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## **Introduction**

According to Wood et al. (1975), Dunlop's Industrial Relations Systems (IRS) theory has been appreciated by many scholars (p. 291) and has been effective in fostering and shaping the discussions on industrial relations as a separate academic field (p. 305). Kaufman (2010) has described the work as amongst the most notable exemplars, and a classic (pp. 74-75). The theory, however, has been criticized by various scholars since it was first proposed (Wood et al. 1975, p. 291). This essay discusses the important principles of Dunlop's theory, applies the theory to understand the Australian industrial system, and also highlights the major criticisms of the theory.

## **Key Tenets of Dunlop's IRS Theory**

According to Dunlop (1958), the Industrial Relations System (IRS) is a subsystem of the industrial society. It is on the same logical level as the economic system, which is another analytical subsystem. There is some overlap between the economic system and the IRS. At any given time, the IRS comprises of actors at the work place and work community, some contexts, an ideology which keeps these elements together, and a body of rules created to regulate the actors. However, context also has external elements such as power at societal level. The status of the actors refers to their designated functions and the relations amongst them within the IRS. The functions and relations are largely enforced externally on the IRS by the community. The system differentiates between IRS's ideology and that of the respective actors. Survival and stability are the goals of the system. The rules take different forms, but they basically define the actors' statuses and regulate their conduct. The IRS is an abstraction and is not concerned with behavior as a

whole. The IRS brings out the relationships and helps focus on important system variables. The process of making the rules that governs the work place is the quintessence of IRS. The theoretical framework of IRS analyzes its workings.

According to Adams (1977), Dunlop's theory comprises of the basic concepts of Actors, Rules and ideologies, and contexts of technology, market or budgetary constraints, and locus of power. The *Actors* comprise of managers and employer associations, workers and unions, and specialized government agencies. *Rules* refer to the network, including unilateral management decisions, statutes, voluntary agreements between employers and unions, and customs and practices within groups of workers. *Ideology* refers to commonly held set of beliefs and ideas which bind the system. Lack of congruence in ideology of actors is acknowledged, but it is important to have sufficient compatibility leading to tolerance and acceptance of roles of other actors. *Technology*, at societal and organizational level, influences the type of product, production process, and the types of skills and knowledge. It also impacts the rules. *Market and budgetary constraints* represent the economic influence on management which impacts employment and wage levels, the key sources of conflict. Finally, *Locus and distribution of power* refers to access to resources to be used for the benefit of groups. Dunlop suggests that the main objective of IRS theory is to explain the establishment of the rules and reason why they change due to changes impacting the IRS (pp. 5-24).

According to Wood et al. (1975), Dunlop presents the theory, the explanation tool for comprehending the system, and a taxonomy for organizing and understanding the IRS (p.

292). Dunlop's theory considers the rules, and the process of their creation and implementation as the focal point in the study of IRS. Attention is paid to comparative national analysis (p. 305). The authors suggest that the production system refers to the working people and their community. IRS creates the rules, and the production system is administered by them. Furthermore, the rule making procedures governing the IRS are different from the substantive rules created by the IRS to govern the production system (p. 295). Dunlop considers conflict as a given, and proposes a paradigm to explain how order is achieved by managing conflict (p. 296). IRS helps in functional integration of labor in the economic system (p. 297). Dunlop's theory is more concerned with action governed by rules, rather than with behavior. Barring non-compliance, behavior in empirical situations is understandable within his framework because it is administered by the rules (p. 300).

According to McKersie (1985), Dunlop theorizes that the relations between management and labor are best explained by considering it as a system which involves actors interacting amongst themselves. The environment for interaction has important elements such as the structure of the market, political system, technological status, ideologies, and values. Output of the IRS is discernible in terms of the complex set of rules which administer the relationships (p. 1). Rogowski (2000) notes that hierarchies of managers and workers, their combined hierarchy, specialist government organizations, and the making of the rules by these three participants decide the rules and the processes (p. 101). Giles (2000) argues that Dunlop essentially specifies collective bargaining institutions and the outcomes of this bargaining as the core of industrial relations (p. 44).

Rogowski (2000) also argues that Dunlop's theory is based on Parson's theory of social systems which analyzes societal structure and theorizes its evolution. Parson's theory characterizes societal modernization in terms of the functional differentiation achieved through specialization to accomplish the system's objectives. Economic, political and cultural systems of modern societies exhibit this differentiation. As per Dunlop, in modern societies, the relationships between workers and managers are distinct from the political system, and are outside the family. In modern industrial societies, IRS exists separately from the economic system (pp. 98-99). According to Dunlop (1958), the functional differences of IRS and the related specialized structures or processes are defined as adaptive, goal gratification, integration, and latent maintenance of arrangements and management of tensions. *Adaptive* nature of the system relates to the processes of making rules where complex set of rules emerges as the output. The rules help link the actors with the environment (technological and market elements). Repeated changes of these rules present problems for the actors. *Goal Gratification* refers to the belief that political functions help in the survival or stability of the IRS and the hierarchies of the separate actors so that the goals are attained. *Integration* helps maintain harmony between the actors. The solidarity results from common understandings and the ideology which links the actors' roles to the hierarchies, and helps form relations among the hierarchies. *Pattern maintenance and management of tension* helps preserve the system's values in the face of pressures from cultural and motivational differences. This function is performed by experts and professionals amongst all the three actor groups.

