

**Beyond HR: Towards the high involvement workplace**

**A Report for the PSA**

**workmatters.**

Making work better

*Power enables the few to minimize their dependence on the many. It enables the few to minimize the discretion of the many in the making of decisions deemed by the few to be important for their purposes. It enables the few, in other words, to manifest distrust of the many by imposing on them work roles and rules which leave little scope for important choices – including those determining the whole pattern of rewards, status and privilege. The reciprocation of this distrust by the many has had massive consequences, not only for work organization, in modifying decision-making structures and creating problems of motivation which increasingly preoccupy its managers, but also for society at large, in shaping the nature of intergroup conflict and throwing up issues of the utmost profundity concerning the principles on which men [sic] should base their social institutions and relations with each other.*

Alan Fox

*Beyond Contract: Work, Power and Trust Relations (1974)*

## Executive Summary

### From Industrial Relations to People Management

- The approach adopted by organisations to the management of people has evolved over time, reflecting wider changes in the economy and public policy. For much of the nineteenth century trade unions were operating on the margins of the law and employers had the possibility of easy hiring and firing. From the end of the Second World War to the middle 1970s trade unions were seen as indispensable institutions of economic governance in both the UK and New Zealand. “Personnel” management was about unavoidable administrative activities relating to the employment of the workforce and the handling of relationships with the trade unions. In the 1980s and 1990s a more market friendly approach was adopted by governments in many English speaking countries, deregulating labour markets, cutting taxes and imposing restraints on the activities of trade unions. It was at this point that industrial relations disappeared from the scene to be replaced by “human resource management” (HRM), “people management”, “high performance working” and subsequently the quest for “employee engagement”.
- HRM was designed to be an alternative to industrial relations and personnel. In principle it was focused on the strategic management of people to improve organisational performance. Little or nothing was said about the role of collective representation in the new model and trade unions were generally viewed as an external force to be controlled. The focus was on individual employees. HRM was (and remains) associated with a more rigorous approach to recruitment and selection, the effort to relate rewards to individual effort, performance management and appraisal systems, direct communication with employees and changes to the organisation of work, most notably teamworking. Most of the authoritative research shows that employers rarely apply this body of practices in a systematic way.
- There is a strong case for saying that HRM and other alternatives to conventional industrial relations are detached from the realities of many workplaces. The possibility that workers and their employer may have different interests is not admitted. If the right people management practices are applied it is suggested that organisational goals and workers’ aspirations can be completely aligned. While it is undeniable that co-operation is an essential element in the employment relationship it is also necessary to recognise the reality of conflict. These differences can only be resolved by dialogue.
- In other words, pluralism in the workplace (the fact that different interests exist), reflects pluralism in society. As citizens we expect decisions that affect us to be justified and legitimised using due process. We have a legitimate expectation that we will be allowed to speak up, associate with people of like mind and receive a reasoned response to our concerns from those responsible for making decisions. An approach to the management of the workplace that fails to reflect these principles is inconsistent with wider social values. For many HRM theorists democracy stops at the threshold of the workplace. The purpose of this paper is to argue that these values are just as relevant at work as elsewhere. There is a compelling need for a new model of people management that moves beyond the weaknesses of both the industrial relations and the HRM models.

## HR Productivity and Performance

- Two significant claims were made by the proponents of the market friendly revolution and enthusiasts for HRM or alternatives to industrial relations. First, that deregulation, lower taxes, a smaller state and weaker trade unions would lead to higher productivity and therefore higher national prosperity. Second, that the approach to people management associated with an individualised model of people management would deliver stronger organisational commitment from employees and therefore higher performance. In both New Zealand and the UK it was asserted that these reforms would enable both countries to catch up with their more prosperous competitors
- So far as productivity growth is concerned the evidence is unambiguous. Those countries that enjoyed a productivity advantage over New Zealand and the UK in the early 1980s continue to do so. The process of deregulation, tax cutting and weakening unions has increased income inequality significantly, made the economy less stable and therefore made it more difficult to generate sustainable growth. There is a strong case for saying that a different policy approach could have produced superior results.
- It is important to understand too that the global financial crisis has raised questions in the minds of policy elites whether the pre-crisis model was sustainable. The two most recent conferences of the World Economic Forum have identified growing income inequality as the biggest threat to global economic stability. Major US based businesses and research foundations are calling for an “inclusive capitalism” where income inequality is reduced, a position endorsed by the managing director of the International Monetary Fund and the Organisation for Economic Co-operation and Development (OECD).
- So far as the claims of HRM are concerned there are real gaps in the evidence for a robust link between the application of these practices and organisational performance. No driving factor of productivity has seen a higher ratio of speculation to empirical research and while much of the evidence is promising it is often circumstantial. In other words, much of the research fails to demonstrate a direct causal link between particular HR or people management initiatives and organisational outcomes.
- The most robust results that are consistent over time identify the positive role that can be played by worker participation (both individual and collective) in boosting productivity and organisational performance. These results are consistent with earlier findings that a high trust relationship between workers, their trade union and the employer could have a positive impact on organisational outcomes. There is also evidence to show an association between worker participation in decision-making and the level of incremental innovation in the workplace.
- Some researchers have suggested that performance related pay (PRP) both delivers improved employee motivation and higher performance. In reality the evidence points to a more complex story. PRP is most effective where tasks are simple, objectives are not complex and it is easy to monitor and measure quality. This is unlikely to be the case for many organisations. It is also important to appreciate

that while financial incentives work they can produce perverse and unforeseen consequences

- The uncertainty about the performance effects helps to explain why the full HRM menu is so rarely applied in practice. Managers are uncertain (not without reason) about which practices are most effective or why some practices are effective. Moreover, the ideological orientation of much HR thinking today means that many organisations are biased in favour of the status quo, making it difficult to draw appropriate lessons from the evidence that a judicious mix of individual and collective worker participation has a beneficial impact on performance.

#### **The outlines of a new model**

- The case for rethinking the approach to people management is compelling. Neither the deregulatory agenda nor the nostrums of HRM theorists have delivered their promise. What is offered here is an outline rather than a detailed description. It is a basis for discussion rather than a manual for immediate application. The most important element of the new model, however, is the implementation of legal rights for workers to be consulted, both individually and collectively, about significant changes in the workplace. Without this statutory underpinning some employers will continue to display authoritarian behaviours.
- Central to the proposal made here is the view that the employment relationship must be configured to achieve a balance between the demands of efficiency, equity and voice. *Efficiency* recognises that organisations must be successful, making sustainable profits in the private sector and delivering high quality services at value for money in the public sector. *Equity* reflects workers' claims to fair treatment, particularly on the dimension of pay. *Voice* is a simple way of summarising the commitment to industrial citizenship, that decisions must be justified and legitimised and that workers must have opportunities for individual and collective participation in the governance of the workplace.
- These objectives are more than wishful thinking. Some organisations have already implemented a very different approach to the management of the workforce. For example, there is robust evidence from the Nordic countries in the European Union that two in every five workplaces is a high involvement organisation, offering high levels of task discretion (job control) and high levels of organisational participation. Moreover, there are examples from English speaking countries, including New Zealand and the USA, demonstrating that individual organisations can adopt this approach even if the wider workplace culture (and public policy) seems hostile to high levels of individual and collective worker participation.
- HR professionals should, in the future, be devoting more attention to the development of higher levels of worker participation. This does not mean that all current activities are of no use at all. More rigorous recruitment and selection processes, well developed conversations between workers and managers about individual objectives and the judicious use of employee surveys all have real value and should be retained. The same can be said of the administrative and compliance activities of HR professionals all of which are critical to organisational efficiency. There is new territory that must be explored, however, if a more effective model of people management is to be developed. This should include:

- Integrating the arrangements in place for worker participation into wider business strategy, maintaining support in the boardroom for initiatives associated with the creation of a high involvement workplace.
- Developing the skills of managers to make a more participative approach effective – this requires a shift from monitoring and measuring to coaching and mentoring.
- Ensuring that all managers have the capabilities to engage constructively with trade unions. In particular managers need to have respect for and understand the role of trade unions in both improving productivity and managing difficult processes of change.
- Developing employees' capacity to participate in the organisation of work, joint problem solving and decision-making.
- Developing and maintaining the institutions of participation – employee forums, consultative committees, works councils.
- Monitoring progress through the sophisticated use of employee opinion surveys, identifying problems and facilitating dialogue.
- Reshaping performance management systems to change the tone and content of conversations between workers and their managers. The focus should be on individual development, with employees working to identify their own objectives consistent with the delivery of organisational goals. Performance management systems should be vehicles for constructive conversations between workers and managers rather than instruments of surveillance and coercion.
- Developing innovative approaches to pay. If individual performance pay is to be abandoned as this paper recommends, then HR professionals will have a critical role to play in designing new systems that reward all employees for team performance and wider organisational success.
- Monitoring and improving the quality of employment.
- Ensuring that information flows effectively around the organisation and that decision-making processes respect the principle of transparency.

## 1. From Industrial Relations to People Management

- The approach adopted by employers to the management of people has adapted to changes in the nature of capitalism.
- The “individualised” approach to people management that prevails today in both New Zealand and the UK is closely associated with the economic model that was in operation before the global financial crisis.
- Many employers have found it hard to relate the practicalities of people management to the prescriptions of the theorists. There is a large gap between rhetoric and reality.
- Some of the thinking associated with people management today is inconsistent with the fundamental values of our societies. Many workers surrender their rights as citizens (to speak up, receive a response and associate with people of like mind) at the point they cross their employer’s threshold.

### 1.1 Introduction

All organisations, whether in the public or private sector, want to be efficient and effective. In the private sector this means making sustainable profits from the sale of goods or services that people value. In the public sector it means delivering the highest quality public services at value for money. Most importantly, to achieve these results organisations must handle their assets, processes and people with some skill. The economist Paul Krugman is notorious for observing that productivity is not everything, but it is almost everything. Securing annual improvements in performance is what drives organisational success, propels the economy forward and ensures (other things being equal) that living standards continue to rise.

Organisational success depends on the quality of management as well as the quality and motivation of the workforce. Of course, processes and systems are important, but no organisation can succeed if workers are disengaged and generally dissatisfied with their situation. So far as public services are concerned, much of the work being done has a direct impact on the life chances of citizens (through health and education services for example) or on public safety and security. Citizens and corporations as taxpayers generate the resources for these activities. Arguably, public services are held to higher standards than their private sector counterparts because they are subject to a regime of democratic accountability. In other words, quality public services simply cannot be delivered without committed, motivated skilled employees.

The purpose of this paper is to explore whether existing approaches to the management of the workforce have fulfilled their promise on the dimensions of productivity, performance and employee commitment. It sets the discussion in an historical context and relates the changing approaches to the management of people to changes in the economy. The predominant model, widely used in developed English speaking countries, is described and then subjected to a critique. In the final section an alternative approach is outlined and the conditions for the sustainable application of this model are described.

Given the voluminous literature on people management, this paper makes no claim to comprehensiveness. The principal purpose is to lay the foundations for a dialogue between those with an interest in the issues, especially employers, HR professionals and trade unions.

## 1.2 Changing Approaches to the Management of People

It is worth recalling, perhaps, that what we now call employment law had its origins in the law of master and servant. The facts of power and control and the reality that one individual was subordinate to the other were inscribed in the common law. Before the industrial revolution most people in English speaking countries were either working on the land or in craft occupations (or sometimes both) and only a minority fell into the category of “servants”. The problems of managing a large workforce in a factory or an office simply did not exist. Relationships in most cases were informal, personal, related to social status and dependent on trust – although the engagement of apprentices in the UK was highly regulated, with well-established norms of behaviour and severe penalties for failing to observe the proprieties<sup>1</sup>. Where wage labour was required, in principle the lowest rates payable were determined by public officials – although these provisions were weakly enforced. Labour mobility was very limited indeed and people were essentially tied to the parish where they were born (Polanyi 1944). All this changed of course in the late eighteenth and early nineteenth centuries.

In the UK (and later in continental Europe and the USA) there were huge movements of population from rural to urban employment. Employers were confronted for the first time with the problems of recruiting, retaining and motivating a workforce undertaking repetitive and often dangerous tasks. The world as we know it today had begun to evolve. According to the British commentator Anatole Kaletsky, the economy has experienced three phases of development since the advent of the industrial revolution (Kaletsky 2010). This is a useful interpretive framework as we think about the changing approaches to the management of the workforce, not least because each economic model has some distinctive features on this dimension.

- Phase 1: Classical laissez-faire. Markets were left largely to their own devices by the state. There was limited regulation, some health and safety legislation (often ineffective) and the gradual abolition of child labour. Beyond that, this is the world described in Adam Smith’s *The Wealth of Nations*; the market economy was believed to be a *self-regulating* system.
- Phase 2: Managed capitalism. By the middle of the twentieth century the weaknesses of the laissez faire model had become apparent – not least the tendency of an unregulated economy to generate high levels of unemployment and income inequality. Governments made firm commitments to the maintenance of full employment and began to create welfare states<sup>2</sup>.
- Phase 3: The pro-market counter-revolution. By the middle of the 1970s there were real doubts about the effectiveness of managed capitalism. In developed countries “stagflation” (high unemployment and high inflation) upset economic stability. The remedy was to deregulate markets, privatise

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<sup>1</sup> In England, under the Statute of Artificers 1553, the outlines of labour market regulation were specified as a seven year apprenticeship and annual wage assessments by public officials. In principle the law applied to all workers, agricultural workers as much as artisans. The apprenticeship clauses were increasingly confined to traditional crafts (they never applied to industrial occupations) and the annual wage assessment provisions were not enforced fully after 1660 (Polanyi 1944). Slightly contrary to Polanyi’s assessment Fox (1974) suggested that the outlines of a labour market based on contracts of employment began to emerge in the seventeenth century.

<sup>2</sup> The best account of the transition from the first to the second phases can be found in Karl Polanyi’s *The Great Transformation* (1944), written *before* the full flourishing of the post-war welfare state. It offers an especially acute critique of the notion of the self-regulating market. Arguably, the trajectory of policy from the late 1970s to the GFC was designed to reinstate the nineteenth century notion that markets should be left to their own devices. As Polanyi pointed out, this was just as much a utopian vision as those usually attributed to the left – and just as likely to come to grief.

publicly owned industries, reduce the generosity of social security and cut taxes for the better off to create incentives for “wealth creation”. In principle, this model was discredited by the global financial crash of 2008.

Kaletsky argues that we are now witnessing the development of a new model of capitalism, rising from the ashes of the old. It may be premature to judge whether he is right or wrong, although with the exception of some re-regulation of the banking sector, the post-crisis model looks much like its pre-crisis counterpart. What can be said with confidence, however, is that the simple fact of the GFC has opened up territory previously closed to discussion for the previous thirty years. For example, it is now possible to talk about distributional fairness, not least because the International Monetary Fund associate income inequality with economic instability (Kumhof and Ranciere 2010, Berg and Ostry 2011) and make the case that income redistribution is growth promoting (Ostry et al 2014). Similarly, it is now legitimate to talk about bargaining power and the role of trade unions, because unions are associated with lower income inequality and lower inequality is good for growth. The evidence is very clear: workplace institutions like unions and works councils play a critical role in ensuring that all citizens benefit from a nation’s rising prosperity (Coats 2013).

This paper is written in the spirit that, whether a new capitalism is in gestation or not, there needs to be a conversation about how further crises can be avoided in the future and what this means for economic policy as well as policies for the workplace. We will return to this issue in section 3 of this paper.

Each phase of capitalist development described above carried with it an associated approach to the management of the workforce. Of course, the models evolved over time and by the end of each phase the economy looked rather different from the situation that prevailed at the beginning of the period – there were no sudden historical discontinuities. To begin with, trade unions were treated as criminal conspiracies against the public interest (that is why the Tolpuddle Martyrs, who established an early agricultural trade union in the UK, were transported to Australia). Employers had freedom to hire and fire workers within the fairly generous limits set by the common law. In any event, most workers lacked the financial resources to take any kind of action against their “masters”.

By the end of the period trade unions were inching towards legal recognition and collective bargaining had begun to develop – albeit in an adversarial context characterised by widespread industrial disruption. Patterns of development across countries were by no means uniform and there is a strong case for saying that New Zealand and Australia were leaders in tackling class antagonisms in the world of work by developing the award system of industrial arbitration. Trade unions in the UK were generally resistant to this kind of intervention and preferred the collective bargaining system to remain independent of the state. That system essentially allowed the parties to manage their relationships as they saw fit and was often described as a form of collective *laissez-faire*.

Managed capitalism is a shorthand expression for the economic model that prevailed in most developed countries from 1945 until the middle 1970s or early 1980s. Collective bargaining (or the award system) was established as the principal route through which wages and conditions were determined. Closed shops and other forms of compulsory trade unionism were widespread, so that the majority of workers were either members of a trade union or covered by a collective agreement. Employers, to a greater or lesser extent, were generally content with the system, believing that it was a useful instrument to reduce industrial conflict.

Governments saw trade unions as indispensable institutions of economic governance. Maintaining full employment and restraining inflation generally required some form of agreement with the unions on wage growth. Moreover, in the best cases, unions had the capacity to recognise that trade offs could be made between moderating wage growth and improvements in the social wage. The Accords under the Hawke and Keating governments in Australia represent a late flourishing of this model. The UK's experience under the social contract in the 1970s is a rather less happy example.

A new approach to the management of people followed the abandonment of the post-war consensus and the adoption of more market friendly policies. Relationships between workers and their employers were to be decollectivized. Public policy shifted fundamentally in both the UK and New Zealand to restrict the capacities of trade unions. In the UK the closed shop was progressively outlawed, restrictions imposed on the scope of lawful industrial action and unions' internal democratic processes placed under statutory control. In New Zealand compulsory unionism was abandoned (under the Employment Contracts Act) following a period of labour market deregulation and the dismantling of the institutional architecture of post-war economic management. It is at this stage that personnel management and "industrial relations" began to disappear from the business lexicon to be replaced by human resource management (HRM) and subsequently by people management. The substance of this paper takes both of these notions to task. A useful starting point is to consider those management instruments that were supposed to fill the vacuum left by the retreat of workplace collectivism.

Before we turn to that issue, however, it is worth noting that not all countries followed an identical path. In most of Northern Europe much of the managed capitalism model remained intact. Trade unions and collective bargaining continued to be important institutions, workers retained rights to representation at company board level and worker participation was sustained either by strong trade union organisation in the workplace or by mandatory works councils. The persistence of these arrangements in countries with generally successful economies (the Nordics, Germany, the Netherlands) is hard to reconcile with the belief expressed in some of the HRM texts that changes in the structure of the economy *required* organisations to abandon the old model. On this view, the intensification of global competition, technological change and the modernisation of work organisation rendered the previous arrangements unfit for purpose. Often this is described in terms of the change in manufacturing production techniques, most notably the move from the Taylorist model of standardised mass production to flexible specialisation or the introduction of Japanese inspired models of management (Henderson 2008). In the public sector the change is said to be a consequence of rising citizen expectations and a demand for choice and flexibility in service delivery

A major difficulty with this standpoint is that it treats structural change as a fact of nature, which *determines* the organisational response and means that there is no alternative but to replace managed capitalism's collective employment relations with an individualised model. The significant variations between countries suggest that this cannot be the case. German manufacturing is highly successful but retains all the institutional encumbrances that HRM was supposed to sweep away – sectoral collective bargaining and guaranteed rights for workers to participate in workplace decision making. A similar observation might be made in relation to the Nordic countries, the Netherlands and (to some extent) France. In other words, the diversity of national employment regimes tells us that politics still matters and that public policy can create strong incentives shaping management behaviour (Gallie 2007).

While people describing themselves as HR professionals can be found in most developed countries, *what* they do and *how* they work is inevitably influenced by the wider social and cultural context (Pudelko 2006).

