Abstract

In traditional neoclassical economics, a large part of our understanding about firm and its behaviour has been reliant on our understanding of the market. Forces of demand and supply that directed the market also configured firms much in the same manner until Coase (1937) asked the crucial question about the nature of the firm. Since then the boundaries within which markets and firms held their sway have been dissociated. In many ways the lag that had been brought on by traditional economics has been attempted to be filled up by institutional economics. Institutional economics with its primacy given to institutions, social, political and economic now dictate much of our understanding of firms unlike any other.

The new institutional economics, following the Coasian framework looks at transaction costs in answering questions related to the boundaries of the firm. The relative costs of internal and external exchange made by the firm determine the extent of the firm. This line of analysis has mostly assessed the ‘make or buy’ decision of the firms. The present study however, using this line of analysis attempts to analyse labour transactions within firms which is akin to analysing the employment relations. Any efforts to economise on these labour transaction costs are justified on the pretext of maintaining a competitive position in the market. Therefore, the primary aim of this study is to examine the employment relations of the firms within the context of increasing market competition. The liberalisation process of the 1990s which acted as a trigger in initiating changes in firm dynamics is made reference to. The study also comes up with a composite measure of firm competitiveness which integrates various institutions embedded in the fold. The Indian steel industry has been chosen for the analysis.

Although the firms work in a similar competitive environment, they exhibit a different stance in terms of maintenance of employment relations amid growing competition. While the large sized firm has intersections between employment relations and competitiveness, the medium sized firm displays no particular intersection between the two. Much of this phenomenon is explained through differences between the institutional environment, governance structures and product market structure of the firms.