### **Description of the Australian IRS using Dunlop's theory**

According to Michelson, Jamieson & Burgess (2009), there have been numerous changes over the past few years which have influenced the Australian industrial environment. Part-time and casual work is more prevalent and the knowledge and service sectors of the economy have grown significantly. There is an orientation towards values of flexibility and deregulation, a rise of competitiveness and individualism, emergence of performance orientation and Human Resource Perspective, and a larger influence of global factors on work related laws. In the context of Dunlop's theory, importance of trade unions has reduced due to decline in their memberships, and the actors have changed in role and importance. Legislations and processes are decentralized, and employment relationships are individualized (pp. 1-5). New actors such as the Human Rights and Equal Opportunity Commission and NGOs have come up. These are outside the groups traditionally considered as actors, and their influence (pp. 9-10). Based on Dunlop's theory and the changes mentioned above, the Australian system of Industrial Relations can be said to comprise of the following (CPE 2012; FWC 2014):

*Actors:* The three parties are the State, the employees and their associations, and employers and their associations. The state legislates to make the laws and creates the system (e.g. the Fair Work Act 2009), regulates the relations system through the courts (e.g. The Federal Court of Australia), tribunals and inspectorates (e.g. the Fair Work Ombudsman), and it also acts as an employer. The Employee Organizations such as associations or federations need to be registered as per the Fair Work (Registered Organisations) Act 2009. These unions have rights in relation to protection of its

members. (E.g. the Australian Council of Trade Unions). The Employer Organizations take up the issues of major groups of employers, and also lobby governments for promoting their interests (CPE 2012; FWC 2014).

*Rules:* Government legislation has a major influence from time to time, and the bodies created by such Acts also participate in the system as actors. Fair Work Act 2009, Fair Work Regulations 2009, Fair Work Commission Rules 2013, Fair Work (Registered Organisations) Act 2009 and Fair Work (Registered Organisations) Regulations 2009 are the main acts regulating the system. With the Commonwealth of Australia Constitution Act providing the basis, Fair Work Act sets the national employment standards and decides on matters such as the maximum weekly hours, statutory leaves, holidays, and makes provisions related to issues such as termination notices and redundancy pay. The act supports collective bargaining at the individual enterprise level and lays down the rules for bargaining for enterprise agreements. It decides matters to be included and excluded during such bargaining. In addition, statutes such as Age Discrimination Act 2004, Disability Discrimination Act 1992, and Human Rights and Equal Opportunity Commission Act 1986 prevent unfair treatment in employment relationships (CPE 2012). There are substantive provisions in the Fair Work Act related to matters such as entitlement to annual leave (section 87) and appeals (section 604). Examples of procedural rules include functions of FWA (section 576) and section 609 which authorizes making of the rules of the Fair Work Commission. Rules made under the Fair Work Commission Rules (2013) contain more specific substantive provisions (e.g. Rule 40 – Enterprise Agreements). Changed customs and practices, and increased focus on

participative decision making is increasingly influencing the rule making, both by the government and the organizations.

*Ideology:* The ideology promoted by the Fair Work Commission is evident from its role of setting award pay rates and conditions, and helping employers and employees work towards building cooperative and productive workplace relations. The commission helps prevent disputes and resolves them (FWC 2014). The rules bind the system, and set the framework to achieve compatibility by helping in creation of new rules from time to time, and by helping in modifying existing rules. All these changes are based on discussions amongst the actors, and after considering the vital elements of the system and taking into account the spirit of the rules (e.g. the ideology of fairness and cooperation).

*Technology:* Globalization and structural changes in the economy have changed the dynamics at the workplace. The obvious results are decentralization and use of technology in work practices. *Market and budgetary constraints:* Labor market conditions play a role in determining the wages, though the minimum wage and some other related rules are set by laws such as the Fair Value Act 2009. Economic conditions such as inflation determine the minimum wages. Resolution of disputes is also facilitated and regulated through these laws to ensure fair work practices (CPE 2012; FWC 2014). Competition puts pressure on the organizations to follow employee-friendly practices, while employees can be expected to be under pressure in high unemployment scenarios. Wages of government employees is determined by various economic and including political factors, and these wages themselves impact the labor market conditions. *Locus*

*and distribution of power* has shifted from the unions to the managers, though the statute still gives power to the unions. Influence of unions may diminish further, and future employment relationships are likely to be more flexible in structure and administration.