To that extent the description of the three phases of capitalism outlined above is inevitably something of an over-simplification. National characteristics still matter. The German model is very different from the US model, which is different again from the Japanese model. For the purposes of this discussion it should be borne in mind that there is no necessary contradiction between the practice of HRM (or people management) and some notion of workplace collectivism. Just because the UK and New Zealand have individualised the employment relationship does not mean that there may not be compelling approaches in other countries striking a different balance between individualism and collectivism in the workplace.

The central concern of this paper, however, is the use of human resource or people management techniques in developed English speaking countries. To begin with we need to understand how the model associated with the resurgence of free-market capitalism differs from its managed capitalist predecessor. It is to these issues that we now turn.

### **1.3 From Human Resource Management to People Management and Employee Engagement: An evolutionary process?**

Reviewing the scene in 1994, the British TUC observed that Human Resource Management was a “slippery concept” (TUC 1994). Nonetheless, some effort was made to draw a distinction between HRM and the standard practice of personnel management. Three critical areas of difference were identified:

- Changes in communication systems
  - Company newsletters
  - Regular reports on company/unit performance for individual employees
  - Video presentations of corporate policies or changes in management systems
  - Team briefings
  - Face to face meetings with managers
  - Employee attitude surveys
  - Employee suggestion schemes
  
- Changes in work organisation
  - Teamworking
  - Quality circles
  - Customer care training
  - Joint problem solving, with (notionally) more autonomy for workers
  - Changes to conditions of employment – exemplified by “single status” agreements, removing differences between managers and other staff
  - “Just-in-time” and lean production methods
  
- Changes in payment systems

- Performance related pay, linked to appraisal and performance management schemes
- Profit related pay or other forms of gainsharing
- Share option schemes

The TUC's position in 1994 was not to oppose these developments but to make the case that worker involvement, both individual and collective (principally through trade unions), was an essential element in the mix – an argument that emerges as a consistent theme in our discussion too. This was the first occasion on which the TUC made an explicit link between social dialogue and social partnership at national level and a new model of workplace partnership based on consensus and joint problem solving. In retrospect the analysis looks farsighted, although it received a less than enthusiastic response from British employers at the time. Continued union membership decline has also made it difficult to sustain these arrangements in the workplace, a challenge discussed in greater detail later in this paper.

A more formal statement of the role of HR professionals in the UK (again drawing the distinction with personnel) describes four core objectives: staffing, performance, change management and administration (Torrington et al 2002):

- *Staffing*: To begin with this is about recruitment and selection, ensuring that the organisation has the right people for the job. In contrast with the personnel model a range of sophisticated instruments can be used here, including psychometric testing. The staffing objective may also embrace the sub-contracting or outsourcing of staff as well as resignations, retirements, dismissals and redundancies.
- *Performance*: Training and development are said to be critical to the delivery of the performance objective. Achieving continuous improvement in performance is also the reason why many organisations have introduced appraisal and performance management systems. Whether these devices are successful is of course another matter.
- *Change management*: HR professionals are supposed to ensure that workers are involved in the process of organisational change. Moreover, referring to the first objective, it is important to recruit managers with the capabilities to implement organisational change. An appropriate structure of incentives, including performance pay, must be in place to support the achievement of the change management objective
- *Administration*: The administration objective was just as applicable in the old world of personnel. HR professionals are responsible for maintaining accurate records about recruitment, contracts of employment and associated terms and conditions, performance and appraisal, attendance and sickness and ensuring compliance with legal requirements including those relating to employment law, health and safety at work, equality and diversity.

To a large extent much of this looks like “personnel” with the industrial relations elements omitted. It has little or nothing to say about the views of the workers and how they ought to be expressed and accommodated. To some extent, the absence of novelty here meant that practitioners (and theorists) found it hard to establish a strong identity for HR, which led to something of an existential crisis. By the late 1990s, for example, it was argued that much HR activity was “ineffective, incompetent and costly: in a phrase it is value sapping” (Ulrich 1998).

The suggestion appeared to be that the administration and compliance functions were seen as a burden by other parts of the organisation. This could not have been said for personnel, because, whatever may have been thought about the routine functions in the earlier period, there was no doubt that the activities of personnel professionals mattered. If relationships with the unions deteriorated then industrial action could prove highly disruptive. Senior executives in the boardroom knew that the views of personnel professionals had to be taken seriously. If “personnel” got it wrong or if senior managers failed to listen then the organisation could find that the workforce had walked off the job.

To that extent, the shift from conventional industrial relations to human resource management might have been viewed as a failure. Leading thinkers, most notably Dave Ulrich, now a professor at the University of Michigan, were more optimistic and suggested that the role of HR should be comprehensively recast as a strategic function that contributed to the delivery of organisational objectives. This drive for strategic HR had four elements (Ulrich 1998):

- HR must “become a partner with senior and line managers in strategy execution, helping to move planning from the conference room to the marketplace”.
- HR professionals need to develop expertise in the organisation and execution of work so that costs are reduced and quality maintained.
- HR should become an employee champion, “vigorously representing their concerns to senior management... and working to increase employee contribution”. The objective here is to improve employees’ organisational commitment (what today might be described as engagement) and enhance the capacity to deliver results.
- HR should become “an agent of continuous transformation, shaping processes and culture that together improve an organisation’s capacity for change”.

Ulrich’s approach has proved very influential and this model is now part of the common sense of the HR profession. Whether this attempt to reconceptualise the HR role has been entirely successful is still an open question, not least because, despite the supposed “strategic” orientation of HR today, very few HR directors sit on boards in the private sector and in the public sector are often seen as “second tier” managers.

Moreover, this effort of radical reconceptualisation is riven with contradictions that seem to confuse the achievement of organisational goals with activities designed to give the workforce “voice”. It is difficult to see how those responsible for strategic people management can also be advocates for employees, since those employees may believe that particular initiatives are not in their interests. Similarly, by becoming “agents of continuous transformation”, HR professionals are assuming responsibility for a permanent revolution of restructuring, which may run counter to employees’ desire for a degree of security – or at least a modicum of certainty about where they stand in the organisation. Other commentators have suggested that HR can “help to make capitalism human” but this is equally problematic if the fundamental objective of HR is to deliver organisational goals. It is a mistake perhaps to view the function as anything less than a management tool. One cannot deny that advocates of enlightened HR are well intentioned, but by failing to engage with the contradictions of their approach they are describing a model that will struggle to succeed.

Much of the Ulrich's case depends on the argument that intensifying competition is inevitable, that organisations will continue to confront the demand for organisational excellence and that this requires transformative change. But what if the pace and direction of change is not inevitable? What if competitive pressures are amenable to intelligent public policy intervention? What if workers, acting together, are more effective than HR professionals (as employee champions) in holding up a mirror to senior management, requiring them to confront the organisational realities? And what if the route to improved performance depends as much on incremental change as it does on disruptive organisational upheavals (see, for example, Hall and Soskice 2001)?

If the activities of HR are to be judged by outcomes, as Ulrich suggests, then one would have expected to see some improvements in employee motivation and commitment since the late 1990s. The evidence on this point is at best ambiguous and at worst points in the opposite direction – and is reviewed in detail in Chapter 2 of this report. For the time being we need do no more than record that the evidence of the strategic integration of HR with business planning is conspicuous by its absence. Indeed, the best social science suggests that the involvement of HR professionals in business planning activities has fallen over time (Kersley et al 2006, van Wanrooy et al 2013)

#### *Hard HRM and Soft HRM*

Other efforts have been made to produce a typology of variants of HRM, with a distinction being drawn between the “hard” and “soft” models. The soft HRM model was pioneered at Harvard Business School and then developed by others (notably David Guest in the UK). The hard model owes much to the work of scholars at the University of Michigan (Ulrich's current academic home). Hard HRM is oriented towards the execution and delivery of corporate strategy. It embraces the notion of achieving a close fit between HR strategy and organisational strategy. More specifically it is focused on:

- Recruiting the right people
- Monitoring and measuring employee performance
- Undertaking comprehensive employee appraisals
- Relating reward to performance
- Ensuring that access to training and development supports the process of appraisal (if skills gaps are identified, for example).

Organisations applying hard HRM strategies are measured and monitored relentlessly in the pursuit of organisational goals. In the strongest sense, this approach really does see the workforce as a factor of production, a resource like any other, the effective management of which will guarantee organisational success. To that extent it is “hard”: quantitative, intolerant of failure and dedicated to continuous improvements in performance.

As we shall see it is difficult to find evidence that organisations are developing comprehensive strategies to achieve the close fit required by the theory. Hard HRM may offer a compelling narrative to a business under pressure, but it is an elusive animal and most social science struggles to find practical examples that meet the requirements of the textbooks (Kersley et al 2006).

Soft HRM, while just as much of an alternative to conventional personnel, ostensibly holds out a little more promise to those with some nostalgia for the old model. It apparently allows more scope for worker participation and encourages managers to worry about the

impact of business strategy on workers as well seeking good organisational outcomes. In principle soft HRM gives particular attention to the following (Guest 1987):

- Organisation and job design
- Policy formation and the management of change
- Recruitment, selection and socialisation
- Appraisal, training and development
- The collection of staffing data – turnover, promotion and progression
- Reward systems
- Communication systems
- Strategic integration
- Employee commitment
- Workforce flexibility
- Quality

One might say that the soft model is somewhat more prescriptive about what managers should do than the hard model. To that extent it offers a more comprehensive account of the HR role. On some interpretations it also embraces the notion that organisations are communities of interest and that the role of HR professionals is to ensure that these interests are balanced and reconciled (an insight that owes much to the old approach to “industrial relations”). Similarly, the Harvard model suggests that workers ought to be involved in the design of the reward system, with HR professionals working to ensure that it is oriented to the delivery of organisational objectives. This falls some distance short of conventional collective bargaining on pay, but it at least allows some scope for worker voice.

Unfortunately, soft HRM is just as elusive in practice as its hard cousin. The most authoritative studies in the UK, for example, have struggled to find organisations with either the capacity or the appetite to adopt the systematic approach required. Perhaps HRM, of whatever variety, is just too challenging to be successfully implemented in the real world. The model could therefore be viewed as a partial and not wholly convincing effort to develop an alternative to industrial relations and personnel management.

#### *High performance work systems and high commitment management*

Another useful interpretive lens for analysing the application of HR policies and practices is the notion of high performance work systems (or HPWS). These arrangements are oriented towards the delivery of better worker performance and sustained increases in productivity. The initial studies were undertaken in the USA (Applebaum et al 2000), and similar research was pursued in other countries, including the UK (Box 1 summarises the essential elements of HPWS).

In Chapter 2 we will explore the evidence for the application of these practices and examine whether they really do deliver “high performance”. At this stage we need do no more than record that the research findings are at best ambiguous and a critical assessment suggests that in developed English speaking countries (or at least the UK, USA and Canada) there may be structural factors at work in product markets and capital markets making it hard to sustain the trust between workers and employers on which the successful application of these practices depends. There is evidence to show that employee participation (both individual and collective) *does* have a positive impact on performance and that in the right environment trade unions can have a positive impact on productivity too. Chapter 3 includes case studies showing that the “high involvement workplace” approach can be successfully

implemented in the developed English-speaking world. These examples should be contrasted with a narrow notion of HPWS, which provides limited opportunities for employee and trade union involvement.

**Box 1: Elements of high performance work systems** (Source Applebaum 2000, McGovern et al 2007)

Problem solving groups  
Group working (team working)  
Self-managed teams  
Group incentives  
Merit pay  
Profit sharing  
Individual performance-related incentives  
Workplace (performance-related) incentives  
Appraisal for pay  
Appraisal for promotion  
Appraisal for training  
Briefing groups  
Two-way meetings

An objective observer would probably conclude that the HPWS typology is simply another way of describing the standard menu of HR practices found in the textbooks. It is not entirely clear that this represents a distinctive approach to the management of people and, as with the other models, it is not always clear about the role of worker voice. Once again this is a management-focused agenda that draws little inspiration from the insights of industrial relations – although the evidence suggests that these practices are more frequently found in unionised workplaces, a critical point that we discuss further in Chapter 2 (Cully et al 1999, Kersley et al 2006, van Wanrooy et al 2013).

In the UK a slightly different selection of practices has been described in the series of Workplace Employment Relations Surveys (WERS) as either “high commitment management” or “high involvement management”. This is partly about what the employer does *not* do; workplaces applying this approach make limited use of temporary agency workers and employees on temporary contracts for example. Otherwise, the practices identified in the US studies were also examined for the purposes of that analysis too, although some attention was given to the use of psychometric testing in recruitment and selection and job security guarantees. The great value of the WERS series is that data is now available across a thirteen-year period over which we can judge whether these arrangements have become more widespread across the British economy<sup>3</sup>. The evidence is clear: systems of performance pay and pay related appraisal are now found in just over two in every five workplaces, but the remainder of these practices are not as widely dispersed as one might have expected. As the authors of the 2004 study observed, there was a degree of:

*...Stability in the incidence of practices that are often cited as indicators of sophisticated human resource management There was no marked increase in the prevalence of team-working, multi-skilling or problem solving groups, for example, indicating that the diffusion of “high involvement management” practices has been somewhat muted in recent years. Nor was there much change in the use of selection*

<sup>3</sup> The WERS surveys were conducted in 1998, 2004 and 2011

*tests – one potential indicator of a more sophisticated approach to recruitment* (Kersley et al 2006, p.107).

By the time of the 2011 survey the focus of the research had shifted somewhat to the global crisis and its aftermath. Nonetheless, it is still possible to draw the conclusion that the comprehensive application of HPWS can be difficult to find. Indeed, on some dimensions, the 2011 results reveal a decline in the use of these “high involvement practices”. In manufacturing, for example, the incidence of multi-skilling fell to 67% of the workforce from 84% in 2004. Confirmation of this trend can be found in the UK Skills Survey, which shows that barely 10% of workers are located in genuine self-managed teams that take full responsibility for the execution of their work (Felstead et al 2013).

At this point it may be useful to draw the provisional conclusion that what works in theory, or makes for a good academic story, can be very difficult to detect in practice. If these HR tools and techniques were universally effective then economic logic ought to dictate their adoption across all sectors of the economy. The question (to be considered at greater length in Chapter 2) is quite simple: if the business case for these practices is supposedly so compelling then why do so many organisations find it difficult to match their behaviour to the expectations of the HR theorists? It certainly seems, from a swift glance at the data, that the people management model of the third phase of capitalism is more of a vacuum than a system or a distinctive body of practices. In that sense it is very different from the preceding managed capitalism model, where it made sense to talk about an industrial relations *system*.

#### *Employee engagement*

A consistent theme of this chapter has been the ambiguity of what HR professionals are supposed to do. Terms like soft and hard HRM, high performance work systems and high involvement management have waxed and waned as the rhetoric of improving workforce performance has supposedly adapted to the course of events. Now the ground has shifted again and the focus is on a range of strategies to secure “employee engagement” – in the belief that engaged employees, through their commitment to the employer’s organisation, will deliver superior outcomes. The real difficulty is finding an agreed definition of employee engagement. In principle, a dispassionate observer can see the end in view here – managing employees well to deliver sustained improvements in productivity – but the precise characteristics that deliver engagement can be just as elusive as the constituent elements of HRM.

The UK government has made a significant investment in the promotion of employee engagement, sponsoring a task force stewarded by David Macleod (a long-serving former manager at ICI) and Nita Clarke (director of the Involvement and Participation Association). The Labour government initiated their report in 2009, *Engage for Success*, but the work has received continued support from the coalition and now from the Conservative administration elected in May 2015. Lengthy discussions with business leaders produced a number of not entirely useful definitions including: “you sort of smell it”, “you know it when you see it” and “it’s when employees value the business and the business values employees”. Contributions from academics and researchers produced a more nuanced account, although even here it is difficult to disentangle the standard menu of HR practices from something that is new and different (Box 2)

<b>Box 2: Definitions of “employee engagement”</b>
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*Engagement is about creating opportunities for employees to connect with their colleagues, managers and the wider organisation. It is about creating an environment where employees are motivated to want to connect with their work and really care about doing a good job. It is a concept that places flexibility, change and continuous improvement at the heart of what it means to be an employee and an employer in the twenty-first century workplace.*

Professor Katie Bailey, University of Sussex

*A positive attitude held by the employee towards the organisation and its values. An engaged employee is aware of the business context and works with colleagues to improve performance within the job for the benefit of the organisation. The organisation must work*

*to develop and nurture engagement, which requires a two-way relationship between employee and employer.*

Institute of Employment Studies

*A set of positive attitudes and behaviours enabling high job performance of a kind which are in tune with the organisation's mission.*

Professor John Storey, Open University

Source: MacLeod and Clarke (2009)

One observer of the engagement scene suggested that the term is so imprecise that it ought to be dropped<sup>4</sup>. It simply is not clear whether engagement is an attitude, a behaviour or an outcome. Nonetheless, some familiar themes emerge from the burgeoning engagement literature. First, engagement is about delivering a management agenda. People may well care about wanting to do a good job, but they also have to embrace flexibility, change and continuous improvement – characteristics of the workplace that may not necessarily be in their interests. Second, some definitions, notably that given by the Institute of Employment Studies, do allow for dialogue between workers and their employer. The precise nature of this conversation is unspecified, however, and it is by no means clear that *independent collective* worker voice might make a valuable contribution. Third, delivering the organisational mission is the critical objective, which is determined in the boardroom and influenced by investors (or in the public sector by politicians). Fourth, engaged employees are not supposed to find reasons for disagreements with their employer. Everybody is wrapped in a warm rosy glow of shared goals. Distributional conflicts are not admitted. Nor is it accepted that even with an “engaged” workforce the employer may wish to take some steps to which workers are opposed – or about which they are at least sceptical.

MacLeod and Clarke also identify what they describe as enablers of engagement:

- **Leadership** is needed to establish a “strong strategic narrative” that fixes the organisation’s purpose. Workers must have a clear line of sight from the strategic narrative to what they do in their own job.
- **Engaging managers** (in other words managers who know how to do engagement well) are central to the overall approach. They “facilitate and empower” rather than “control and restrict” their staff. Management is more about coaching, mentoring and development than it is about monitoring, supervision or correcting errors.

<sup>4</sup> Professor David Guest, who also, coincidentally, devised the definition of “soft” HRM discussed above.

- **Voice** means that “employees’ views are sought out”, they are listened to and their views make a difference. “A strong sense of listening and responsiveness permeates the organisation, enabled by effective communication”.
- **Integrity** requires that behaviours throughout the organisation are consistent with stated values; this is the foundation for the high trust between workers and their employer on which engagement rests.

The enablers could be described as an improvement on the definitions given at the beginning of the report because they attribute at least some value to worker voice. What is most interesting, however, is that the arrangements for the articulation of this voice are not described in any detail. Is it individual or collective voice? Trade union voice or some other institutional mechanism? Nor is it clear how workers should respond if they have *not* been heard, whether individually or collectively. How are such disagreements supposed to be resolved? If we accept that this is the most progressive definition of engagement available, it still falls short of accepting that workplace conflict is both inevitable and, in certain circumstances, legitimate.

One might see the rise in enthusiasm for engagement as a recognition that the previous models of HR practice have fallen short of their promise. No doubt there is some truth in that standpoint, but it is also possible to conclude that the rhetoric of engagement raises as many questions as it answers. Most importantly perhaps, the aspiration of engagement is so distant from the workplace reality (barely two in five of employees in the UK are engaged according to the Chartered Institute for Personnel and Development) that making progress through exhortation and the pure logic of the argument is likely to prove disappointing. Moreover, it is hardly surprising that managers fail to become “engaging” when so much of their day-to-day activity is spent on monitoring, measurement and supervision, activities that they are incentivised to perform.

#### **1.4 Monitoring, measurement, performance pay and surveys: the ubiquitous elements of people management?**

Despite the widely used language of empowerment, workers today have never been so thoroughly appraised, evaluated, scrutinised, surveyed and surveilled. According to the 2011 WERS, 70% of all workplaces in the UK have some sort of appraisal system in place, with a quarter of workplaces linking appraisal to pay. This is a quite remarkable transformation. In 2004 around two in five workplaces had an appraisal system in operation and only around one in six linked the appraisal system to pay. Moreover, there has been a move away from piecework and bonus systems, rewarding people for measurable output, and a growth of pay systems based on subjective assessments by managers of a worker’s performance.

