking to 'purchase' a voice-producing workforce. 'Making', involves full provision of those mechanisms which might engender employee voice, including those perceived as legitimate by employees. Specifically, this would involve full provision of non-union voice. 'Buying' would, *in extremis*, involve the subcontracting out to a union of all aspects of voice provision. Hybrid and intermediate forms, which involve a mixture of union and non-union voice, are possible and might be differentiated in terms of variance in the nature of the transaction [asset specificity, frequency and uncertainty] or of the purchasing party [boundedness of rationality, expectation of opportunism and risk preference].

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[1] This section relies on Willman et al (2007)

Where voice is not chosen, it may be assumed either that the employer is not concerned by employee exit, or that the costs of voice exceed those of exit. Where voice is chosen, we conceptualise the employer options described above within the transaction costs framework as follows:

[a] Buy [i.e. union voice **U**]

> This is closest to the Freeman and Medoff view of voice where the employer subcontracts to one or more unions the responsibility for the generation of voice. This involves, in Williamson's terms, a long term relational contract in which the employer's direct costs in the production of voice are low but the risks of supplier opportunism are high.

[b] Make [i.e. non-union voice **N**]

> This is akin to the 'sophisticated HRM' approach and involves employers choosing directly to provide a set of employee voice mechanisms excluding third party intervention. Direct costs are correspondingly higher and, while there is a risk that the approach may not generate the voice required, there are no counterparty risks.

[c] Hedge [i.e. dual channel voice **D**]

> Following Williamson [1991] we include a mixed option in which union and non-union voice mechanisms co-exist. This may be seen as a form of employer hedging, attempting to control both cost and risk. For simplicity, we treat this as a single option in what follows, acknowledging that a range of hybrids are possible across firms.

Adapting Farber and Western (2002), we consider the choice between the three options above in terms of a cost-benefit framework with three dimensions. Specifically we define the expected value V_i^j to the firm of adopting voice regime j as,

[1] $V_i^j = \theta_i^j R_i^j - C_i^j$,

where,

θ_i^j = probability that an employee management regime for employer i will meet with success[2], which inversely proxies the risk associated with regime choice and where $j = (U,N,D)$ indexes the three voice regimes described above

R_i^j = gross return or benefit from voice regime adoption

C_i^j = the administrative cost of providing or purchasing voice regime j.

A rational employer, i, will adopt voice regime j when its expected value is greater than the next best alternative V_i^*. Thus, 'buying' would occur when:

[2] $V_i^U > V_i^*$

When buying or making offer equivalent expected values, the firm may hedge or use other criteria (discussed later) to make its decision. Taking the adoption of union voice as our benchmark example, [1] and [2] imply that the condition for the firm to undertake a "buy" decision is given by

[3] $\theta_i^U > \dfrac{C_i^U}{R_i^U}$.

The right-hand side of equation [3] defines a critical value for the probability of an employer finding union voice adoption successful. The critical value is

[4] $\theta_i^* = \dfrac{C_i^U}{R_i^U}$,

and unions will be able to organize employers for which the probability of successfully adopting union voice is greater than the critical value, i.e., $\theta_i^U > \theta_i^*$.[3] Assuming R_i^j is similar for all forms of voice – i.e., voice is an experience good residing in a competitive 'solution market' that may be

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[2] Where success is measured from the employer's perspective, along a variety of dimensions related to the ability of the voice regime to elicit employee behaviours that are favourable to productivity.
[3] The same decision rule could have been applied to the other two voice regime choices.

secured equally through a variety of institutions[4] -- the key variables for the firm become risk θ_i^j

and cost C_i^j.