### **Major criticisms of Dunlop's theory**

Wood et al. (1975) argue that Dunlop's theory lacks clarity on several important issues, has not been well articulated, and requires interpretation (p. 291). They, inter-alia, criticize Dunlop's assertion that IRS and the economic system are at the same level, and contend that IRS is at a lower plane compared to the economic sub-system. The authors also argue that the economic, political and IRS systems are distinct, and do not overlap (p. 297). Furthermore, there are different levels for the system, e.g. plant, industry and national. An internal context at the higher level can be an external context for a lower level (p. 298). Dunlop includes the customs and practices at work place / community within the IRS's rules, though they are not produced by it (p. 301). Dunlop theory is criticized for not considering power at lower levels. His theory is, consequently, unable to consider the concept of legitimacy of power. The theory considers absolute bargaining power, as opposed to relative bargaining power which is more prevalent where legislation is less influential at lower levels (p. 302). Elvander (2002) also points out that Dunlop's theory has a universal appeal, albeit at the cost of vagueness and low level of efficacy of explanation (p. 22).

Adams (1977) argues that Dunlop's IRS concepts are too basic and fragmentary to serve the organizing function. The theory posits that rules could be formal, informal,

procedural or substantive, but their elaboration is insufficient. It is unable to taken into account the human relations or organizational behavioral perspective, except for its recognition of customs and traditions. Only environmental determinants, such as technology and market factors, are said to impact the rules. The examples of the three types of actors in the IRS can be broadened to include, for example, professional associations (e.g. lawyers) and job seekers. Further, it is important to acknowledge that the categories of actors are not mutually exclusive. For example, government and political parties are themselves employers. Relationships and interplays, such as employers' association with political groups, also need to be considered. The theory excludes reference to other state policies (e.g. fiscal and monetary) which influence the rules and behavior of actors. Dunlop only recognizes power and ideology as dimensions of the system and ignores attributes like goals and values. He does not consider that even employees vary across dimensions such as age, sex, motivation level etc. Dunlop's theory considers labor problems from the perspective of institutional economics tradition and fails to develop the concept of interactional process (pp. 6-13). Further, the list of three contexts is truncated and arbitrary. Considering rules as the only output of IRS is also a weakness as it ignores the outputs produced due to interactions amongst actors. The goals of the system reflect that the IRS is not change oriented (pp. 16-22). Flanders (1960) argues that Dunlop's treatment of ideology is obscure, and appears to have no causal significance. Dunlop fails to make any explicit relation between power and values, and power is used as a residual context to include anything apart from technology and market constraints (p. 438).

Ilesanmi, Ishola & Yusuf (2013) question the Dunlop's contention that in spite of the ideological differences and diverse operational contexts, equilibrium is preserved amongst actors as they are in pursuit of a common goal. The authors argue that the differences in goals of the actors are evident from the conflict orientation which commonly exists. They also point out that there are new actors, such as third-party dispute resolution bodies, which have come into play recently (p. 103). Furthermore, unlike what is presumed by Dunlop, the rules are not always complex, especially in the modern world. Complexity varies with the size of the organization, and there are multiple sources of rules in organizations such as handbooks, policy manuals etc. So the State is not the only source of rules. The authors argue that in flat and virtual organizations where boundaries do not exist, rules are becoming less important, and initiative and expertise of individuals is gaining in significance. They also contend that locus of power often resides with the management, which is contrary to Dunlop's proposition that power resides in the larger society (pp. 105-106).

Other criticisms purport that, due to the various inherent weaknesses, the theory has not been able to stand the test of time. McKersie (1985) contends that unions comprised a significant portion of the workforce when the theory was put forward, and the inherent assumption was that the proportion would grow. It was also presumed that collective bargaining needed to be promoted and the labor system of U.S. would evolve and mature with time. The author argues that these assumptions have not held. The pluralistic nature of the industrial sphere has weakened due to the relative rise in managements' power (pp. 1-5). Importance of behavioral science has increased, leading to development of alternate

systems (Human Resource Management systems) (p. 9). Similar views have been expressed by Giles (2000). Giles also contends that, while Dunlop's work helps in development of industrial relations as an academic specialty, it narrows the approach by not including concepts which could bring specialists from other fields (p. 44).

Rogowski (2000) points out that Dunlop does not define the elements mentioned in his theory, and there is no unifying characteristic for these heterogeneous elements. The sources of rules have been mentioned, but the sources have not been clearly classified as internal or external to the IRS. The author also criticizes Dunlop for not describing the process of rule-making. Also, the processes & structures of collective bargaining, grievances, procedures of arbitration, and political exchanges between nations have not been analyzed separately. Furthermore, threats to the IRS are purported to emanate from external sources, and consideration has not been given to likely sources within the system (pp. 101-104).

### **Conclusion**

Dunlop's theory has been widely acclaimed and used to describe and analyze various industrial systems around the world. The theory is able to describe the Australian system in the modern context by including new actors and acknowledging the changes in the economic, political and regulatory environments. However, criticisms of the theory range from those pertaining to the ambiguity in his articulation, contradictions in propositions and validity of his assumptions, to those which question the narrowness of the approach and its failure to pass the test of changing times. Despite its purported weaknesses, the theory can be credited as being a pioneering work in the study of industrial relations.

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