In principle an appraisal process ought to give individual workers the opportunity to influence the setting of their objectives and the targets against which their performance is to be assessed. To that extent it is designed to achieve one of the principal goals of employee engagement – a clear line of sight between an individual’s day-to-day work and the fundamental purpose of the organisation. This could be viewed as a progressive development, but there is also evidence demonstrating that performance management systems can be instruments of work intensification (making people work harder) or a source of injustice – often manifested as bullying or other forms of bad management behaviour. In some organisations the performance management system encourages unreasonable behaviour, in the belief perhaps that behaving unreasonably is a reasonable price for getting things done (Fevre et al 2012).

Furthermore, the introduction of information and communications technologies in most workplaces has enabled employers to subject workers to a much higher level of monitoring. This embraces as diverse a range of activities as counting keystrokes, timing the length of calls in a contact centre or using wearable electronic monitoring devices to allocate work, specify job times and track workers' progress in a logistics operation (with workers being penalised if they fail to meet the targets). There is compelling evidence to show that the use of these technologies has grown apace in the last two decades – by the middle 2000s around one in four workers had some aspect of their work subject to ICT based surveillance (McGovern 2007).

It has been suggested that in the future HR professionals might become the custodians of "big data" relating to the performance of the workforce. If people really do drive organisational performance then the collection and analysis of high quality information could, for the first time, establish HR as the strategic activity described by Ulrich and others. The difficulty with this view, of course, is that data is only useful if you know what to do with it – and make the right judgements as a result. Having an excellent government statistical service does not guarantee that the Treasury will make sensible decisions on fiscal policy. Possessing large volumes of data on worker performance does not, unless further action is taken, improve the quality of people management by line managers.

There is also a strong case for saying that the obsession with monitoring, measurement and assessment runs counter to the notions of trust and dialogue that underpin much of the thinking associated with employee engagement. Indeed, one might say that these monitoring and measurement strategies only make sense if one believes that people are fundamentally *untrustworthy* – the only motivator of performance is money as a reward for individual effort (hence performance related pay); people will shirk unless they are kept under close supervision (hence ICT based monitoring). Embedded in this view is that people view work as a burden (or as a disutility in the language of economics) and the less of it they have to do the better. The idea that non-economic motivations may play a role – taking pride in a job well done, supporting colleagues to do their jobs, participating in the reciprocity of normal human interactions – seems wholly missing from the model. The survey evidence confirms, however, that these intrusive practices are somewhat more widespread than either hard or soft HRM, high commitment management or employee engagement. Once again, the workplace realities are, for a majority of workers, quite inconsistent with the elegant theories.

The effectiveness of HR policies and practices obviously depends on the impact on employees. Are employees satisfied or dissatisfied with their workplace, their line managers or senior management? Are employees "engaged", indifferent or "disengaged"? Employee surveys are identified as indispensable tools in monitoring the efficacy of HR policy and practice and one would therefore expect most organisations to be using these instruments to take regular readings of the state of worker opinion. Somewhat surprisingly, perhaps, the results from the 2011 WERS in the UK show that fewer than two in every five workplaces had surveyed employee opinion in the previous two years – a slight fall from 2004. It would be wrong to describe the employee survey as a ubiquitous element of HR practice, but it is fairly widespread and there is well-developed survey industry devoted to taking the temperature of employee opinion.

In principle this could also be viewed as a positive development, offering a basis for dialogue between workers and their employer. It is perfectly plausible to argue that if problems are

identified then there is a shared interest in seeing them resolved successfully. Once again, however, the evidence points in a slightly different direction – three in every five employees in the UK is dissatisfied with their level of involvement in organisational decision making, highlighting a significant representation gap in many workplaces (Van Wanrooy 2013). Just how organisations use the survey results has not been examined in detail in any of the recent research. It does not seem to be the case, however, that surveys are being used as a diagnostic tool to develop a serious dialogue with workers about how to resolve deeply embedded workplace problems.

There is also a question about the robustness of the employee survey data, not least because some managers have their performance evaluated according to their engagement scores – are they really behaving as “engaging managers”? Anecdotally, some managers encourage their staff not to be too negative in completing employee surveys, because that might affect the perception of the unit in the wider organisation and could adversely affect the manager’s performance ranking (and potentially the ranking of employees too).

There is one final objection to this approach in that it potentially abstracts the problem away from the workplace realities – or at least from direct engagement with the workforce. The survey may well be used as a diagnostic tool to identify organisational ills, but the response is to seek a simple HR fix – identify the right policy or practice and the problem will disappear. This falls prey to the risk identified by Professor Keith Sisson of Warwick University that HR professionals will be seduced into believing that they can make progress by “doing the wrong things better”. Rather than rise to the challenge that some more radical change may be required, the high level of investment in the status quo leads to organisational inertia (Sisson 2006).

A similar point is made by the economic sociologist William Davies, who argues that the best way to discover what people are really thinking is to have a conversation with them rather than shoehorn their responses into a scale of “strongly disagree” to “strongly agree” (Davies 2015). In other words, if organisations want clear and unvarnished worker feedback they should have a serious dialogue with employees – and their representatives. More talk, less survey analysis should be the mantra, even if a survey can prove a useful starting point for the discussion. This conclusion is also relevant to those who believe that managing “big data” on employee performance will cement the strategic role of HR in the future.

### **1.5 HR, trade unions and worker voice: Unitarism, pluralism and power**

This brief review of the development of HR or people management has been designed to highlight the weaknesses in the individualised model of workplace relations that now prevails in most developed English speaking countries. Central to the argument made here is the belief that the standard HR menu is based on a flawed understanding of the realities and therefore applies an inadequate prescription. The rhetoric of building “one organisation” or “one team”, the necessity for everybody to “pull together” and the absolute convergence of employer and employee interests are ubiquitous in the world of work today. Much of the case made by engagement enthusiasts is that the alignment of employer and employee interests can deliver the high performance on which organisational success depends. The reasoning is slightly circular and runs something like this: unless the organisation is successful then nobody will have a job; employees therefore share the employer’s broad goal that organisational objectives must be achieved; achieving these objectives requires the relentless and systematic implementation of the employer’s plans to improve organisational

performance; workers should therefore support the employer's strategy; if workers fail to support the employer's strategy then the organisation will fail and nobody will have a job.

Some of the management thinkers who are often identified as the progenitors of HR – most notably Elton Mayo and some other members of the “human relations” school – took the view that workers who opposed the logic of this argument were suffering from a neurosis that required treatment (Davies 2015 p.123). Refusing to accept the self-evident fact that employers and employees had identical interests was close to a form of mental illness. Trade unions could therefore be seen as a manifestation not of genuine worker discontent but as a symptom of a medical condition. If employers took steps to cure the malady then all would be well.

This may sound like an extreme, not to say crackpot view today, but it has a lingering influence in contemporary HR debates. Many of the professionals responsible for implementing HR policies and practices have a background in organisational psychology. It is not at all surprising, therefore, that the focus is on *individuals* in organisations or that the core objective is to fit the individual to the organisation.

That insights from sociology might be relevant here, explaining the relationship between groups, power and hierarchy, has been lost in the shift to an individualised model of the employment relationship. Similarly, the idea that groups of workers might wish to express their views collectively and might even have legitimate grievances to pursue is simply not admitted in the model. When pressed to give an answer, many HR professionals in workplaces without unions would agree that the recognition of trade unions for collective bargaining is a terrible professional failure.

It is important to understand that this is not a new phenomenon. The senior management class expressed similar views even during the heyday of post-war managed capitalism. The British scholar Alan Fox noted in the middle 1960s that the language of “team spirit”, “team work”, “working together” and “all on the same side” were established characteristics of employer opinion (Fox 1966). Fox also addressed the question why such views were so deeply embedded in management thinking at a time when they had been “abandoned by most social scientists as incongruent with reality and useless for the purposes of analysis”. Three reasons were given for the persistence of what Fox described as the unitarist frame of reference which, for want of a better expression, is a good description of much HR thinking today. First, the belief in an identity of interests acts as a form of reassurance to managers. It is not at all comforting to know that a significant percentage of the workforce are alienated or believe that what the employer is doing runs counter to their interests. Unitarism can boost management confidence by establishing the notion that the organisation is acting for the good of all. Second, the rhetoric of “one team” and “all pulling together” acts as an instrument of persuasion, encouraging workers to believe that the workplace is a harmonious environment that “only fools or knaves would be foolish enough to disrupt”. Third, the idea that the interests of employers and workers are identical helps to confer legitimacy on the management regime.

Much of this analysis is still relevant. Indeed, we could go further and say that insights from a research paper published in the 1960s still explain employer behaviour today and also help us to understand why the models of people management discussed so far have led to moderate disappointment rather than stunning success.

It is also possible to find more realistic accounts of the management role, which recognise, that the interests of the employer and employees may sometimes be in conflict, but argue that management has to win all the most important battles. Peter Drucker, the renowned management theorist, writing in the 1950s argued that the main function and purpose of an enterprise was “the production of goods, not the governance of men (sic)”, which meant in turn that management authority had to be deployed to drive performance. Senior managers owed a duty to shareholders, and discharging that responsibility meant that the enterprise could never be run “primarily in the interests of those over whom the enterprise rules” (Drucker 1951). Expressed in starker terms, employers must get workers to do things that, other things being equal, workers may not want to do. Conflict is therefore unavoidable.

Drucker’s view presented the conflict between workers and their employer as a zero-sum game: one side wins, the other loses<sup>5</sup>. The real value of the industrial relations model, however, was that it admitted the reality of conflict and the necessity of compromise. It accepted, for example, that the organisation could be viewed as a microcosm of society. Different groups had different interests that had to be properly articulated, balanced and reconciled. Pluralism in society, mediated through democratic institutions, was reflected in pluralism at work. Workers and their employer often found themselves in disagreement, but also had to find a *modus vivendi* to ensure that the goods or services in question continued to be produced. Conflict was inevitable and co-operation essential.

Otto Kahn-Freund, the eminent Anglo-German labour lawyer put it like this:

*Any approach to the relationship between management and labour is fruitless unless the divergency of their interests is plainly recognised and articulated. This is true of any type of society one can think of and certainly of a communist as much as of a capitalist society. There must always be someone who seeks to increase the rate of consumption and some who seek to increase the rate of investment. The distribution of the social product between consumption and investment can only be determined by a constant and unending dialogue of powers, whether this takes place at the bargaining table, in parliament, or in the recesses (more or less dark) of government offices (Kahn-Freund 1972)*

Perhaps the two most critical words used by Kahn-Freund here are “dialogue” and “powers”. HR professionals today would possibly accept the need for some dialogue with the workforce (often with individuals), but they would struggle to embrace the idea that the reconciliation of conflict requires an appropriate *balance of power*. Indeed, power has been written out of the people management script and replaced by the notion that the employer and the individual worker stand on an equal footing. This was a legal fiction accepted in the nineteenth century, but largely abandoned in practice for most of the twentieth century until the resurgence of New Right ideologies in the 1980s – if the argument were correct there would be no need for any employment rights beyond those provided by the ordinary law of contract, nor indeed would there be any need for trade unions or other worker voice institutions.

One might also view this as another triumph of market fundamentalist thinking. Workers are rational wealth maximisers, free to make whatever contracts they like in the labour market. If an employer fails to meet expectations then the worker can simply leave and get a better

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<sup>5</sup> Despite the critique offered here, Drucker’s views evolved over time. Towards the end of his career he was a critic of the notion of shareholder value, arguing instead that organisations ought to focus on their customers needs over the long term. This was more likely to produce sustainable “value”.

job elsewhere. Eventually, the market should operate to weed out bad employers. Only the good will survive.

Unfortunately, the realities fall somewhat short of the free-market theory. First, if unemployment is high then workers will struggle to find alternative employment. Second, for the market fundamentalist model to work, workers must know about *all* the relevant job openings available. Markets are effective where the participants have all the information they need to make optimal decisions. Most labour markets do not work like that<sup>6</sup>. Workers may know *something* about the available jobs, but they are very unlikely to know about *every* appropriate job – and may, in any event, find it hard to move from one geographical area to another with better job prospects. Third, the employer is likely to have a good idea about where to find a replacement if a worker resigns - and will be able to do so without undue difficulty. It is here that one of the power inequalities inscribed in the employment relationship can be found. The employer has the right to hire and fire. Without statutory and trade union protection the worker simply has an opportunity to look for alternative employment.

Moreover, once employed the worker generally has to follow their manager's instructions. No doubt in good workplaces there may be a possibility to express concern or offer a reasoned alternative to a manager's demands, but the worker acting alone is precisely that, alone. Here is Kahn-Freund again:

*[T]he relation between an employer and an isolated employee or worker is typically a relation between a bearer of power and one who is not a bearer of power. In its inception it is an act of submission, in its operation it is a condition of subordination, however much that submission and subordination may be concealed by that indispensable figment of the legal mind known as the contract of employment (Kahn-Freund 1972).*

Before the resurgence of the New Right in the 1980s these views were commonplace and informed public policy under governments of all political hues across the developed English-speaking world. What is most striking today perhaps is not that public policy has changed (which it most assuredly has) but that the unitarist view is now pervasive. All of the HR models described so far are unitarist; they all find it difficult (and in some cases impossible) to embrace the notions of conflict, interest representation and collective voice. They all find it hard to accept the inequalities of power embedded in the employment relationship and they all, for that reason alone, find themselves detached from the social realities.

There is also a strong case for saying that management thinking about the workplace today is in conflict with some of the fundamental values of our societies. Most people in the developed world believe that democracy and citizenship have real substance and value. We are free to express our opinions, associate with people of like mind and, if political decisions are going to affect us, we expect those decisions to be subject to public scrutiny, justified and legitimised using due process. These rights are enshrined in the UN Declaration of Human Rights, which includes the right to work and the right to form and join trade unions for the protection of workers' interests (Art 23). In other words, some form of industrial democracy is viewed as a fundamental human right. An implicit distinction is being drawn

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<sup>6</sup> Neo-classical economics assumes that all market participants have all the relevant information; they know all there is to know and therefore can always strike the most optimal bargain. The Nobel prize winning economists George Akerlof and Joseph Stiglitz made their reputations by pointing out the inevitable asymmetries of information that make it difficult for many markets to embody the assumptions embedded in standard economic models. See for example Akerlof (1970)

between the labour market and all other markets, because the labour market is a market involving human beings with citizenship rights, not a market in things. Unfortunately, for many people in the UK and New Zealand, these rights are merely formal; in practice they are surrendered at the moment the worker crosses their employer's threshold. It is clear that trade union membership and collective bargaining coverage have declined, that no significant new institutions to articulate worker voice have been established and that the world is therefore closer to Kahn-Freund's description of the nineteenth century master and servant relationship than it is to the prescriptions of enlightened HR.

In the final section of this paper we will pursue the argument that policy makers and employers need to give the promotion of industrial democracy the attention that it deserves. Reinstating the case for genuine dialogue between workers and their employer, both individually and collectively, is an essential element in building a sustainable economy in the post-crisis era. The risks of failing to rise to this challenge are clear and have been well described by Professor Richard Freeman, the Harvard based labour economist. He argues with genuine passion that we are rapidly witnessing the emergence of a "new feudalism", where the richest secure the greatest rewards, capture political institutions and leave most working people as serfs (Freeman 2015). Freeman also makes an explicit link to the impact on the governance of developed world economies, observing that

*The founders of the US believed that democracy could not survive with such high levels of inequality (Freeman 2015 p.6)*

The new feudalism may seem a little distant from the concerns of this paper, but a shift in the balance of bargaining power in favour of working people is the best antidote to a society where those at the top of the income distribution dictate the terms of trade. In other words, it is essential to make the case for economic democracy, for powerful (and responsible) worker voice institutions and a stronger possibility for workers to influence the rewards available to them from work. Whether trade unions can be revived using conventional means is discussed in further detail in the final section of this paper. The important point of principle however, is that without greater industrial democracy it will be challenging, if not impossible, to build a sustainable economy with inclusive prosperity – where all citizens reap the benefits of continued economic growth. This means in turn that countries like the UK and New Zealand must begin to consider the industrial relations system as a system. What exists at the moment is an unstable hybrid, incorporating the remnants of managed capitalism, with high levels of union membership in the public sector, and a virtually union free private sector where workers are left to the tender mercies of markets and the ministrations of people management professionals. In these circumstances it is hardly surprising that tensions emerge. It can be difficult, in the current environment, to combine strong union organisation in the public sector with HR policies and practices that owe more to "union free" ideas of HRM. It is not impossible, however, as we observed earlier, to integrate progressive people management policies with policies that sustain robust worker voice institutions. The German and Nordic examples, despite the pressures on trade unions in those countries, prove that industrial citizenship can be sustained in a relatively hostile world. Achieving that outcome is the focus for the policy recommendations described later in this paper.

### **1.6 Can anything be salvaged from the wreckage?**

Sceptical readers who have managed to get this far may have reached the conclusion that the argument presented here is calling for a wholesale systemic change, the abandonment of existing models of people management and a somewhat risky process of developing a

new and not entirely convincing alternative. Others may have concluded already that the aim is to build a better yesterday, unwind the institutional transformation of the last thirty years and reinvent the post-war consensus. That is not the objective of this paper. Instead, the project advanced here is to take the positive elements of the existing people management paradigm and use them as a foundation for the construction of a more equitable settlement.

For example, HR professionals should be taken at their word when they say that they care about equality and diversity. The development of initiatives around work-life balance and working time flexibility, the progress made on equal pay and the integration of disadvantaged groups into the labour market can all be attributed, at least in part, to deliberate changes in employer policy as well as developments in the architecture of legal rights.

There can be little doubt too that the process of recruitment has been professionalised over the last twenty years. Techniques that previously were reserved only for the recruitment of senior executives, like assessment centres and psychometric testing ought, in principle, to achieve a better match between the needs of the individual worker and the needs of the organisation. The same can be said for the attention given to equality and diversity concerns in the process of recruitment.

Allowing opportunities for *individuals* to participate in the organisation of their work and the determination of their objectives can also be seen as a positive development. The process of appraisal can facilitate more informed conversations between workers and management. It can, in principle, allow workers to express concerns about whether objectives are realistic and deliverable. It may, if properly designed, enable workers to achieve a positive trade off between the efficiency their employer seeks and the demands of workplace justice. The problem, of course, is that individuals need to be confident enough to speak up in these conversations and that requires a degree of countervailing power. Collective voice can be used to create this sense of confidence, build trust and, potentially, deliver the objectives sought by the apostles of employee engagement.

A similar point might be made in relation to employee surveys. These instruments are used widely in social science and in the collection of official statistics – most official labour force surveys are based on interviews with employees. The issue is much less about employee surveys themselves and much more about the content of such surveys and the use to which the data is put. Once again, the issue concerns the balance of power and the possibility of a constructive dialogue between employers and workers' representatives. The union management partnership initiatives developed in the UK and New Zealand in the 1990s and early 2000s (of which the PSA's partnership model is an exemplar), still offer much promise for the future, although they will need to adapt to changing times.

It is also important to record that the industrial relations arrangements of managed capitalism (at least in the developed English speaking world) were not always adequate guarantees of *workplace* citizenship. The use of compulsory unionism, closed shops and national collective bargaining could sometimes lead to the ossification of workplace representative structures. The really important conversations between unions and employers often took place at some distance from the workplace. Moreover, the guaranteed membership levels associated with compulsory unionism meant that some unions had few incentives to maintain a vibrant workplace presence. David Peetz offers an admirable diagnosis of the problem in his survey of Australian industrial relations under the Hawke and

Keating Labor governments. Reform of the award system was almost certainly necessary, but the scale and pace of the change left some trade unions struggling to build workplace structures with the capacity to manage the new dispensation (Peetz 1998). These findings are confirmed by the WERS series in the UK, which shows that union effectiveness, as measured by membership satisfaction, depends on regular contact between workers and their workplace representative. There is no substitute for strong workplace organisation, where the union is trusted by its members and respected by the employer.