In terms of risk, consider the effect of change in the distribution of θ_i^U without any change to

θ_i^*. Suppose for example that there is a negative shock in organizing climate (due to either legal

changes or lower employee demand for unionisation) which lowers union density at the

workplace level. This would reduce unions capabilities to act as voice providers, lowering θ_i^U

and reducing the number of firms which would profit from buying voice. The first-order result

would be that fewer firms would adopt union voice. However, since the critical value remains

unchanged, the success of union-only voice for firms that stick with their buy decision, will not

alter greatly. That is, pockets of successful union-only voice will persist even as overall union

reliability declines. Such an adverse change in the distribution of θ_i^U could account for the sharp

decline in union-only voice adoption by British firms born after 1980 (as shown later in the text)

and with the lack of radical changeover for firms born in the earlier period.

Apart from environmental changes, other factors could also affect the risk of voice

regime adoption. In terms of non-union voice, the most important risk item for θ_i^N is the

probability that the firm will be able to hire voice-production specialists and generate institutional

forms which elicit voice without the existence of a third, independent party. The key risk item

for θ_i^U (apart from exogenous changes to economic or political climate) is the probability that

the firm will find a non-opportunistic or incompetent counter-party. Where both risks are equally

high, for example where personnel specialists are rare and unions militant or too weak, the firm

may hedge and adopt the hybrid option V_i^D .[5]

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[4] This is an admittedly strong assumption but is relaxed later when we discuss the possibility of inter-firm heterogeneity.

[5] In all three cases one can see the experiential characteristics of voice provision (i.e., the fact that any form of voice necessitates a trial or sampling period before the payoff can be accurately assessed). This is why voice regimes are experience goods for employers as well as employees (see Gomez and Gunderson 2002 and Bryson and Gomez 2003).

In terms of costs, the key items are as in Figure 1, which depicts hypothetical firm "A" in three possible states. In reverse order, in case 3, the firm experiences C_i^U having entered a long term relational voice contract with a reliable union $\theta^u=1$. If the union becomes less able to elicit voice and/or more militant, the firm may seek – providing that HRM itself is a reliable alternative $\theta^N=1$ – to move to case 1, with costs C_i^N; this could occur through de-recognition of the union by the employer. Where union and non-union prospects are equally risky i.e., $\theta^u=\theta^N=0.5$ the firm may seek to "hedge" and adopt a dual channel of union and non-union voice with costs C_i^D, as in case 2.

Figure 2: The Firm's Make or Buy Decision Under Three Possible Cases
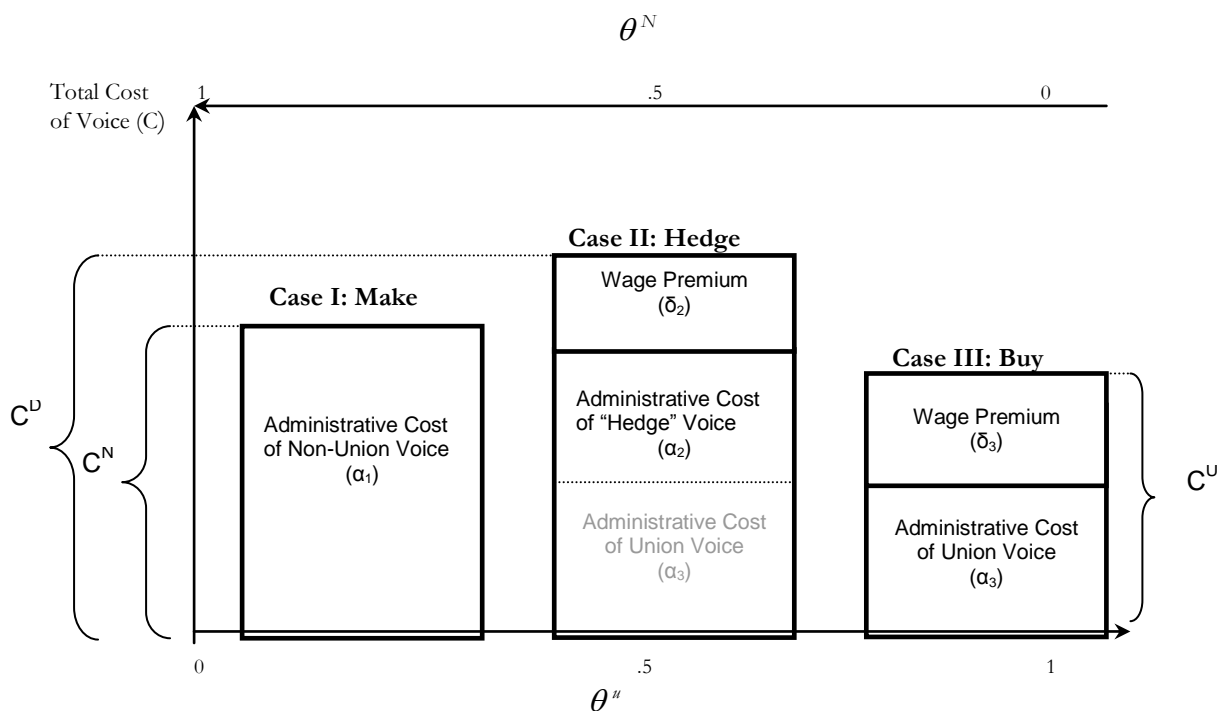