Some readers may object that this approach is too old fashioned and backward looking. The task, they may argue, is to develop an approach to people management that responds to radical labour market change driven by information and communication technologies. In the future, they may say, it is more likely that people will be working for “sharing economy” businesses like airbnb or Uber than either multinational corporations or government departments. The “gig economy”, where people are employed on a multiplicity of self-employed short-term contracts will require a completely different approach.

For the time being, the best response to this argument is to point out that almost four in every five people continue to be employed in a conventional employee job. Moreover, in some countries (the UK is a good example), people continue to be employed in longer rather than shorter-term jobs – average job tenures in the UK have scarcely changed for thirty years. It is possible that the situation may change in the future, but it would be unwise to embark on some major new initiative to reconceptualise people management just because there is a high volume of media commentary on the transformative power of technology.

The same might be said for those who believe that a wave of technologically induced unemployment is about to sweep across the world. Historical experience suggests that technology has never led to a permanent increase in the overall level of unemployment. Certainly there have been disruptive and painful transitions in the past, but a descent into pessimism about employment prospects for the future is unwarranted. A more serious concern, perhaps, is that technological change will increase income inequality, consistent with the argument that “those who own the robots rule the world”. This theme is outside the scope of this paper, although it will inform parts of the narrative. Perhaps the most compelling element of the argument presented in this paper is far too many people are badly managed in bad jobs, which could be better. It is better to tackle the problems that we know about today than speculate endlessly about difficulties that may (or may not) arise in the future.

So far we have concentrated on the textbook description of the existing people management paradigm and some effort has been made to assess whether this is congruent with workplace realities. In the next section we will explore the practical effects of people management policies in a little more detail, following a brief consideration of the relative productivity performance of a number of countries from the 1970s until the present. After all, the process of labour market and workplace reform was supposed to lead to improvements in performance. The big question is whether that promise has been kept?

## 2. HR, Productivity and Performance

- Enthusiasts for the pre-crisis paradigm claimed that it delivered superior performance to the model of managed capitalism that was in operation in the immediate post-war period. Analysis of the productivity statistics for New Zealand suggests that the evidence for this case is weak.
- It is also argued that the approach to people management preferred by HR professionals delivers better organisational performance than the old model of industrial relations. The evidence for this proposition is at best ambiguous. The most compelling findings are that individual and collective worker participation in problem solving and workplace governance have a positive impact on productivity and organisational performance.
- Despite the effort of HR professionals to promote employee engagement, reputable studies suggest that only a minority of employees are engaged.
- The same can be said of “high performance work systems”, which are not widely used.
- Performance related pay can boost performance in very limited circumstances. In most organisations, however, tinkering with the pay system can consume a great deal of management time to very little advantage.

### 2.1 Introduction

A central claim made by all the HR theorists referred to in chapter 1 is that the effective implementation of appropriate HR policies and practices will improve organisational performance. Intuitively, this has considerable persuasive power. No reasonable person could believe that an organisation will achieve sustainable success with a workforce that is demotivated, disengaged and has little commitment to their employer’s business. Enthusiasts for HRM and employee engagement make another claim too: that their approach is *superior* to the old model of industrial relations associated with the second phase of capitalism. The objective of this chapter is to explore both claims in a little more detail, identify where there are weaknesses in the story and discuss the challenges to which a more convincing approach to people management must respond. The final section of this paper will outline a new model and identify the changes to public policy that may be needed.

The claim to superior performance is not just made for people management but for the market friendly model of capitalism that now prevails in most developed English speaking countries. Economic reform in the 1980s and 1990s, implemented by centre-right governments in the UK (and from 1990 onwards in New Zealand) was designed to secure higher growth rates<sup>7</sup>. We therefore have a thirty-year period over which to judge this natural experiment, so that we can assess whether the upheavals of two decades ago have borne the fruit expected by their proponents.

Of course, it is difficult to draw a simple line of causation between productivity growth at the aggregate (national) level and measures of organisational performance. In the conventional productivity framework used by many governments in the 1990s and 2000s, productivity growth was said to be driven by the following factors (see for example BIS 2008):

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<sup>7</sup> Although the Labour government in New Zealand from 1984-90 implemented economic policies often associated with governments of the centre-right.

- Investment
- Innovation
- Skills
- Enterprise
- Competition

Perhaps the most important factor missing from this model is what happens *inside the workplace*. In other words, for investment to be effective the workforce must be able to make the most efficient use of new machines, technologies and processes. Innovation is not simply a matter of disruptive new technologies driving performance improvements, but an incremental process that depends on workers engaging constructively with their work, thinking creatively about how to undertake tasks more efficiently<sup>8</sup>. Improving the supply of skills will fail to deliver its promise unless the organisation is configured to make full use of those skills. Policies for enterprise (a code word for entrepreneurship) can only be fully effective if they are also focused on improving the management of the workforce to enhance business growth. And competition policies will be most effective when they create incentives for management innovation – which requires in turn the capacity to redeploy workers from one activity to another.

Two important additional elements are therefore missing from the orthodox framework: first, the quality of management; second the level of trust in the workplace. Superior performance self-evidently requires a high level of management skill. Nimble organisations can only achieve that level of agility because relationships between workers and their employer are strong. Inflexible organisations are generally characterised by a lack of trust. We might also note that the conventional framework has little to say about the inevitable differences of interest described in Chapter 1 and the important role of workplace voice in securing industrial citizenship. These observations give us some rules of thumb to apply as we consider the relative productivity performance of New Zealand and the UK and assess the literature that seeks to prove causal linkages between the application of the techniques described in Chapter 1 and organisational performance.

## **2.2 Economic reform and productivity: Did the market friendly revolution deliver its promise?**

A simple test of the claim that the market friendly revolution delivers superior performance is to look at the comparative productivity statistics for a range of countries over a reasonable period (Figure 1). We have already observed that there are profound national differences in operation here and not all the countries selected below went through the upheavals that were experienced by both New Zealand and the UK from the 1980s until the middle 1990s.

In Germany, for example, the statutory architecture of co-determination (worker participation) in both the boardroom and the workplace continued to operate throughout this period. In manufacturing, trade unions remained strong and national bargaining remains the norm today – although it is now possible to undertake bargaining at enterprise level, with negotiated flexibilities around the terms of higher-level agreements. Similarly, in Sweden, both collective bargaining coverage and union membership remain at very high levels. Certainly, trade union membership has been under pressure in both countries as these economies have restructured, with a shift in employment from manufacturing to

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<sup>8</sup> Germany's strong performance in manufacturing is often attributed to worker involvement in the process of incremental innovation. The classic account can be found in Hall and Soskice 2001.

services. In Germany, for example, the relative weakness of bargaining in the service sector has led to the introduction of a national minimum wage<sup>9</sup>. And in Sweden changes to the social security system have led to a fall in union membership. In neither case, however, has there been a wholesale reconstruction of the labour market on the scale that took place in the UK and New Zealand.

What is most remarkable, perhaps, is that the prosperity of these countries has *diverged* since 1970. At that time the US was both more prosperous and more productive than all the other countries, but the differences were relatively small. Both the UK and New Zealand had an especially torrid time in the 1970s, with incumbent governments being defeated (1979 in the UK, 1984 in New Zealand) and their successors implementing policies of deregulation, privatisation and market liberalisation. The argument at that time was that the institutions of the post-war settlement were sclerotic and were holding back growth. Sweeping away the supposed encumbrances of red-tape, public ownership and over-mighty trade unions would allow both the UK and NZ to catch up with their more prosperous comparator countries in the developed world.

Most striking about this story, however, is that it fails to fit the facts. By 2014 the USA, Germany and Sweden had cemented their productivity advantage. In relative terms, both the UK and New Zealand had fallen significantly behind.

A sceptic might point out that the USA has consistently enjoyed higher productivity than any of the other countries in this selection, proving that a deregulated market economy is superior to those models that have retained some elements of managed capitalism. As Adair Turner has pointed out, however, much of the USA's productivity advantage can be explained by spatial factors (Turner 2003). A large percentage of the productivity difference between the US, Germany and the UK can be accounted for by one sector – retail and distributive trades.

*Physical space has a pervasive impact on many aspects of productivity, but above all in those sectors concerned with the physical movement of goods. In-store retail management is more efficient if you have aisles wide enough to allow restocking without consumer service degradation. Back-of-store handling efficiencies are far easier to achieve if you have large trucks, coming at predictable times, having travelled along uncongested freeways, and turning round in wide spaces – than it is with smaller trucks arriving at unpredictable times, and queuing to use constricted unloading bays...America gets a productivity advantage from the fact that only a small proportion of its population lives in the dense urban clusters which dominate the economic geography of England, the Netherlands, Germany, Italy or Japan (Turner 2003).*

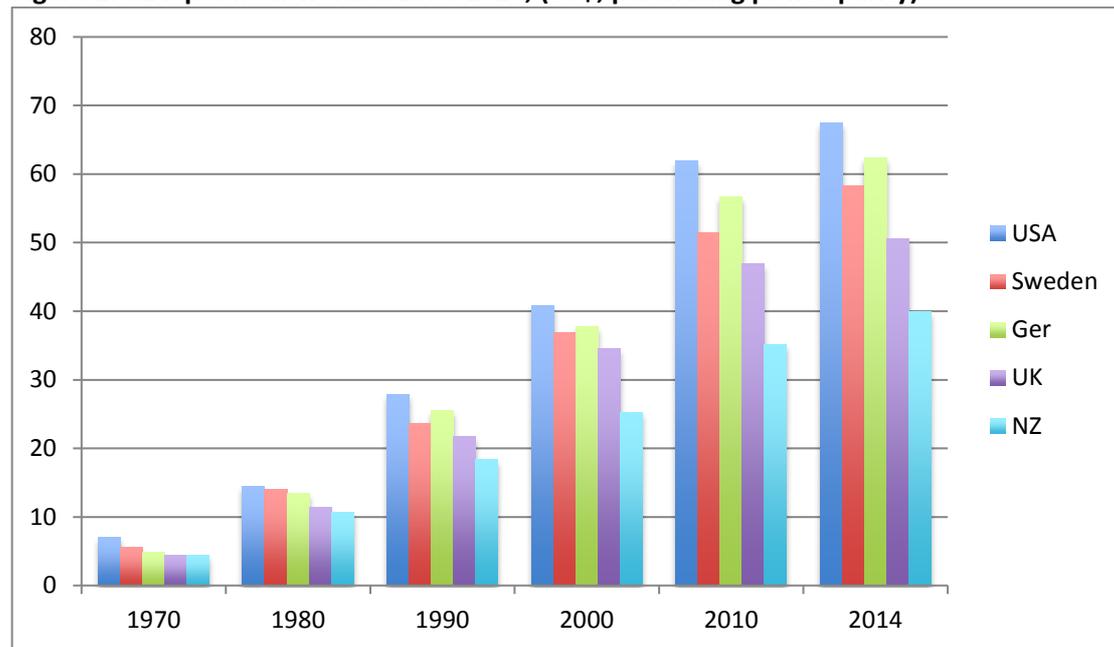
This makes it difficult for countries without these spatial advantages to achieve US levels of productivity, no matter what the regulatory environment. Moreover, on an orthodox analysis neither Germany nor Sweden should be performing well at all. If the market

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<sup>9</sup> The Red-Green coalition government in Germany (1998-2005) implemented an extensive programme of labour market deregulation, including the creation of so-called "mini-jobs" outside the social security system, which led to a big increase in the number of German workers who were low paid (receiving less than two-thirds median earnings). The policy had benign objectives – the reduction of unemployment and encouraging more women into the labour market – but had obvious unintended consequences

fundamentalist story were right then higher taxes and more regulated labour markets ought to be an economic kiss of death, yet both these countries continue to thrive.

**Figure 1: GDP per hour worked 1970-2014, (US\$, purchasing power parity)**



Source: OECD Stat

Peter Hall and David Soskice, in their ground-breaking work on varieties of capitalism, have argued that there is more than one economic model capable of delivering sustained prosperity (Hall and Soskice 2001). Similarly, the OECD has recognised that at least two labour market models achieved high levels of employment before the crisis – the “liberal” model pursued in the UK, the USA and New Zealand and the model of “flexicurity” applied in the Nordic countries and the Netherlands. The latter is fairly easily described: there are high levels of collective bargaining coverage, moderate levels of employment protection, relatively generous benefits for those without work (subject to stringent job search conditions) and high levels of investment in the human capital of the unemployed to enable them to make a successful return to sustainable employment. Of course, this system has been subjected to real strain in the wake of the global crisis, but Nordic labour markets have proved resilient under crisis conditions and economic recovery in these countries has generally been faster than in the UK (although unemployment remains slightly higher in both Denmark and Sweden)<sup>10</sup>. So far as Germany is concerned, the strength of social partnership between unions and employers proved a real advantage during the crisis. There were negotiated reductions in earnings and working time (under the *kurzarbeit* scheme), with the state partially compensating workers for loss of earnings. One might say therefore that some of the institutions of managed capitalism have continued to prove their usefulness in those countries where they still exist. There is no necessary contradiction between statutory arrangements to guarantee worker voice, the widespread application of collective agreements and high levels of prosperity.

<sup>10</sup> The UK economy has proved good at creating jobs, but these are often low paid and (involuntary) part-time jobs. The Nordic countries offer higher quality employment to their citizens (Gallie et al 2007) and still have much lower levels of income inequality than either the USA, the UK or New Zealand (Coats 2013).

Policymakers in the UK and New Zealand are therefore faced with a conundrum: if the market friendly revolution has failed to deliver its promise then just what should be done next? In a review commissioned by the UK government in 2003, it was suggested that the market liberalisation strategy had reached its limits (Porter and Ketels 2003). There was very little left to deregulate or privatise. The priority in the future should be enabling businesses to compete by developing innovative products and services. More specifically, policymakers were advised to focus on:

- Sustained public investment in education, skills and technology.
- Regulatory interventions to drive productivity growth, including robust competition policies and the development of an effective innovation system (based around knowledge transfer and inter-firm collaboration).
- The development of industrial clusters (major businesses and their suppliers located in a centre of industrial excellence).
- Regional policies to support spatially balanced development.
- A change in the managerial mindset, moving away from cost reduction to “create assets that support unique value propositions”.

When stripped of the business school jargon, this is some distance from the standard prescription of the free-market model, principally because it describes a clear role for the state, not as a director of economic activity but as a co-ordinator and facilitator. The proposals on the science and innovation system, for example, seem to draw inspiration from the arrangements found in Germany for technology transfer and information exchange. Similarly, the change in management orientation reflects the understanding that businesses need to focus on long-term growth rather than short-term profitability – whether this is a realistic proposition without major reforms to capital markets and corporate governance is an issue discussed later in this chapter.

Most striking, perhaps, is that little or nothing is said about the organisation of work, the design of jobs, the utilisation of skills or the role of the workforce in sustaining incremental innovation. If the deregulatory agenda had outlived its usefulness by the early 2000s then this account offered a very partial prescription. Many of these weaknesses can be attributed to the authors’ acceptance of the market friendly policy paradigm. Porter and Ketels offered the prospect of moving to what they called the “next stage of competitiveness”, building on the *success* of the programme of economic reform implemented in the 1980s. They too accepted that the effective management of people was the result of the workings of Adam Smith’s invisible hand. Policymakers had no need to worry about what happened inside the firm. An efficient, “flexible” labour market would ensure that bad employers disappeared and good employers thrived – subject of course to the implementation of the policy menu described above.

This analysis assumes too that the reforms of the 1980s had delivered their promise. A recent paper published by the Judge Business School produces a much more pessimistic assessment, suggesting that GDP and productivity in the UK have grown more slowly since 1979 than in previous decades, unemployment and income inequality have been consistently higher over the period, economic growth has displayed more volatility (more exuberant booms and deeper recessions) and inflation has reverted to its pre 1970s average (Coutts and Gudgin 2015)<sup>11</sup>. The authors conclude that the only economic reform that had a

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<sup>11</sup> An earlier and equally critical evaluation of the supposed success of Mrs Thatcher’s economic reform programme can be found in the authoritative assessment of the National Economic Development Office (NEDO) published in 1994 – Buxton et al

significant positive impact on productivity was the deregulation of the financial sector in the 1980s. But even here the story is not entirely positive, principally because deregulation, when combined with weak wage growth and rising income inequality, led to higher levels of household indebtedness and the collapse of the banking system in 2007-09. The authors ask the counterfactual question whether the situation would have been worse had elements of the managed capitalism model survived the assault of Thatcherism - and conclude that the answer is no. This is not an entirely surprising conclusion and is consistent with the point at which we embarked on this discussion. The GFC cannot be seen as anything other than a total system failure, invalidating many (if not most) of the assumptions on which the previous paradigm rested – hence Anatole Kaletsky’s call for a new model of capitalism (see Chapter 1).

Readers who have got this far may be feeling a little confused. Germany and Sweden seem to do better than the UK and New Zealand but worse than the USA on the productivity dimension. All the Nordic countries, the Netherlands, the UK, the USA and New Zealand achieved high levels of employment before the crisis. Germany and Sweden seem to have weathered the storm better than many other countries – although Germany may be adversely affected by the travails of the euro. The USA, the UK and New Zealand all have higher income inequality than the other countries discussed here. Just what conclusions might be drawn from the analysis so far?

First, it is clear that there are different models of capitalism under consideration, which produce very different economic and social outcomes. Second, it is therefore wrong to argue that there is simply one road to a prosperous future. Third, it is possible for a country to *change* its economic model. Neither New Zealand nor the UK were identical to the German social market economy or Nordic social democracy before the 1980s, but they did display the characteristics of managed capitalism that remain common in other countries today. A conscious policy decision was made to move to a different path. Fourth, it is possible to find some common factors amongst those countries that had achieved high levels of employment before the crisis, most notably strong competition policies and relatively liberal product market regulation (OECD 2014). Fifth, there is ample room for domestic policy manoeuvre exemplified by the great diversity of approach to policies for the labour market, worker voice, union membership and the role of collective bargaining in wage formation.

More interesting for the purposes of this discussion, perhaps, is that global business elites have begun to take seriously the notion that there was something wrong with the pre-crisis model – most importantly, that the crisis itself happened and that the gap between the rich and poor has grown much wider over the last thirty years. The last two meetings of the World Economic Forum at Davos have identified rising income inequality as a threat to global economic stability. The IMF research department has documented in detail that inequality was a *cause* of the global crisis and that redistribution can both stabilise the economy and enhance growth rates (Kumhof and Ranciere 2010, Berg and Ostry 2010, Ostry et al 2014). The OECD have undertaken a similarly comprehensive analysis and suggested that the status quo cannot continue (OECD 2011). So far as the IMF’s researchers are concerned, the solution is to achieve a better balance of bargaining power between workers and their employer to ensure that the fruits of growth are widely shared. The US based think tank the Center for American Progress has made a compelling argument for “inclusive prosperity”, proposing policy measures that include the promotion of collective bargaining,

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(ed.) *Britain’s Economic Performance*. NEDO had been abolished shortly before the volume was published which meant that the authors were released from the usual civil service constraints.

higher minimum wages, universal rights to worker representation and investment in public infrastructure (Center for American Progress 2015). It is clear that the nature of the industrial relations system, the role of worker voice and the strength (or weakness) of trade unions are back on the political agenda.

Moreover, some leading American foundations and international businesses are supporting the *Coalition for Inclusive Capitalism*, which proposes that there must be a shift from a short-term shareholder driven economic model to a long-term stakeholder driven approach<sup>12</sup>. All these developments tend to support the argument that we are in a transitional stage between the market-liberal model and something that seeks to combine the benefits of managed capitalism with a little more openness to the advantages of markets. This should provide an opportunity for trade unions and others to enter previously prohibited territory and develop a new model of the modern workplace. Unfortunately, the political debate in many developed countries seems not to have caught up with these arguments. Parties of right and left are still locked in a battle about tax, regulation and fiscal responsibility, just at the point when the intellectual currents have changed.

Even though there may be a developing discussion about the nature of capitalism and the conditions for sustainable growth these ideas remain distant from debates taking place in the HR profession too. Most employers are continuing to apply the policies and practices described in Chapter 1 in the belief that they drive high performance and therefore higher productivity. We now turn to an examination of these questions. In addition we will consider just how widespread these practices have become.

### **2.3 People management and performance: what does the evidence tell us?**

It may be a little surprising to say so, but we know much less about the impact of HR policies and practices than we might think. According to one commentator:

*No potential driving factor of productivity has seen a higher ratio of speculation to empirical study (Syverson 2010).*

Explanations for this phenomenon may be found more readily in sociology than in economics. There is an entire profession devoted to the management of people so they have a vested interest in making the argument that their activities are productivity enhancing. Moreover, as Keith Sisson has observed, organisations have made significant investments in the status quo and find it difficult to abandon established practices, which are believed to produce “high performance”, whether that judgment is based on robust evidence or not (Sisson 2006). There may also be an element of management faddism at work here – those in leadership positions may be in search of a magic bullet or instant solution and are more persuaded by anecdotes (or a sense that they are behind the curve) than a strong evidence based argument. The susceptibility of senior managers to these seductions is well documented in the literature (Pfeffer and Sutton 2006).

Of course, there are many studies that purport to show a strong link between the implementation of HR policies and organisational performance, but it is possible (and necessary) to look at the methodologies employed and the time period over which results are judged. Put simply, there is just too little longitudinal data and the complexity of organisational dynamics makes it difficult to link practices to outcomes – demonstrating

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<sup>12</sup> See <http://www.inc-cap.com/about-us/>

causation with small sample sizes or cross-sectional studies (a snapshot at a particular point in time) may look compelling but can contain serious weaknesses.

Toby Wall and Stephen Wood advanced these arguments in the middle 2000s in an extensive review of the existing literature on HRM and performance (Wall and Wood 2005). In their view the use of terms like high commitment and high performance “presupposed the very effects that the researchers should be investigating”. Often, studies were presented as demonstrating causal relationships when at best they had revealed persuasive associations. In many cases both the measures of HRM under consideration and the effects on performance were assessed according to responses received from HR professionals. Only a minority of the studies used objective measures like reported profitability. And it was difficult to judge whether like was being compared with like – organisations might report that they used performance related pay or teamworking systems, but the precise nature of these arrangements could be very different from one organisation to another.

It has become popular amongst HR professionals and theorists to note the importance of the bundling of practices. In other words, implementing a range of HR initiatives simultaneously will have a bigger effect than the application of one of the elements of the high commitment or high performance management menu alone. This is now a commonplace view, but the evidence for it on Wall and Wood’s assessment is weak. The studies used to reach this conclusion had employed “composite” measures of HRM, looking at the impact of practices taken together, but no attempt had been made to look at the impact of *individual* practices. It was therefore impossible to be certain which practices made the most difference or indeed why they made a difference. Most surprisingly, perhaps, almost a quarter of the studies under review showed *no* link between the implementation of HR practices and organisational performance.

There are other difficulties in drawing generalizable conclusions from this research. There could be considerable variations across sectors and sizes of firm. What works in a large multinational might be wholly inappropriate for a small or medium sized business. A practice that boosts performance in retail could be ineffective in financial services. All of these contingencies have been inadequately accounted for in most of the studies undertaken to date. Moreover, there may be real differences (heterogeneity) between firms within a sector. Businesses may have very different product market strategies, customer service models and internal labour market policies, all of which will affect their approach to the management of the workforce.

The conclusion to be drawn, however, is not that there is no link between people management practices and performance. As Wall and Wood put it:

*The evidence is promising but only circumstantial* (Wall and Wood 2005, p.452).

It is also wrong to believe that all the previous studies are of no value at all. Most of the weaknesses in methodology are a result of the limited funds available to researchers and the consequent constraints on the comprehensiveness of the surveys of HR practice.

Wall and Wood conclude (as good researchers do) that there is a compelling case for what they call “big science” – robust longitudinal analysis of the impact of HR practices with all the methodological weaknesses addressed. So far a programme on this scale has yet to materialise, even though the case for it is compelling. What Wall and Wood also argue, however, is that some of these practices may be valuable *even if they do not enhance*

*productivity or performance*. Their reasons for saying this are an implicit acceptance of the human rights principles described in Chapter 1 – that employers should offer workers the opportunity to participate in workplace decision-making. It is laudable that HR professionals seek to manage people fairly and effectively in order to secure workplace justice and equal opportunity. We return to this issue in detail in Chapter 3 and it will emerge as a critical feature of this discussion too.

In a more recent assessment of the evidence Nicholas Bloom and John van Reenen have adopted an econometric approach and conclude that the HR practice with the strongest evidence base is performance related pay (Bloom and van Reenen 2010). They suggest that the research here has produced robust findings showing that performance pay works in both the public and the private sector. This remains a controversial statement and a more critical assessment is offered in the section dealing with performance related pay below. Their analysis confirms, however, that the more widespread use of information and communication technologies has facilitated the growth performance pay, simply because it is easier to monitor workers' performance. As we noted earlier, this can often be experienced as an intrusive form of surveillance or work intensification (McGovern 2007 see also Taylor 2013 for an especially critical assessment).

In addition, Bloom and van Reenen refer to their own work demonstrating a link between the quality of management (including people management) and organisational performance (Bloom et al 2007). They point out, however, that the relationships established by this study are *not causal*. There is simply an *association* between the implementation of certain HR practices and organisational performance. It might be the case, for example, that generally well-managed organisations have adopted a particular set of people management practices, not that these practices are responsible for either productivity or profitability. In their own words:

*Hard causal evidence of the type common elsewhere in labour economics is rare and a major future research challenge is to generate better [research] designs to test the causal relationships* (Bloom and van Reenen 2010 p.48).

They suggest, however, that there may be some practices that are the right ones for all firms to adopt. In that sense HR practices could be viewed as a management "technology" in the same way as computers or the Internet; all organisations can benefit from applying these innovations. From the state of the evidence at the moment, however, it is difficult to determine *which* policies and practices are most likely to be effective. This may help us to answer the question we identified in Chapter 1: if HR practices are so useful in boosting performance why are they applied so rarely in a systematic way? One possibility is that organisations are in a state of some ignorance about what works and why. Inevitably it becomes difficult to decide *which* new approach is most worthy of consideration. If the potential outcomes are uncertain there is a strong incentive to continue with the status quo. There are other explanations too, of course, the most important of which is that structural conditions in developed English speaking countries militate against the successful implementation of these practices (Godard 2004).

Perhaps the best that we can conclude from these two assessments is that we know a great deal less than we think about the supposed link between HR policy and practice and organisational performance. It is simply not possible to adjudicate on the claim that the current model of people management is superior to the trade union/collective bargaining arrangements that prevailed under managed capitalism.

It may also be the case that we know a great deal more about the impact of trade unions on both productivity and organisational climate than we do about HRM. In their classic *What do unions do?*, Richard Freeman and James Medoff recorded that trade unions could be good for productivity, bad for productivity or have no impact at all on productivity (Freeman and Medoff 1984). The critical factor was the relationship that existed between the employer and the union. The best results were secured where there was a high level of trust between the union and the employer, a degree of collaboration to solve shared problems and a recognition that there could occasionally be furious arguments about distributional questions. More recent work in the UK has shown that unions with effective *workplace* structures are positively viewed by private sector employers as contributing to higher performance<sup>13</sup>. In addition, the same study finds that strong union organisation can contribute to stable and productive employment relationships over the long term (Bryson and Forth 2010a). It would therefore be appropriate to read these findings as proof that pluralism works, confirming the importance of strong workplace organisation in securing industrial citizenship *and* organisational success.

### *Does collective worker participation make a difference?*

The argument presented in Chapter 1 suggested that HR practice today is overwhelmingly unitarist and the current model finds it hard to accommodate the possibility of trade union participation. Indeed, trade unions do not feature at all in the theoretical accounts of people management, except perhaps as an “external” force to be controlled. There is, however, another current in the research that finds trade unions or other institutions for collective worker participation can have a significant impact, not just on the adoption of HPWS or high commitment management practices but on productivity too.

Most of these studies display some of the methodological weaknesses we have already described, but they are consistent with the analysis presented by Freeman and Medoff in the 1980s, which showed that there was a positive impact on productivity because:

- the presence of trade unions generally reduced labour turnover, cut recruitment costs and allowed the organisation to retain tacit knowledge;
- authoritarian and paternalistic practices were weeded out as managers “tightened the ship” – in other words there was a general improvement in the standards of management and supervision;
- in some industries labour management co-operative ventures had the explicit objective of raising productivity (Freeman and Medoff 1984).

A study of ten European countries conducted in 1996 examined the implementation of what were then described as new forms of work organisation (Sisson 1997, Sisson 2000). The focus was on the delegation of authority to groups and teams (delegative participation) or the commitment by the employer to encourage employees to make their views known on work related matters (consultative participation). Contrary to much of the research, the centre of attention was not on specific HR or HPWS practices but the commitment of the employer to keep the promise of HRM – that employees would have more opportunities for genuine participation in workplace decision making (Box 3). A serious effort was therefore made to assess whether individual employee involvement was either an alternative to

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<sup>13</sup> This effect could not be detected in the public sector. An earlier paper by one of the authors found general support for the hypothesis that employer perceptions of the employment relations climate were better where unions were strong enough to make a difference but did not have the whip hand. This was equally true for the public and the private sectors – and was again associated with strong workplace organization (Bryson 2001)

collective worker representation or a complementary practice. Moreover, managers were asked to evaluate the impact on productivity, worker motivation and product or service quality.

<b>Box 3: Delegative and Consultative Participation</b>	
<i>Consultative</i>	<i>Delegative</i>
Individual consultation (face to face)	Individual delegation (increased autonomy)
Individual Consultation (arms length)	
Group consultation (temporary groups)	Group delegation (semi-autonomous teamworking and similar practices)
Group consultation (permanent groups)	
Source: European Foundation for the Improvement of Living and Working Conditions	

In large measure the results of the analysis confirmed that individual employee involvement and collective representation (whether through trade unions or works councils), are complementary rather than competing practices. Those countries that had the most well established arrangements for collective (indirect) participation (Sweden, Germany and the Netherlands) also had above average levels of individual delegation. The use of semi-autonomous team working was also more extensive in Sweden and the Netherlands, which had the highest levels of group delegation. Moreover, there seemed to be a strong reinforcing relationship between individual employee involvement and collective participation:

*Far from being a barrier to progress, it seems, employee representatives are the agents of change. The greater their involvement, in terms of both form and extent (and this applies particularly to negotiation and joint decision making), the more the indicators of the effects were positive (Sisson et al 1997).*

What is really important here is that employers were introducing these initiatives not because they were looking to give workers the opportunity to enforce their rights to workplace citizenship but because they believed there would be a positive impact on performance. Of course, with the exception of the UK and Ireland, most of the economies under scrutiny had retained many of the institutions of managed capitalism. It would have been difficult in a European context to ignore the presence of trade union representatives and works councillors. On the other hand, unions and works councils could have opposed the drive for greater individual involvement but in practice were intimately involved in the implementation of the programmes. These are important findings because they show that representative and individual participation can be successfully combined in a *pluralist* model. Moreover, they confirm that in the best cases these models are highly adaptable precisely because workers representatives are involved in the process – witness the extensive use of group delegation, for example, in the Netherlands and Sweden.

There are some interesting insights to be drawn from the WERS series in the UK, which are consistent with the results from the European survey. As the British TUC observed in 1994, the techniques generally associated with HRM (hard or soft) and what we would now call

HPWS or high commitment management were more frequently found (in supposedly appropriate bundles) in *unionised* workplaces (TUC 1994). Similar results have been reported in each successive WERS (Cully 1999, Kersley 2006, Van Wanrooy 2013). One might view this as a demonstration that HR policies and practices of this kind are essentially union avoidance strategies. But the fact that there is a consistent link between unionisation and the more systematic application of these practices suggests such a conclusion would be wrong. Indeed, one might say that a high level of trust is needed to make these practices work and trust is most likely to be strong where workers have access to both individual and collective voice. Of course, this could be a little too optimistic and even where a favourable balance has been struck between collaboration and conflict it is all too easy for trust to be swept away by a hasty restructuring in the public sector or a merger or acquisition in the private sector.

The argument that trust makes a difference to the effectiveness of “new” workplace practices can also be found in the work of Black and Lynch, which focuses on practices in manufacturing in the USA. This is one of the studies reviewed by Wood and Wall and by Bloom and van Reenen, suggesting that the results should be handled with some circumspection. Nonetheless, it is worth recording the central finding in full:

*Establishments with more traditional unionised labour management relations with little or no direct participation of employees in decision making have substantially lower productivity than unionised plants that have adopted new workplace practices, including incentive based compensation and greater employee participation in decision making. In addition, in these unionised plants performance is much better than even non-union plants that have adopted similar high performance practices (Black and Lynch 1997).*

Black and Lynch also record that ICT usage and the educational level of the workforce makes a real difference to performance – neither of which are entirely surprising conclusions. But even if we choose to take these results with a judicious pinch of salt, the fact that there appears to be a cumulative body of evidence showing an association between individual employee involvement, collective participation and organisational outcomes is at least persuasive. In a later paper, the same authors suggest that the presence of a trade union can ensure employers keep their promises and do not simply exploit the innovative ideas that flow from the higher level of worker participation:

*Workers may be more willing to participate in employee involvement programmes if they feel the union will protect their employment security. Agreements made between managers and workers may not be legally enforceable so the presence of unions...can address incentive compatibility problems that may arise at the workplace. In addition, negotiations that management undertakes with workers about the introduction of new practices are less expensive if the company only has to deal with union specialists (Black and Lynch 2003).*

Researchers have also explored the relationship between direct and indirect participation in Germany, where most of the job of workplace representation will be done by works councils rather than trade unions. The findings here reinforce the pan-European work sponsored by the European Foundation for Living and Working Conditions and the research in the USA. Most interestingly, perhaps, there is evidence to show that there is an average 25% productivity advantage to be gained through the introduction of team-work, autonomous work groups (self-managed teams) and flatter hierarchies (Zwick 2003). In addition, it was

found that *only organisations with works councils* enjoyed these significant productivity gains.

A more recent review of the literature reinforces the argument that trade unions are positively associated with higher levels of individual employee involvement and the application of HPWS. Again, in large measure this is attributed to the union effect in building and sustaining trust in the workplace. In developed English speaking countries trade unions provide the bedrock on which rest the strong relationships required to make these practices effective (Applebaum 2011). Perhaps the simplest interim conclusion we can reach here is that what matters most is *how* these forms of work organisation are implemented rather than *whether* they are implemented at all.

Voice and industrial citizenship are also important for the effectiveness of different forms of gainsharing, notably the implementation of employee share ownership schemes. A very careful review of the research shows that simply offering employees an ownership stake in the company for which they work can have an immediate effect on productivity, but for that effect to be sustained over time there must be well developed arrangements for worker participation:

*The biggest effects [on performance] occur when shared capitalist forms of pay are combined with policies that increase worker decision making*  
(Freeman and Blasi et al in Kruse et al 2012).

The British scholar Peter Totterdill makes a similar point in relation to workplace innovation, confirming the research findings from the previous surveys (Totterdill 2015). He goes further, however in arguing that there are five elements that must be in place before an organisation can achieve consistent and sustained incremental process improvements:

- Job design and work organisation: This includes semi-autonomous team working and the kind of delegation of authority to workers that was identified as a source of productivity growth by the European Foundation in the mid-1990s (Sisson et al 1997)
- Appropriate structures and systems: The organisation must be flexible in the sense that there are no silos or boundaries that prevent effective collaboration between groups of workers with different skills and capabilities.
- Learning and reflection: The organisation must be configured to ensure that workers are able to contribute ideas for process improvements (both individually and collectively). Moreover, it must be possible to generalise these innovative practices.
- Workplace partnership: Totterdill's review of the literature places a strong emphasis on the importance of voice. He argues that representative participation alone has a more muted effect on productivity than arrangements for both representative *and* individual participation.
- The real impact on innovation is secured when each of these elements is in place and reinforces all of the others. In other words, these practices are interdependent.

Totterdill's arguments are especially valuable because they counsel against the pursuit of universalist solutions. There is no single set of generally applicable practices that will enable all organisations to be successful whether they are in the public or private sectors, manufacturing or services, high value or low value. So, for example, while "lean" production may be an excellent management methodology in certain manufacturing settings it may not

work quite so well in health and social care, financial services or the customer facing activities in retail where human interactions can be more important than streamlining processes and cutting costs. There must be scope for experimentation, trial and error (with some tolerance of unsuccessful experiments) and learning by doing. There is no doubt that organisations can benefit from sharing knowledge and experience, but the simple transfer of a particular suite of HR techniques offers a false prospectus.

All these analyses have some persuasive power but they all fall prey to the objections raised by both Wood and Wall and Bloom and van Reenen. At this stage we can say with some confidence that trade unions in a conventional setting have a positive impact on organisational performance as long as they have strong workplace organisation and a commitment to solve shared problems with the employer. Moreover, unions continue to have a strong sword of justice effect, limiting pay differentials, securing better health and safety performance and preventing (or limiting) discrimination on the grounds of race, gender, sexuality or disability (Freeman and Medoff 1984, Metcalf et al 2001, Bryson and Forth 2010b).

There is at least a persuasive association, even if the causal pathways are not fully understood, between individual employee involvement and some form of collective participation, whether through trade unions or works councils. The “innovative” practices described in the research are more likely to be found in workplaces with both forms of participation in operation. “Conventional” trade unionism and the unitarist models of HRM described in Chapter 1 could be said (with some caveats) to produce inferior results. Embedded within this approach is a very particular model of management that requires less supervision and control and much more coaching and mentoring<sup>14</sup>. To that extent it looks very different from most models of performance management, particularly those relating individual effort to reward. Bloom and van Reenen’s work emphasises that differences in the quality of management have a significant impact on organisational performance. A balanced assessment of these studies would suggest that the management of people, far from being the exclusive preserve of HR professionals must be an *organisation wide responsibility*. Moreover, creating the “innovative” workplaces described by Totterdill also requires organisational commitment to the model. HR professionals can play a supporting role and indeed are an indispensable ingredient in the mix. But fixing a productivity or innovation problem is not something that lends itself to a magic policy or practice devised by the HR department. What is under discussion here is a fundamental reshaping of the organisational culture.

Finally, we are still left with the conundrum why, if the economic logic is so strong, these practices are applied relatively rarely in the developed English speaking world? Part of the answer may lie in Keith Sisson’s observation that organisations are so invested in the status quo that they would need a *very* powerful incentive to change (Sisson 2006). Similarly, management ideology (the belief in unitarism) may act as an impediment to more participative models, simply because managers are unwilling to accept that workers may have different ideas about how the organisation should develop. Surrendering control can be very challenging – and in organisations under pressure can be seen as an unnecessary risk.

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<sup>14</sup> Toby Wall argued fifteen years ago that the big problem confronting organisations in the UK was that they were “over controlled and under managed” (Wall 2001).

These perceptions may also be linked to structural factors at work in the economy. For example, it can be problematic for a private sector business to develop long-term high trust workplace relationships if the focus is on quarterly reporting and ensuring investor confidence by maximising short-term shareholder value. Different pressures may be in operation in the public sector, with budgetary constraints or an ideological commitment to “shrink the state” as two obvious examples. In either case, however, it is pressures outside the organisation that, to a degree, determine the nature and quality of the employment relationship. These are important considerations and they are discussed in more detail later in this chapter.

### *Performance related pay*

Before turning to those issues, however, some attention must be given to the growing incidence of performance related pay (PRP) which, as has been explained, is the one of most commonly used instruments in the HR toolbox – and according to Bloom and van Reenen is supported by the most robust evidence base. Paying people for their performance is nothing new of course; piecework systems, where individual workers were rewarded for their own output, were widespread in manufacturing, although many employers abandoned these arrangements because they proved to be inefficient. Team based pay appeared to deliver better outcomes than individual performance systems.