Figure 2 also outlines the variable elements of any C_i^j. They are, for all, market wage and administrative costs *a*, the former assumed regime independent (equal for all and thus not included) and the latter regime dependent. For both C_i^U and C_i^D, there is the possibility of a

wage mark up δ, variations in which might generate regime switching behaviour. Note that the administrative cost of voice is highest in the make case and lowest in the buy case. Hedging, the highest cost option in this illustrative example, is also assumed to be the lowest risk option $\theta^u + \theta^N = 1$.

What happens if firms decide to change voice regimes? Two implications regarding the switching behaviour of firms emerge. First, the logic above indicates that switches from wholly union to wholly non-union voice [or the reverse] are less likely than a switch from either to a dual channel. If one form of voice provision is unsatisfactory [perhaps because the union is unreliable] or too costly [perhaps because of the number of personnel specialists required] then hedging to a dual channel is more likely than complete abandonment.

Several factors might induce such a switch. Switching away from union voice is more likely when union voice is fragile [with low union membership], when interruptions to voice supply occur [strikes], where administrative costs- for example those involved in providing union facilities - rise or where for reasons of competition the firm negatively evaluates the equal supply of union voice to all competitors. Non-union voice is fragile where there are capability or cost questions, where the union wage premium disappears (thus lowering the relative cost of the buy decision) or where employer-made voice is not viewed as legitimate by employees.

In this regard, an apparent paradox emerges. In Britain and the United States, there is evidence that the union wage premium has fallen. [Blanchflower and Bryson, 2003; Hildreth, 1999]. In addition, over the last two decades, the number of strikes has fallen. In other words it would appear that C^u_i and θ^u_i have become more favourable for firms. However, there is no evidence of a switch to union voice—in fact, as shown below, the opposite has occurred. What explains this lack of switching in the face of a seemingly cheaper and more reliable alternative? This question raises the second implication of our modelling above.

We argue for the existence of switching costs S_i^{jk} once a voice regime is adopted, where $j,k = (U,D,N)$ and $j \neq k$ for switching regime j to k. Switching costs encourage inertia; hence movements away from an existing form of voice for an established employer are less likely than the adoption of alternative forms of voice by newly established firms. Switching costs can therefore explain why an employer <u>remains</u> non-unionised (unionised) even when a better (non) union alternative exists. The voice-regime choice model [1] can therefore be re-written as:

[5] $\qquad V^j = \theta_i^j R_i^j - C_i^j + S^{jk}$.