In a ground breaking paper published almost twenty years ago, Jeffrey Pfeffer argued that most management thinking about pay was wrong and that performance related models undermined teamwork, encouraged a focus on the short-term and led people to believe that pay was not linked to performance at all but was related to having the “right” relationships with managers and an ingratiating personality (Pfeffer 1998). Moreover, it was suggested that the most innovative and productive organisations had either abandoned performance related reward systems or had never adopted them in the first place – SouthWest Airlines in the USA is one of Pfeffer’s examples. This position is hard to square with Bloom and van Reenen’s assessment that performance related pay *does* generate higher productivity.

Their central piece of evidence is drawn from research by the US economist Edward Lazear, who examined the introduction of a PRP scheme at a business called Safelite, which fits car windscreens (Lazear 2000). Previously Safelite had paid an hourly rate but gradually moved to an output focused reward system based on the number of windscreens fitted by individual workers. The volume of work completed was tracked by a sophisticated IT system and comparisons between productivity under hourly rates and the performance pay system was possible because the phasing of the scheme meant that some workers received hourly rates at the same time as others received performance pay. Lazear identified a 44% improvement in productivity that was sustained over time. Half of this improvement was attributed to the new pay system and half to the fact that the company was able to recruit and attract better employees. At first glance this looks like a compelling finding and reinforces the view that people respond to incentives and that the pay system can give a very clear signal to potential employees about the behaviours that are valued by the business. In other words, the pay system is effectively being used as an instrument to convey *information* to the workforce.

In a sceptical assessment of the Safelite case Jeffrey Pfeffer and Robert Sutton argue that specific characteristics of the business made the organisation of work particularly suited to a PRP system (Pfeffer and Sutton 2006):

- First, the task was easily learned and involved little or no dependence on other employees.
- Second, it was easy to measure and monitor quality
- Third, the company already had a sophisticated monitoring system in place so no further management innovations were needed to support the new pay system
- Fourth, employee goals were straightforward and unambiguous: to install as many windscreens as possible as quickly as possible.

In many organisations, of course, objectives are much more complex and cannot be captured by a simple output measure. Collaboration across organisations is now said to be critical for success – recall Totterdill’s emphasis on the importance of flexible organisational structures and the absence of silos. Moreover, there is evidence to show that a focus on simple output measures can distort behaviours and thwart wider organisational objectives.

Teachers who are rewarded according to their students’ examination performance are likely to “teach to the test”, abandoning more demanding educational goals (Pfeffer and Sutton 2006). Paying commission to a sales force can lead to high pressures sales techniques and in some cases to fraudulent behaviour. For example, the financial services industry in the UK has been plagued by a series of scandals over the last thirty years largely because the payment of bonuses produced very damaging results. Personal pensions were misold because pensions professionals were rewarded according to the sales they generated. Personal protection insurance was also misold and for very similar reasons. A number of staff in major investment banks have been convicted for fixing the LIBOR rate (the London Inter-Bank Offer Rate), which is the base interest rate for a wide range of financial products. The behaviour was criminal and some of the leading figures are serving prison sentences – yet from their point of view the risk of getting caught seemed low (until they were caught) and their bonuses were at risk if they were honest. Finally, the financial crisis itself was caused, at least in part, by the incentives offered for very risky forms of innovation, which led to the creation of financial products that proved to have no value. All these examples demonstrate that financial incentives *do* work, but unless they are carefully crafted they can produce perverse, unintended and sometimes devastating consequences.

Other thinkers, most notably the renowned quality theorist W. Edwards Deming have argued that relating outcomes to individual effort can be incredibly difficult, if not impossible (Deming 1982). He describes asking business school students to play a game with glass beads. A jar was filled with 4000 beads, 80 per cent white and 20 per cent red. Red beads were treated as defective, they would not be accepted by customers, so the task was to produce white beads. Six students were asked to take 50 beads from the pot, without looking at the colour of the beads as they made their selection. Their results would be assessed and the beads then returned to the pool for the next participant’s selection. The largest number of red beads produced was 15 and the smallest 4. The most successful participant was displaying no special talent or skill, exerted no more effort than her colleagues, but would still have secured a higher reward had there been a payment by results system in operation. What this experiment demonstrates is that in a very simple case different outcomes can be achieved using the same technologies and the same system without there being any relationship whatsoever to individual effort.

In a manufacturing process the quality of the raw materials can be important in determining the quality of the product. If materials are defective (as with the red beads) then the business is justified in refusing to accept delivery. In other settings, it is not possible to guarantee the quality of the “raw materials”. In non-selective schools, for example, the

institution is obliged to accept students with a range of abilities, from a range of backgrounds with a wide range of advantages and disadvantages. In these circumstances it makes even less sense to relate teacher's rewards to the exam performance of their students, unless there is some highly sophisticated system in operation to take full account of the diversity in the pupil population<sup>15</sup> (Aschoff 2015). Treating complex activities as if they are simple and lifting successful management techniques from manufacturing and seeking to apply them elsewhere can lead to catastrophic results.

There is also a strong case for saying that the justifications for the supposed effectiveness of performance related pay are based on a crude and misleading model of human psychology. Neo-classical economics assumes that all individuals are motivated by one end only – acting rationally to maximise their wealth. This is a slightly modified version of the principle of utility devised by Jeremy Bentham, the nineteenth century British philosopher and social theorist. According to Bentham all conscious beings seek pleasure and avoid pain. So far as public policy is concerned, the objective must be to secure the greatest happiness of the greatest number. This may sound like a progressive, democratic aspiration, but in the hands of some economists the principle of utility has been used to distort our idea of what it means to be human.

There is ample social science evidence to show that we are motivated by more than money. According to the General Social Survey in the USA, the pleasure of a job well done, of working successfully with colleagues and a feeling of accomplishment have consistently ranked higher than pay as the most important features of high quality work (Pfeffer and Sutton 2006). The Nobel prize winning economic psychologist Daniel Kahneman has proved through consistent results that people are not wholly rational (in the wealth maximising sense) all of the time and that it is the fear of losses rather than the prospect of future gains that have the biggest psychological impact (Kahneman 2011). That is why people are highly resistant to the notion of real reductions in earnings but may not worry too much about the likely size of the bonus pool in three years time.

The model of human behaviour as described by conventional economics really does assume that work is a disutility, something that we would prefer to avoid, whereas most of the evidence suggests that people like work as long as they have a good job to do. If work is a disutility then it makes sense to believe that there must be some monetary reward available to inspire and sustain good performance but, as we have seen, people are motivated by more than just money. Monitoring and measurement is also essential if shirking is to be avoided. In a world of rational wealth maximisers nobody can be trusted because everybody is pursuing their own self-interest. The more one reflects on these assumptions the more bizarre they seem, not least because the whole of human existence is reduced to a crude economic calculus. Economics is an important social science, but it has its own province and should not stray into realms where other, non-pecuniary values prevail (for a longer discussion see Sandel 2012 and Marquand 2004). This is not to say all human beings will behave like angels (we would scarcely be human if we did) but it is simply wrong to believe that most of us are either "rational" in the economic sense or selfish most of the time.

One of the most striking points made by Pfeffer and Sutton in their review of the impact of performance related pay is that transparent communication can be just as effective a motivator as monetary rewards. Taking the workforce into the employer's confidence,

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<sup>15</sup> Even with the continuous improvements in information and communications technologies, no education service in the world has yet devised a system of this kind.

sharing (and discussing) corporate objectives as well as individual goals can give workers a strong sense of what the company values as well as the opportunity to contribute to the conversation. It was observed earlier in this discussion that in the Safelite case the PRP scheme was used to give the workers information about what the company really wanted.

*To obtain the informational effects of financial incentives, here's an idea: instead of using subtle, often misunderstood financial rewards that people may try to game, try talking to people about [the organisation], its strategy and its priorities. What a novel idea (Pfeffer and Sutton 2006)*

Both authors are firmly located in a business school tradition and their body of work seems to draw little inspiration from either industrial relations or industrial sociology of the kind that was so widespread in the 1960s. It is telling nonetheless, that the conclusion here is that talking to the workforce may be more effective than using the most sophisticated performance pay and performance management techniques. There is very little said about power in this account either, but it is so distant from the conventional wisdom about pay and so rooted in a convincing analysis of the literature that it opens up fruitful avenues for thinking about remuneration systems in the future.

The conundrum about the application of PRP (which is in widespread use) is rather different from the conundrum about the application of bundles of HRM or HPWS models (which are not widely used). If the evidence suggests that performance pay is generally ineffective in most organisations or has perverse effects why are managers simply refusing to reflect on this evidence? Part of the answer may lie in the herd behaviours that afflict many organisations – “we have to do this because the competitors against whom we benchmark our performance are doing it too”. Part of the explanation may be found in the undeniable truth that many organisations find it easier to tinker with the pay system than transform organisational culture, reform work organisation to draw on the insights about worker participation, establish a higher level of trust with the workforce and ensure that everybody is treated with respect. There is a status quo bias here which is leading to bad decisions about both pay systems and people management more generally. Jeffrey Pfeffer concludes his argument with the following warning to managers:

*Those [managers] who are stuck in the past are probably doomed to endless tinkering with pay; at the end of the day they won't have accomplished much, but they will have expended a lot of time and money doing it (Pfeffer 1998).*

## **2.4 Rare species? Why are HPWS and Employee Engagement so hard to find in practice?**

### *HPWS*

It is clear from the analysis presented so far that PRP is becoming more widespread in the UK, despite the ambiguous nature of the evidence on performance effects. A recent review of HPWS sponsored by the UK Commission for Employment and Skills (UKCES) has found that between 2007 and 2011 the incidence of high performance practices actually *fell* (Wood et al 2013)<sup>16</sup>. Explaining why this should be the case proved difficult for the researchers simply because the reasons for adoption or non-adoption of the practices could not be

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<sup>16</sup> This paper makes the methodological point that it is relatively difficult to measure the implementation of HPWS because most survey instruments do not treat these practices as a distinctive issue requiring a specific set of questions. Employers may be asked about team working or problem solving groups but not all the elements of the HPWS menu may be covered. The findings presented here should therefore be read with some circumspection.

ascertained from the employer responses – it seems that they simply were not asked the question. A speculative answer offered by the researchers is that the falling popularity of these practices is a reflection of the changing nature of the economy. It was posited that HPWSs are of most use in manufacturing settings and manufacturing has continued to decline as a percentage of total economic activity. This is not entirely convincing, however, because HPWSs have been promoted as solutions in both private and public services. Moreover, the analysis revealed that HPWS practices were applied most frequently in primary industries, financial services, public administration and education (Wood et al 2013).

It is worth noting too that the European Foundation’s survey of new forms of work organisation in the middle 1990s found that only around 1% of organisations was deploying the full array of HPWS (Sisson et al 1997). The 2004 WERS in the UK suggested that 1% of workplaces could really be classified as using HPWS. A survey of British employers in 2008 produced somewhat more encouraging results, with around 30% deploying HPWS, although this finding might be explained by the fact that the survey was recording whether *any* of the *individual* elements of HPWS were in operation; it was not possible to determine whether employers were using HPWS as a *system* (UKCES 2008). The 2011 WERS failed to treat the application of HPWS as a distinctive issue, preferring to focus on employee engagement, principally because the percentage of workplaces using HPWS remained relatively small.

In an earlier assessment, UKCES identified several barriers to the adoption of HPWS (Box 4) (UKCES 2009).

#### **Box 4: Barriers to the adoption of HPWS**

**Ignorance:** Some organisations simply may not understand the benefits of HPWS practices and the need for change. This is described as an “information failure”. Alternatively, organisations may be uncertain about *which* practices should be applied and may not be aware of how they should be implemented. In addition, organisations may not be aware of the value of investing in their staff and using skills differently.

**Doubts and /or inertia:** Some organisations may not be convinced that it is worthwhile implementing new practices when results can be uncertain or the process is seen as risky and complex. There may also be a high level of investment in the status quo. Short-term decision-making may also prove to be a barrier to the implementation of HPWS.

**Inability or impediments:** Some organisations may simply lack the management skill and capacity to make use of these practices successfully. There may be a lack of leadership, resistance from employees and a fear of failure.

Source: *Ambition 2020: World Class Skills and Jobs for the UK*, UKCES 2009

One obvious conclusion to be drawn from this analysis is that if ignorance and management capacity are the most important barriers then the measures necessary to encourage the wider adoption of HPWS are improvements in information flows and management training. Put another way, policymakers should devote more effort to explaining the benefits of HPWS in the belief that this will encourage their adoption. Unfortunately, the 2013 review of management practice has demonstrated that exhortation alone has proved ineffective (Wood et al 2013).

It might be the case, for example, that employers simply do not believe that the case for HPWS as a bundle of practices has been proven. To that extent organisations are obviously unpersuaded by what Wood and Wall described as circumstantial evidence of performance effects. But what is most striking about the barriers as they are described here is that nothing at all is said about trust. This is genuinely surprising because virtually all the analyses of HPWS show that they depend on a higher level of trust than conventional models. We have also seen that both collective and individual worker voice help to build trust, support workplace innovation and apparently support the implementation of HPWS. This argument is confirmed by the consistent results from the WERS surveys in the UK that HPWS or high commitment management models are found most frequently in *unionised* workplaces.

It may be that something slightly obvious is being missed here. If trust is the driver of workplace innovation and trust depends upon voice then the absence of effective voice can undermine trust and lead to a lower level of innovation. Voice is the lubricant that makes the management system effective.

If this argument is right then it also helps to explain why HPWS are found relatively rarely in countries with weak statutory guarantees of worker voice. HPWS depends on a high level of worker participation (both individual and collective) but, as Mark Hall and John Purcell have argued in their review of participation practices in the UK and elsewhere in the European Union, the strongest predictor of practical participation is the level of *mandatory* participation required (Hall and Purcell 2012). It is the strength of the statutory framework that ensures employers inform, consult and keep their promises to workers.

This argument is consistent with the case made by the Canadian scholar John Godard in his analysis of why HPWSs are found so rarely in practice and why sometimes these initiatives are abandoned (Godard 2004). In his view, it can be difficult to sustain the level of trust needed to make these practices work in systems without statutory guarantees for worker participation, where management decisions are often driven by short-term capital market pressures to reduce costs and maximise shareholder value. Often there are some set-up costs associated with the implementation of HPWS – and labour costs may initially be higher because employees' conditions have been improved in the belief that there is a price to be paid for higher productivity<sup>17</sup>. In a situation where managers are thinking about long-term sustainability this may not be a problem. But in an environment where short-term thinking is ubiquitous it is difficult, if not impossible, for employers to make the long-term commitment to employees needed to make HPWS work – or alternatively, create a workplace culture focused on continuous improvement and innovation. These short-term pressures can encourage employers to look at how they can cut labour costs, thereby undermining the commitment on which the new practices depend. This is manifested as a form of work intensification, which workers find it hard to resist because they do not have the bargaining power (or statutory consultation rights) to do so<sup>18</sup>. Because employers have broken the commitments needed to make the practices work, these arrangements become dysfunctional and therefore have no positive impact on performance. In practice, the

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<sup>17</sup> Although the higher productivity is supposed to offset these higher costs so that unit labour costs are *lower* than before the programme was implemented.

<sup>18</sup> This is the other side of Black and Lynch's observation that trade unions play a positive role in limiting the scope for exploitation and work intensification that might otherwise be the result of the implementation of "new" forms of work organisation.

impact may even be negative if workers are demotivated and disengaged because trust has been eroded.

An optimist would say that these pressures are only to be found in the private sector. By definition public services are not subject to capital market pressures, have strong trade union organisation and are therefore more likely to have the right conditions for the successful implementation of new forms of work organisation. This argument sounds plausible, but there are other pressures at work that can play the same role as short-termism in capital markets. Downward pressure on budgets is an obvious example which, if allied with a political commitment to “shrink the state”, can have a significant negative effect on motivation and commitment. Equally, a permanent revolution of departmental reorganisation or restructuring can be just as destructive of the trust on which a high level of workplace innovation is said to depend.

Perhaps the most important conclusions to be drawn from this discussion are that voice, power and the regulatory architecture all matter. Individual and collective voice in combination can, in the right circumstances, have a positive impact on performance. Voice has to be independent and respected by the employer (which means sometimes the unions must be able to deploy a credible threat that the organisation will be disrupted by industrial action). And finally, unless employers are *compelled* to involve their employees (both individually and collectively) then many will fail to do so.

These arguments hold even if, following Wood and Wall, we cannot be certain about whether particular elements of the HPWS or HRM bundles have an impact on performance. Indeed, it is possible to go further, as Totterdill suggests and argue that one-size-fits-all solutions are inappropriate in any event. The clear implication of that analysis is that workers and their employer ought to be forging a new path for the organisation together; hence the emphasis on information sharing, learning by doing, a willingness to experiment and some limited tolerance of failure – after all, not every experiment will be successful. It may be true, as Bloom and van Reenen contend, that some of these management instruments should be viewed in the same way as new technologies, but the implementation of new technologies generally cannot be handled successfully if they are simply bolted on to the status quo like a new piece of software. Some more profound changes may be needed to organisational design, management cultures, work organisation, job design and participation arrangements. That this is a challenging agenda is something of an understatement and it explains why exceptional leadership is required both from managers and from representatives of the workforce, sustained by powerful institutional guarantees that prevent either party defecting from the arrangement.

### *Employee engagement*

The tide supporting HPWS as a universal solution to organisational problems has receded somewhat in recent years at the same time as the tide of employee engagement has swept up the beach. And yet, as with HPWS, employee engagement can prove to be just as elusive in practice. According to the UK’s Chartered Institute of Personnel and Development (CIPD) fewer than two in every five employees (38%) are “engaged”, almost three in every five (59%) are “neutral” and the remainder are actively disengaged (CIPD 2014). This might be seen as an improvement on the position revealed by an earlier CIPD study, which showed that most workers in the UK were unhappy with how they were managed (CIPD 2007).

A recent analysis published by the Harvard Business Review produced a similar set of findings for the USA (Harvard Business Review Analytic Services 2013). Managers attributed a high value to employee engagement with almost three in every four (71%) endorsing the statement that engagement was a driver of performance. Yet despite this recognition, fewer than one in four managers (24%) reported that their employees were engaged. There was strong evidence to show that the myths about the efficacy of performance related pay remain deeply entrenched, with almost three in four respondents (72%) agreeing with the statement that offering rewards for high performers has a beneficial effect on employee engagement. Moreover, even though the belief about the performance-engagement link is widespread, less than half the managers surveyed worked for organisations where engagement was monitored against business metrics such as customer satisfaction or improved market share. One can only conclude that the engagement rhetoric is running a considerable distance ahead of the practical realities.

All these results are somewhat disappointing given the attention that has been devoted to employee engagement in the last decade. In their report for the UK government, MacLeod and Clarke suggest that there is compelling evidence to show that employee engagement has a positive impact on organisational performance (MacLeod and Clarke 2009). They accept that some of these studies may have methodological weaknesses but that the cumulative effect of the research is to demonstrate a causal relationship between engagement and outcomes. Whether this is an accurate assessment or not need not detain us for too long in this discussion – we have already explored the arguments in relation to HPWS and similar considerations apply here. Causal pathways, even if they exist, are not well understood. Identifying the practices that work best (if they work at all) can be problematic. And the notion of “engagement” itself is somewhat imprecise and for that reason difficult to subject to rigorous analysis.

Nonetheless, Macleod and Clarke identify the barriers to engagement, which bear some resemblance to the barriers limiting the more widespread application of HPWS (Box 5). In this case too very little is said about the absence of institutional guarantees for workers to influence the course of events. “Voice” is identified as a critical element in the engagement mix, as we saw in Chapter 1, but no attention is given to the impact of weak voice institutions on the achievement of engagement. There is a sense too in which the whole notion of engagement may be tautologous. It could be read as meaning little more than well motivated employees are well motivated and deliver good performance. Whether there is a distinctive body of management practice that is deliberately designed to secure “engagement” must be in some doubt. Much of MacLeod and Clarke’s story amounts to little more than the systematic application of good (conventional) HR practice with some useful additions about worker voice and a nod in the direction of pluralism – although there is a strong case for saying that they are either unwilling or unable to accept the full implications of the argument.

**Box 5: Barriers to the achievement of employee engagement**

**Lack of awareness:** Apparently, some organisational leaders are simply unaware of the case for engagement. Seventy-five per cent of leaders have no engagement plan even though ninety per cent say that engagement contributes to organisational success. Over half of all chief financial officers have no understanding of the return on investment in human capital.

**Uncertainty about starting:** Even those who understand the argument may not be certain about how to develop engagement in their own organisation. Employers were sometimes resistant to the notion that they would have to relinquish a degree of control and devolve decision making to employees.

**Managers and organisational culture:** Some practices can be actively “disengaging” including:

- Reactive decision making
- Inconsistent management styles
- Poor communication
- A perceived gap between senior managers and the majority of the workforce
- Poor work life balance
- A focus on the measurement and monitoring of worker performance
- An absence of “people skills”

**Underestimating engagement:** A major barrier is that managers may have underestimated that scale of the engagement challenge, particularly the extent to which there must be a transformation of organisational culture. It may be very hard to achieve rapid results and some organisations can prove too impatient to wait for the gains to materialise.

Source: MacLeod and Clarke 2009

Both MacLeod and Clarke’s description and that advanced by UKCES describe some of the realities but offer an incomplete account. If there really is a desire to move to a very different paradigm for the management of people then some structural changes may be needed to capital markets, corporate governance arrangements and the institutions of worker representation before sustainable progress can be made.

## 2.5 The importance of worker voice

Our review of the evidence has offered some grounds for both scepticism and optimism. Scepticism about the productivity potential of the model that was so popular before the crisis, scepticism that unitarist models of HPWS or employee engagement can really be successful and optimism that it is possible to devise a new set of arrangements delivering mutual gains for both workers and their employers. The analyses presented here describing the impact of participation on performance are robust, compelling and offer a clear understanding that involvement delivers trust and trust delivers higher productivity. Moreover, it is quite appropriate to conclude that there must be a judicious mix of both individual and collective participation. Indeed, without some form of collective voice it is very difficult for individuals to participate with confidence. Representative voice acts as a guarantee that employers will keep their promises. Keeping promises is essential if trust is to be maintained. In other words, it is possible to create a virtuous circle.

Of course, there may be cases where trade unions are obstructive, obstreperous and apparently oblivious of the need for change. But there is ample evidence to show that a determined and patient effort to build trust by employers and trade unions is essential if workers are to have worthwhile, secure jobs at decent rates of pay.

The next task is to think a little more deeply about the goals of the employment relationship, about the importance of high quality work and the institutions required to achieve these objectives. Conventional thinking, or at least that which characterises much employer (and some trade union) opinion in both the UK and New Zealand has struggled to respond to these demands. If a new model of capitalism has to grow from the wreckage of the financial crisis then what form should it take and what kind of workplaces are needed for an inclusive economy where all groups in the population benefit from the fruits of growth? Answering this question in detail is a substantial undertaking but an outline is offered in the next section. The aim is to start a conversation, not offer a complete prescription. After all, building a sustainable consensus demands extensive dialogue. Readers, if they disagree with the analysis presented here, may be inspired to clarify their own thinking and offer a better account of a plausible future.

### 3. The outlines of a new model

- The model described in this chapter is an outline, not a fully developed prescription. It is a basis for discussion.
- The employment relationship must be rethought to achieve a balance between the principles of *efficiency* (productivity and performance), *equity* (fairness for workers) and *voice* (respect for the principles of industrial citizenship).
- Public policy is critical in shaping employers' approaches to the management of people. In the Nordic countries 40% of the workforce are employed in "high involvement organisations", offering high task discretion (job control) and high levels of organisational participation.
- Unless the government establishes some minimum statutory standards for informing and consulting the workforce many employers will continue to display more authoritarian behaviours.
- Even if there is no change to public policy there are good examples of employers choosing to make progress voluntarily to develop the high involvement workplace.
- Making the new model work will require a different range of activities to be undertaken by HR professionals. There must be a shift from routine administration or a focus on performance management systems to building the capacities of both managers and employees to sustain a more participative culture.

The preceding two chapters of this paper recorded the shift from conventional personnel management to HRM and people management, reviewed the impact on performance of the various tools and techniques deployed in the last thirty years and concluded that there was a robust association between organisational performance and participation, both individual and representative. The task now is to outline a new and different model, which makes use of the insights drawn from industrial relations and more recent models of people management. This approach is best described as a work in progress; it is less than a complete prescription and is designed to offer a basis for dialogue between workers, their representatives and employers. Some changes to public policy are outlined on the grounds that developing a different approach will be hard to sustain within the current legal architecture of industrial relations in both the UK and New Zealand. More specifically, attention is directed to the compelling need for enforceable rights for workers to be informed and consulted, principally because the social science tells us that without legal guarantees some employers will revert to more authoritarian modes of behaviour (Hall and Purcell 2012). The potential role of the trade unions under the new dispensation is also briefly described.

#### 3.1 Efficiency, Equity and Voice

Some readers may object that the case made so far has been excessively focused on the interests of workers. It is all very well to propose new rights and respect for industrial citizenship, but every organisation, whether in the public or private sectors must be successful if they are to offer secure jobs with decent levels of pay. The risk therefore is that organisational efficiency will be sacrificed to the demands of justice.

This chapter is designed to address those concerns directly. A useful starting point is Kahn-Freund's characterisation of the importance of the balance of power and the need for a continuing dialogue between those who seek to increase the rate of investment and those who seek to increase the level of wages. An obvious implication is that productive investment for the future is a legitimate objective and that sometimes there will be a trade off with the level of pay increases available. It assumes too that organisations *must* invest for the future if they are to be efficient and effective. Indeed, we might go further and say that investment drives productivity and productivity drives living standards. To that extent, workers have a stake in the success of the organisations for which they work.

But what our analysis also suggests is that workers will not be committed or motivated if they believe unfair treatment is widespread; if there is one rule for senior managers in an organisation (enjoying excessively generous remuneration) and another for the majority of employees who see their wages being squeezed. Unfair treatment in the workplace – bullying, intrusive performance management systems, unreasonable workloads and targets, a high level of electronic surveillance – is self-evidently damaging to the organisational commitment on which success is said to depend (Fevre 2012). Managers may have to manage, but they cannot ignore equity concerns. Fairness matters.

It is also important to return to the argument for industrial or workplace citizenship outlined in Chapter 1. The labour market is not a market like any other since it involves people with citizenship rights selling their labour power rather than the buying and selling of commodities. All democratic societies recognise that each citizen must count for one and no more than one, that the objective of democracy is to safeguard the liberty of citizens and that liberty depends on critical decisions being subject to a process of justification and legitimation. The rights that we treasure in society are equally important at work, including the right to speak up, be heard and receive a reasoned response. Moreover, we have already recorded that there is an inevitable imbalance of power between the individual worker and their employer. Ensuring that the right to be heard is implemented in practice requires respect for the rights freely to associate with people of like mind and to establish organisations that can safeguard the interests of workers. That is why the right to form and join trade unions is included in the UN's Universal Declaration of Human Rights.

The economic historian Karl Polanyi made the following observation about the treatment of labour as a commodity in much conventional economic theory:

*Labour is only another name for a human activity that goes with life itself, which in turn is not produced for sale but for entirely different reasons, nor can that activity be detached from the rest of life, be stored or mobilized... The commodity description of labour... is entirely fictitious (Polanyi 1944).*

The work we do is part of the fabric of who we are as people. We cannot detach this thing called "work", which the employer is buying, from the rest of our personalities. In this sense the employment relationship is more than a simple commercial contract; in formal terms the employer is simply buying work, but in practice gets the whole person.

Economists are fond of saying that employment contracts are of their nature incomplete; the words of the agreement between employer and employee rarely specify such matters as the level of effort required, the psychological conditions under which work takes place, the precise use of tools, machines and systems or the practical deployment of management authority through the application of rules, discipline and sanctions (Fox 1974). We should

therefore view work as a fully human activity, engaging all our skills, talents, capabilities and emotions. What happens at work affects the rest of our lives and what happens in the rest of our lives affects us at work.

There is another important ethical principle at stake here: the idea that people are ends in themselves, individuals with hopes, expectations and desires who should *not* be viewed as if they are instruments for the achievement of another's goals. Employers treat their workers as less than fully human if they view them as simply another factor of production. From this standpoint the notion of "human resources" looks flawed, because it encourages its practitioners to believe their only function is to align the thoughts in the workers' minds with organisational purpose. Simply requiring workers to observe management instructions may be widespread and helps to explain why many workplaces are seen as "inhuman".

The economist John Budd has sought to capture these lines of thought in his account of the objectives of the employment relationship, suggesting that the goals in view are *efficiency* (the employer's need for organisational success), *equity* (respect for the principles of distributive and procedural justice) and *voice* (respect for the rights of industrial citizenship) (Budd 2004). This is some distance from much of the conventional, pre-crisis thinking about the world of work but it offers a useful framework for the construction of an alternative model.

One would struggle to argue that all of this is genuinely new, but it is very different from the characterisation of the employment relationship that has held sway for the last thirty or forty years. To begin with, it is implicitly pluralist and draws considerable inspiration from the old trade union principles that workers should receive the rate for the job in a workplace where pay differentials are seen to be fair. In addition, it accepts the notion that co-operation between workers and their employers is essential at the same time as conflict is both inevitable and legitimate.

There is a case for saying, however, that the efficiency, equity, voice model goes further than the thinking associated with either industrial relations or people management. Most importantly, perhaps, it tries to embrace the notion that individualism and collectivism can be reconciled and that the purpose of collective action in the workplace is to liberate the individual to fulfil their potential. It is entirely consistent with the ideas that we have already described of extensive individual employee involvement, collective information and consultation and collective bargaining on pay and conditions both in and beyond the workplace. Most importantly, perhaps the goals of the employment relationship are crafted so that all the parties with an interest can embrace them. Trade unions have to accept the objective of efficiency, making a commitment to the success of the employer's enterprise, at the same time as employers agree to respect the objectives of equity and voice.

This chapter also includes some practical examples from liberal market economies of how the model has already been applied to achieve an appropriate balance between the three objectives. It is easy to devise some elegant proposals for change but it is important to understand that much of what is described here can already be found in the practice of the best organisations. Moreover, returning to a theme from Chapter 1, it is very clear that some countries have made more progress with this agenda than others and, with the

exception of the United States, the most productive economies in the world already achieve a better balance between efficiency, equity and voice than either the UK or New Zealand<sup>19</sup>.

If work really is a fully human activity then it ought to be clear that the *quality* of employment should be a concern for employers as well as workers and trade unions. In addition to the arguments of principle it is possible to make instrumental arguments too; that the quality of employment influences the level of employee commitment and that ensuring high quality employment for all workers ought to be a central objective sought by HR professionals. We noted at the beginning of this discussion that countries have adopted different approaches on this dimension and that the nature of the employment regime shapes the labour market as a whole and the specificities of workplace relationships too. It is to these issues that we now turn.

### **3.2 The importance of job quality and the role of the employment regime**

Even if we accept the conclusion that higher quality employment is more desirable than the alternative we are still left with a thorny definitional problem: just what do we mean by high quality work or a good job? A natural objection often raised by sceptics is that people have different tastes and preferences. What sounds like a good job to you may sound like an awful job to me. Moreover, there will always be some bad jobs – burgers will need to be flipped, bins emptied and shelves stacked. Demanding higher quality employment is nothing more than wishful thinking.

Fortunately, there is strong evidence enabling us to offer a compelling and generally applicable definition of “good work”. The classic study reviewed the experiences of British civil servants and identified that autonomy and control were especially important features of the working environment (Marmot 2004). Employees with less autonomy and control experienced worse health outcomes than their colleagues with greater discretion over the way in which they discharged their responsibilities – and this was true even for colleagues with the same formal status in the organisational hierarchy. Initially, the findings were linked to the likelihood of developing coronary heart disease, revealing that the security guard on the front desk was more likely to have a heart attack than the permanent secretary on the ministerial floor. Subsequent research has established a similar association with mild to moderate mental illness and other physical conditions. Bad work makes you sick. In the last thirty years a cumulative body of research has established that the following factors are especially important in influencing health outcomes (Marmot 2004, WHO 2008)<sup>20</sup>:

- The security of employment
- Monotonous and repetitive work
- Autonomy, control and task discretion
- The balance between the efforts workers make and the rewards that they receive
- Possessing the skills needed to cope with periods of intense pressure
- Procedural justice in the workplace
- The ability to influence critical workplace decisions - voice
- The strength of workplace relationships – do workers trust their colleagues and their managers?

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<sup>19</sup> Or at least they had managed to do so before the GFC.

<sup>20</sup> For a more developed account see Coats 2008.

There can be little doubt that HR professionals do see it as part of their role to protect people from physical risks. Health and safety policies are viewed as an essential part of people management. Conventionally this has involved protecting people against hazards presented by production processes or raw materials. What these findings suggest, however, is that just as much attention should be given to what are now described as *psycho-social* risks.

If it is right to view work as a fully human activity then it is wholly unreasonable to expose people to an environment that might compromise their health, not least because good health is a prerequisite for enjoying all that life has to offer. The economist and philosopher Amartya Sen suggests that we should think about justice as a matter of equipping people with the capabilities they need to choose lives that they value (Sen 2009). Allowing the working environment to compromise health can be seen as a peculiarly nasty form of capability deprivation.

What this model also allows us to do is recognise that what are conventionally seen as “good jobs”, like being a corporate lawyer or an investment banker, can, in certain circumstances, produce “bad work”. People may be bullied, they may lack control, they may be unfairly treated and they may see themselves as victims of decisions over which they have no influence – and this can be just as true for a well-paid graduate as for a worker in a fast food restaurant. Of course, the reverse may be true too, an employee in a fast food restaurant may have some control over their work, have no complaints about injustice and be allowed a degree of influence over management decisions. It is possible for what have conventionally been seen as “bad jobs” to be improved if the general principles of good work described here are observed (Coats 2008).

These workplace factors are also generally consistent with the principles of efficiency, equity and voice. For example, the balance between effort and reward obviously embraces the notion of fair pay, but it also encompasses a broader notion of reward, which includes praise for good performance, recognition by management and the support of one’s peers. What this model also allows us to say is that hard work is not necessarily bad for you. Indeed, work that offers interest and challenge – including solving complex problems – is generally associated with higher levels of reported well-being. The problem arises when demanding work is associated with a lack of control, leaving people feeling like victims rather than the masters of events. The same phenomenon materialises when people are asked, in a high-pressure environment, to undertake tasks for which they lack the appropriate skills. In these circumstances hard work starts to become bad work (Eurofound 2012).

The conclusion to be drawn from this analysis is simple and straightforward:

*Having an interesting job and good relations with management are the most important determinants of job satisfaction across countries (Eurofound 2012, p.87).*

This is simply another way of expressing the old adage “if employers want a good job done then they should give workers a good job to do”.

What also becomes clear from the cross-country analysis in Europe is that economies at a similar level of development produce very different outcomes. We have already seen that this is the case for productivity and performance, but it is just as true for job quality. Duncan Gallie and his colleagues, reviewing the data in the middle 2000s identified the importance of what they describe as the employment regime in influencing (if not determining) job

quality outcomes (Gallie 2007). Countries therefore have the opportunity to make policy choices that can produce widely varying results. There is no convergence on a common policy agenda and diversity rather than uniformity is the characteristic of European economies. For our purposes the notion of the employment regime embraces the following:

- The initial skills formation system
- Continuing vocational training (lifelong learning)
- The position of organised labour – particularly whether there is an appropriate balance of power between trade unions and employers.
- Work integration policies - to what extent is policy oriented to reducing the differences between different groups in the workplace, creating more variety in work and offering decent protection to those at work?
- Employment integration policies – to what extent is getting the unemployed back into sustainable work and giving them real labour market opportunities a central focus for policy?

Mapping these factors onto a range of national labour markets produces a fourfold typology of employment regimes: the Nordic, continental, southern European and liberal models. Job quality in this analysis is measured on the following dimensions:

- The opportunities for skill use and skill development,
- The degree of freedom an employee has in making decisions about the way work is done,
- Work life balance,
- Satisfaction with pay,
- The pressure of work and
- The opportunities available to influence critical employer decisions.

What the analysis reveals is that the Nordic countries, most notably Denmark and Finland (and to a lesser extent Sweden) achieve better results on all these measures than other EU member states, notably because they have an “inclusive” employment regime designed to promote both equality and participation. This is a more accurate description in any event because on these measures the Netherlands displays many “Nordic” characteristics.

What the employment regimes lens also enables us to do is view labour market institutions as part of a *system*. In other words, we can see (and evaluate) the way in which each element relates to all the others. We can explain, for example, whether the *initial* vocational training system creates a group of young people with a sense of confidence and a belief in their occupational identity at the point they enter the labour market. It is possible to assess whether the *continuing* vocational training system allows people to acquire the skills they need to remain active in the labour market. Moreover, the generosity (or otherwise) and design of the unemployment insurance system is part of this story too. Inclusive labour markets are characterised not just by higher benefits for the unemployed but by much higher levels of investment in active labour market programmes that build the human capital (and therefore the capabilities) of those without work. The balance of power between business and labour could be seen as the linchpin of the analysis, not least because trade unions (or works councils) can make demands on employers and government for better training, more inclusive employment policies and more help for the unemployed to get back into work and stay there.

Analysis of the 2010 European Working Conditions Survey confirms the power of the employment regimes narrative (Gallie 2013). The Nordic countries continue to perform well on the dimension of worker involvement in organisational change, offering more extensive opportunities for worker participation than other countries in the EU. Levels of autonomy and control are highest in the Nordic countries, with the Netherlands also offering workers high levels of control. A simple way to understand this story is through the following typology of organisations:

- *High involvement organisations* – high task discretion and high levels of organisational participation
- *Discretionary organisations* – High task discretion but low organisational participation
- *Consultative organisations* – High organisational participation but low task discretion
- *Low involvement organisations* – Low task discretion and low organisational participation.

Across the EU as a whole, just over one in five workers (27%) is employed in a high involvement organisation, with almost two in five (38%) employed in low involvement organisations. In the Nordic countries, by contrast, *the high involvement organisation is the dominant organisational form*, operating in more than 40% of businesses. This fact draws attention to the unique policy mix applied in the Nordic countries where the institutions of the employment regime are all oriented to create and sustain this model. Moreover, the strong trade unions in these countries play an especially important role in cementing the opportunities for individual employee involvement. As we saw in Chapter 2, it is not that involving individual employees is an alternative to collective forms of consultation and participation but that the two enjoy a symbiotic relationship. Another way of expressing this thought is to say that the Nordic countries really have discovered a virtuous circle, where the politics of the quality of work have become part of a wider politics of the quality of life. Employers know that high quality work is a driver of strong organisational performance. Trade unions know that a focus on job quality will ensure that their members place a high value on the role of the trade union. Politicians know that any attempt to adopt policies inconsistent with these aspirations will lead to electoral defeat. Even though the political conversation continues to be conducted between left and right on relatively conventional lines, there are certain assumptions accepted by all the mainstream political parties that help to sustain the consensus on labour market policy<sup>21</sup>.