Persistence in regime j in the face of better alternative k occurs as long as S_i^{jk} remains greater than the net-benefit $\Delta V_i^{jk} = V^k - V_i^j$ of changing voice regimes,

[6] $\quad S_i^{jk} > \Delta V_i^{jk}, \qquad$ where $\Delta V_i^{jk} > 0$.

Equation [6] is one reason why employers often stick with their original voice-regime decisions and why switching does not occur simply because expected net benefits of new adoption are positive (as would be the case if equation [1] were in effect).

This model adds to the predictions about voice outlined in the previous section.

4. Although we would expect voice regimes to be stable in the short term, we would expect long term that employers would move to the most efficient forms of voice.

5. However, we might also expect employers to mix forms of voice to hedge against future changes in the costs of or returns to any particular voice regime.

4.   Empirical Evidence

The empirical evidence indicating the usefulness of a transactions costs perspective on voice comes from previous studies using the WERS dataset based on a British sample (Bryson et al 2007, 2012, Gomez et al 2010, Willman et al 2006, 2007, 2009). A British data set on establishments from 1980-2004 has the advantage in a cost benefit approach that relatively few external influences existed on the choice of voice regime by employers and employees. One can

assume with some confidence that efficiency constraints, rather than coercive or normative pressures, had an impact (see Dobbin et al 1993).

We summarise the key findings as follows.

1.   Willman et al (2006) found a 'no voice' sector in the UK that was stable both in size and in composition. It had a thinner set overall of employer-employee communication channels rather than one different from the no voice sector; i.e. the no-voice sector seemed to do less communicating on every dimension (formal and non-formal). Smaller establishments, lower network externalities and lower asset specificity work against the adoption of a formal voice regime. Overall, this seems to tell a story about the returns to voice (net of costs) being an important determinant of voice adoption. However, this 'no voice' sector was small, below 20% of all establishments throughout the period1984-1988, and falling to under 15% in 2004 (see Gomez et al 2010; 388). The majority of employment contracts have voice as a governance mechanism.

2.   Figure 3 shows (Gomez et al 2010;389) the change in voice regimes across the whole period. It shows clearly that voice mechanisms were sponsored by employers (non-union voice), by employees (union only voice) and by both (dual voice). There was a substantial change in the proportion of each across the period, but the switches appear to be between forms of voice, rather than into and out of the no-voice sector.

3.   Bryson et al (2012) using the same dataset find that establishments with voice have lower quit rates than those without, confirming the underlying exit-voice proposition. They also found that establishments with non union voice have lower conflict than those with union voice but better performance in terms of productivity and (to a limited extent) financial performance. Industrial climate was perceived by managers to be better in establishments with non union voice than union voice. Overall, they found that non-union voice had a comparative advantage over union voice for many establishments.

4.　　　　　As one would expect from this finding, the pattern in Figure 3 of long term moves towards the comparatively advantageous non-union voice form is evident, as our transactions cost-based model would predict. However, churn is more limited in the shorter term, as our model of switching costs would suggest. Between 1990 and 1998, for example, under 30% of establishments made a switch in voice regime (Willman et al., 2003;20). There appear to be transactions costs in change.

5.　　　　　This idea is reinforced by an examination of the switching behaviour itself. For the above period, over 40% of all regime switches were into mixed (dual) forms of voice. This may be seen as a form of hedging, as employers seek to insure against movements in the relative return to different forms of voice.

Figure 3; Voice regimes in UK
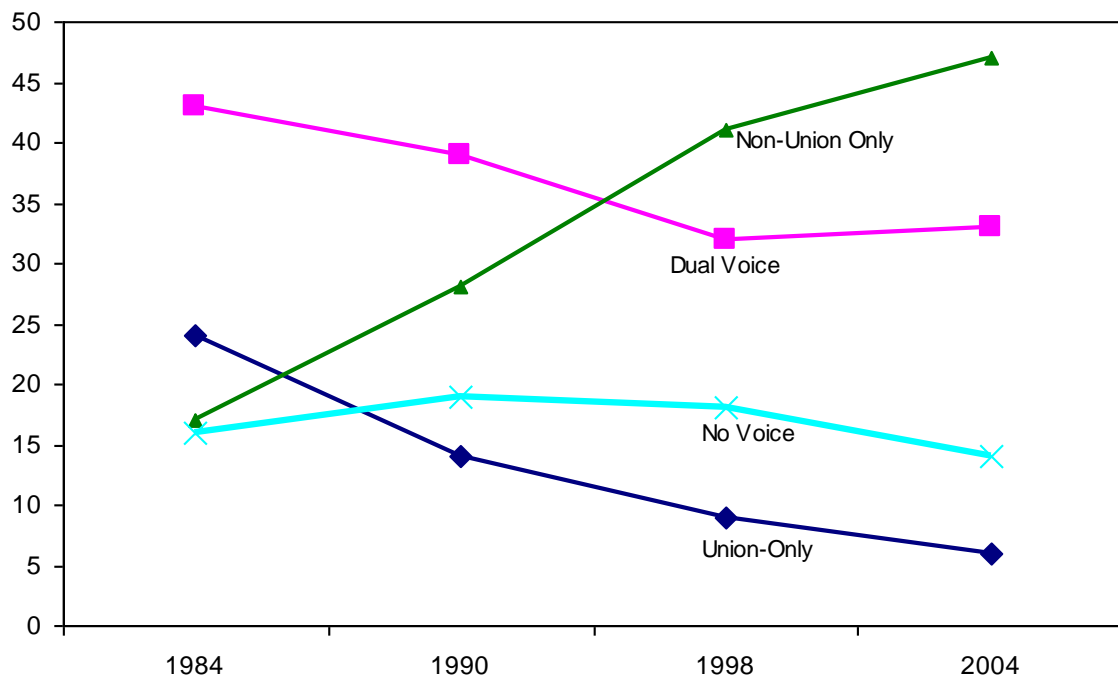
Source; Gomez et al 2010.

These findings are presented less as a complete picture of voice patterns in the UK and more as an indication of how five propositions emerging from a transactions costs approach achieve

some empirical support from this dataset. It does seem that economic considerations of this sort affect voice choice and switching.

5.   Discussion and Implications

The exit voice framework is an attempt to understand the impact of switching costs and the emergence of collective action in markets. The transactions costs economics approach augments this with a primary concern for what goes on in hierarchies, and particularly the governance of intra-firm contracts. The latter contains an analysis of employment contracts that implies the emergence of voice as a governance mechanism. Unlike other approaches within economics that see employment contracts just like any other transaction (Alchian and Demsetz, 1972), Williamson spells out the complexity of employment contracts in ways that predict both the emergence of voice in general and, specifically, what voice regime might be preferred.

The approach rests on fairly rigid, and largely negative, views about human nature in general and employee behaviour in particular; people are prone to opportunism and employees are, because of the nature of employment contracts, specifically prone to it. Efficiency concerns are paramount; power is excluded. So, voice emerges not because of the authority relationship itself, but because it can make the authority relationship work for both parties by improving efficiency.

It is not empirically based, but one can derive predictions from it that are, by and large, supported by data. There seems to be a need for voice by both employers and employees, though perhaps for different reasons. Certain types of voice seem more efficient than others, at least for employers. The decline of union voice may be seen, from this perspective, as the result of competition between voice regimes. Where union membership under collective agreements declines, and where employers are also investing in HRM that can complement non-union voice, the balance of advantage between the two regimes may shift (Bryson et al, 2012).

Overall, the use of a transactions cost perspective to analyse employee voice empirically will depend on the extent to which economic considerations are paramount. In jurisdictions where voice is either mandated or forbidden, an approach that relies fundamentally on choice will lose explanatory power. It may thus be, for example, that the application of a transactions cost perspective works best where labour markets and the patterns of labour representation are unregulated.

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