It is difficult to avoid the conclusion, therefore, that public policy has a significant impact on the policies and practices that employers adopt in the workplace. Of course, it is impossible to take institutions from one country and expect them, without adaptation, to work just as well in another. But the important inference here is not that path dependency imposes an unbreakable constraint on policymakers but that policymakers can choose a very different path. This was certainly the case in the UK and New Zealand in the 1980s and 1990s, when politicians swerved towards market fundamentalism. It was equally true of the Nordic countries in the 1930s, when they began to take the first tentative steps towards the social democracy we can see today. Indeed, there is a case for saying that there was a conscious decision taken by governments and the social partners to move their relationships onto a different footing. In Denmark, Norway and Sweden a concordat was reached to this effect,

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<sup>21</sup> There is a question of course whether these arrangements are now under such severe pressure that they cannot survive, particularly given the rise of the nationalist right across the Nordic world. On the other hand, it is worth noting that part of the nationalist turn is explained by the desire to protect the generous welfare states against abuse by “foreigners”. It would be unwise to believe that these successful models of egalitarian and inclusive societies should be junked as unrealisable utopias.

following a period of intense industrial conflict as a result of the Great Depression. These arrangements continue to provide the foundations for the system in the present. Creating the inclusive employment regime was a relatively slow process that required a high level of patience from employers, unions and government – as well as a sense of national commitment to the end in view. The most important point, however, is the positive example this provides to countries wishing to move their economies in a different direction.

More recent work in the EU, looking at company practices rather than working conditions, has produced equally interesting results. In this case, the typology of organisations is somewhat different, but still has some significant similarities with the findings drawn from the Working Conditions Survey (Kankaras et al 2015). Businesses are described as falling into the following categories:

- *Interactive and involving*: Extensive joint decision making on day-to-day tasks, flexible internal structures, limited investment in HRM but extensive opportunities for direct participation. These organisations are slightly less likely than average to have formal representative structures.
- *Systematic and involving*: Top-down decision-making on daily tasks, highly structured internal organisation, high investment in HRM, extensive practices for direct and indirect participation.
- *Externally oriented*: High levels of collaboration and outsourcing, top-down decision-making on daily tasks, moderately structured internal organisation, moderate investment in HRM, and little direct and indirect participation.
- *Top-down and internally oriented*: top-down decision-making on daily tasks, little collaboration and outsourcing, highly structured internal organisation, moderate investment in HRM, and moderately supported direct and indirect participation.
- *Passive management*: top-down decision-making on daily tasks, moderately structured internal organisation, hardly any HRM, and little direct and indirect participation.

Organisations in the first two groups do best on most measures of performance but only organisations in the first group performed equally well on the measures of employee well being. Around 12 per cent of businesses fell into the first category and 30 per cent into the second. This suggests that around two in every five workers in the EU is employed in organisations that make fairly extensive provision for employee involvement. These findings should be read with care, however, not least because they are based on employers' reports of their own practices. There is a striking contrast with the results from the Working Conditions Survey, conducted three years earlier and based on responses from workers. It would be surprising, given the performance of the European economy over this period, for there to have been a significant improvement in employee participation on the scale suggested by the Company Survey. Splitting the difference between the two datasets may get slightly closer to the truth, which suggests that, at best, around a third of the European workforce has access to extensive opportunities for worker participation.

Three findings from the Company Survey are also worthy of comment. First, the “interactive and involving” or “systematic and involving” groups are most prevalent in Finland, Sweden Denmark and Austria, all countries that have well-established arrangements in place for worker participation, alongside strong trade unions and high collective bargaining coverage. In other words, the employment regime has a real impact on outcomes.

Second, that the “interactive and involving” group has a *lower* than average incidence of formal, institutionalised worker participation is difficult to explain from the information contained in the survey. It could be that the sectors where this model is most prevalent (financial services and other services) are characterised by weaker union organisation or a lower incidence of works councils structures. There may also be a firm size effect at work here; large firms are most likely to fall into the “systematic and involving” category and somewhat less likely than small or medium-sized organisations to be in the “interactive and involving” group. It should be recalled of course that the latter, in any event, is a minority of firms across the size range.

Third, an especially important point is that the “interactive and involving” category may achieve similar results to the “systematic and involving” group but they do so using very different routes. The systematic and involving group have sophisticated HR departments and invest significantly in their HR infrastructure. The interactive and involving group appear to treat the management of people as principally a line management responsibility – their investment in conventional HRM is comparatively low. The survey analysis draws a distinction between the performance of businesses in these two categories and the rest, suggesting that employee involvement is an important element of the mix driving efficiency and effectiveness. Moreover, that the interactive and involving firms do *even better* than the systematic and involving firms on employee well being suggest that something interesting is happening here – although we should not discount the possibility that firm size matters too; many relationships in a small or medium sized firms may be less formal than in larger organisations, there may be more opportunities to exercise judgement simply because the organisation has fewer intrusive rules and procedures in operation. Large firms might therefore struggle to replicate these conditions. If this analysis is right then it would be wrong to conclude that public policy (or business strategy) should seek to move as many firms as possible to the “interactive and involving” group. As we observed earlier, there are real differences between firms of different sizes, in different sectors, with different business models. There is no magic bullet or one-size-fits-all solution.

On the other hand, if the Bloom and Van Reenen story is right and some of these techniques should be seen as management technologies then the results from these two major EU wide surveys do endorse the case for more widespread worker participation. If public policy has a role it is therefore to sustain the conditions for meaningful industrial democracy. It is clear too from this analysis that the employment regime is an especially important influence on firm behaviour. Those countries with the most robust arrangements in place for worker voice, including high levels of union membership and collective bargaining coverage, achieve the highest levels of practical worker participation. We turn now to a consideration of the balance to be struck between statutory arrangements for worker participation and a voluntary approach at the workplace.

### **3.3 How much industrial democracy? What is the role of the state?**

A sceptical reader may be wondering just where this argument is leading. Surely, managers have to manage. Ultimately somebody has to make a clear decision. The risk with the case for industrial democracy presented here is that it will make organisations sclerotic, clumsy and unable to adapt to rapid change. A practical rebuttal is found in the fact that some countries continue to achieve better economic and social outcomes than either the UK or New Zealand even though they are supposedly “burdened” with extensive institutions of industrial democracy. Moreover, we should recall that the argument of principle is not about whether these institutions are consistent with good organisational performance (even

though they are) but whether they are effective in protecting the fundamental human rights adumbrated in the UN's Universal Declaration. It is worth recalling that Toby Wall and Stephen Wood endorse the argument for some practices to be applied *even if they do not enhance economic performance* because these practices exemplify the commitment to workplace justice (Wood and Wall 2005). Pure economic logic is not the best justification for giving workers voice and influence.

It is also clear, however, that different countries have adopted very different approaches to the implementation of the principles of voice. In the UK, for much of the twentieth century, the state generally absented itself from the scene, supported the extension of collective bargaining using indirect measures (like contract compliance in public procurement) but preferred employers and trade unions to reach voluntary agreements regulating the employer-worker relationship. Closed shops were permitted, which is the closest the UK got to compulsory trade unionism, and public policy was rooted in the assumption that collective bargaining was a collective good for workers, trade unions and employers.

In continental Europe a rather different approach was adopted. As with the UK, the role of trade unions and collective bargaining was at the heart of the industrial relations system, but in the workplace the principal vehicle for worker voice was the statutory works council, a body constituted by law with enforceable rights to information and consultation about significant workplace change. This remains true today across most of the EU15 member states. In Denmark, however, works councils are constituted on a voluntary basis in and in Sweden all information and consultation rights accrue to trade union representatives.

Works councils are elected by the whole workforce, with varying degrees of prescription in national legislation about the number of representatives, the processes of election and the definition of constituencies. Trade unions are the linchpin of the system, generally running slates of candidates for election to the works council and providing training and support to those who are successful in the ballot.

In 2002 the EU adopted a directive on information and consultation in national scale enterprises, which requires member states to introduce rights to information and consultation in their national systems. In large measure this instrument was designed to ensure that a floor of information and consultation rights applied to all workers across the EU. The rationale for the legislation rests on two arguments of principle. First, it guarantees a level playing field for workers across Europe and ought therefore to facilitate the free movement of labour in the EU, preventing what is often described as "social dumping", where businesses move to the member state with the weakest regulations. Second, it responds to the risk that the increasing integration of Europe's labour and product markets will unleash a wave of "creative destruction" as firms restructure to reap economies of scale. Justifying and legitimising these decisions is viewed as essential if the EU is to have a genuine social dimension and if the process of integration is generate benefits for citizens as well as businesses<sup>22</sup>.

The directive draws much inspiration from the works council arrangements already in operation at national level and imposes in principle duties on employers to:

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<sup>22</sup> Although the crisis in the Eurozone has placed the social dimension under real pressure, especially for those economies in southern Europe that are going through a social upheaval as they adapt to the demands of single currency membership, compounded by an unwillingness of policymakers (especially in Germany), to recognize that these social realities are fundamentally undermining the EU's legitimacy.

- Inform workers' representatives about strategic organisational plans.
- Inform and consult workers representatives about medium-term workforce planning, including any potential threats to employment and any anticipatory measures that may be taken.
- Inform and consult workers' representatives *with a view to reaching an agreement* on significant changes to work organisation or contractual relations.

National governments have to ensure that their domestic law is consistent with the EU directive. For the UK and the Republic of Ireland this meant that universal rights to voice had to be incorporated into what had, hitherto, been essentially voluntarist systems. It must also be understood that the form of the directive leaves much of the detail of implementation to national governments. There are serious questions whether the UK's regulations are an adequate implementation of these EU obligations, notably because a high level of support from the workforce is required before these rights can be vindicated and because employers and workers' representatives are free to agree voluntary arrangements that fall short of the employers' duties described above (Hall and Purcell 2012)<sup>23</sup>.

These rights are supplemented in EU law by analogous rights to information and consultation in European multinationals (the European Works Councils Directive), consultation on collective redundancies (the Collective Redundancies Directive) and on transfers of business ownership (the Acquired Rights or Business Transfers Directive). One might view the implementation of EU legislation as a final abandonment of collective *laissez-faire* in the UK, since it represents the introduction (in principle) of a universal rights model that owes nothing to the conventional British preoccupation with free collective bargaining. The rights vouchsafed to workers under European law still fall well short, however, of those guaranteed to a German works council under the Works Constitution Act (Box 6 see also Coats 2013).

#### **Box 6: Works Councils in Germany**

##### **Structure**

- Works councils can be established in all enterprises with more than five employees.
- Three employees with voting rights or a trade union recognised for collective bargaining can initiate the process of establishing a works council.
- The works councils legislation applies to all employees except executive staff.
- All (non-executive) employees have the right to vote in the election of the works council. Elections are supervised by an electoral board (consisting of three employees of the establishment with voting rights) and trade unions are entitled to appoint a non-voting member to the electoral board.
- The number of members of the works council is determined according to a formula prescribed by law related to the number of employees in the establishment.
- In multi-site organisations there will be a works council on each site and a central works council for the company as a whole. Each works council will appoint two of its members to the central works council

<sup>23</sup> Under the UK's regulations employers and workers' representatives are able to conclude agreements that provide for individual employee participation only to give effect to the information and consultation obligations. In other words, the workers' representatives take the trouble (and risk) to get themselves elected, reach an agreement with the employer and then write themselves out of the script. These provisions are completely inconsistent with the intention of the EU directive.

- Works councils are elected for a term of four years.
- Meetings with the employer must take place at least monthly

### **Rights and Responsibilities**

- The employer and the works council are subject to a legal obligation to co-operate in a spirit of mutual trust.
- The works council has an obligation to maintain industrial peace in the establishment. It cannot organise industrial action (this is without prejudice to the freedom of trade unions to organise industrial action in pursuit of a legitimate collective bargaining objective).
- In law, the autonomy of the collective bargaining process is protected. The works council cannot deal with matters that are normally determined through collective agreements.
- Where matters are specified in law as subject to co-determination the employer cannot proceed to implement a decision without the works council's consent.
- The scope of the works council's activities can be *extended by a collective agreement* to create wider possibilities for worker participation.
- If necessary the works council can call upon the assistance of outside experts for which the employer must pay.

### **The scope of co-determination**

The issues on which the employer must seek the works council's consent are carefully prescribed and include:

- Matters relating to the proper running of the establishment – for example, clocking in and out, the use of security passes, smoking policies, dress codes, use of company telephones etc.
- The times at which the working day will begin and end and the distribution of working hours among the days of the week.
- Temporary reduction of working hours in the establishment and the introduction of short-time working
- The time, place and form of remuneration – weekly or monthly wages, whether paid in cash or by bank transfer
- The operation of leave policies
- The introduction of technologies that monitor employees' performance
- The management of health and safety in the establishment
- Remuneration policies – bonuses, piece rates, other forms of performance pay.

### **Participation and co-determination in staff matters**

In addition to these co-determination rights, the works council has a mix of participation and co-determination rights in relation to the following:

- Workforce planning – The employer must *inform* the works councils about future and present staffing needs. Moreover, the works councils must be *consulted* about any action that results including dismissals.
- Co-determination rights in relation to the formulation of guidelines for recruitment and selection. This includes, hiring rules, regarding and dismissals.
- Vocational training. The works council has the right to be consulted on all matters related to vocational training and has co-determination rights in relation to the implementation of vocational training policies in the establishment.
- In relation to individual employees, the works council must consent to new hiring's. Rights to participate but not co-determine are established in relation to

gradings and regradings. Essentially, the works council is verifying that the correct procedures have been followed.

- Provision is made for resolving disputes between the works council and the employer regarding grading, regarding and redeployments.

#### **Participation and co-determination in economic matters**

- The works council has the right to be *informed* about the company's economic situation.
- In organisations employing more than 100 employees an Economic Committee must be established, through which the employer must provide information to the works council.
- In relation to restructurings and redundancies the works council has rights of participation and limited rights to co-determination on measures to preserve employment or provide compensation to affected employees.
- The works council must be informed about the employer's plans in good time for consultation on any proposed measures to take place.
- In such circumstances the works council and the employer can also negotiate a "social compensation plan" for workers affected. This might include redundancy payments, compensation for those assigned to different jobs or paid retraining.

#### **Participation and co-determination in work organisation, job design and the working environment**

- Where changes are planned due to technological developments the employer must inform the works council in good time to allow consultation to take place.
- Specific rights to consultation are created in relation to the ergonomic implications of technological change.
- A right of co-determination exists where any "special burden" is to be imposed on employees as a result of these technological/organisational changes.

It is essential to understand too that universal rights to information and consultation (or in Sweden de facto rights sustained by the strength of the trade unions) are supplemented by worker participation in corporate governance through representation at board level. Germany has a well-developed system of worker participation on the supervisory boards of major corporations and the general tenor of political debate in that country is focused on the extension of these rights rather than their dilution or repeal (Conchon 2011)<sup>24</sup>.

Perhaps the best way of thinking about these arrangements is as a form of *institutionalised pluralism*. The state is accepting responsibility for the creation and maintenance of an architecture consistent with the demands of interest representation and industrial citizenship. To that extent, the panoply of German co-determination rights would be correctly understood as a practical expression of the principles of managed capitalism. As we have already seen, however, the Nordic countries do consistently better on most measures of job quality and income inequality than other EU member states – even those with an extensive institutional framework for worker representation (Gallie 2007 and 2013). It is not so much that these institutions exist that makes the difference but the way in which *power* is expressed through these institutions. Strong trade unions and deep-rooted

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<sup>24</sup> A number of countries have two-tier boards on the German model where the executive functions of day-to-day management are separated from the supervisory functions undertaken by non-executive directors in Anglo-Saxon or unitary board systems. Workers are only represented on supervisory boards, which means that they can influence broad strategy but are insulated from daily management decisions. They have extensive powers nonetheless, the most important of which is to appoint executive directors.

political support (in part a consequence of the effectiveness of organised labour) are both essential if these arrangements are to deliver their promise.

There is a sense too in which the Nordic countries have moved beyond pluralism as conventionally conceived, not least because high involvement organisations play such an important role in these economies (Gallie 2013). The focus is just as much on empowering individuals in their work situation as it is on ensuring an appropriate, balanced representation of the interests of workers and employers, although this remains an essential ingredient in the overall mix. It is plausible to argue therefore, that the best organisations in these countries are operating in an environment that allows citizens to develop the capabilities they need to choose lives that they value (Sen 2009). A wider notion of citizenship and human flourishing is at work here than the simple idea that greater autonomy and control is a good for both workers and business.

This still leaves us with our sceptic's question: just how much industrial democracy is necessary for meaningful workplace citizenship? A simple way of expressing the general idea is to say that workplaces cannot be pure democracies where everything is open to joint determination but workplaces should not be pure autocracies either. Management retains the right to manage but prerogatives are constrained both by the requirements of the law and by the power of organised labour. Ultimately, the organisation has an obligation to make a profit in the private sector or deliver quality services at value for money in the public sector. Status hierarchies remain in place, but the operational principles are that differentials between groups must be felt to be fair and workers must be involved in the critical management decisions affecting their futures. Moreover, just as political democracy requires parties to make the system work so industrial democracy requires that workers must be organised. Works councils could not function effectively without the enthusiastic participation of the trade unions. German observers will make reference to the general principle that works councils invariably reach agreement on the appropriate course of action. There is a recognition that consensus on questions relating to the organisation of the workplace is essential. Distributional disputes are the province of collective bargaining. A clear distinction is drawn between the process of workplace change (which proceeds by consultation and agreement) and an intense argument about the allocation of rewards.

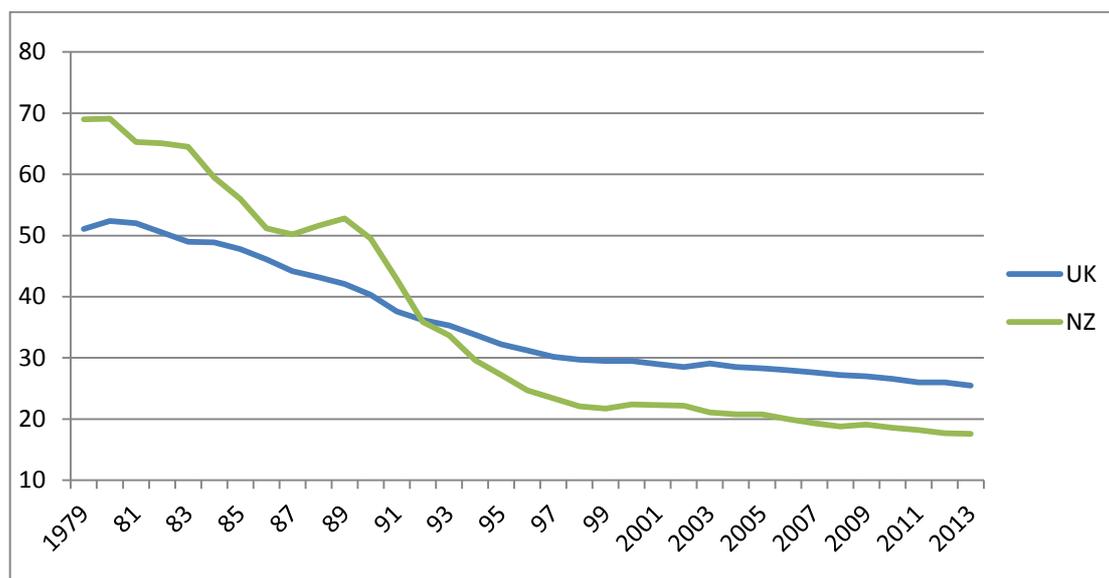
### **3.4 Reviving the unions?**

The situation in New Zealand and the UK is of course very different – despite that fact that the EU information and consultation rights are available to British workers. Trade union membership has been in persistent decline (figure 2), few organisations have established consultative arrangements to replace the trade union role and most employers remain overwhelmingly wedded to a unitarist frame of reference. There are major public policy questions here relating both to the role of trade unions and collective bargaining in the future as well as the possibility of introducing a more developed universal rights model of information and consultation. What can be said with some confidence, however, is that the productivity gains supposedly available from the forms of work organisation discussed in this paper depend on higher levels of trust in the workplace. Trust demands both voice and participation and it is unlikely that either will be delivered without stronger legislative action.

Of course Labour governments in both New Zealand and the UK have changed the law, ostensibly to make it easier for workers to establish collective bargaining (the Employment Relations Act 1999 in the UK and the Employment Relations Act 2000 in New Zealand) but in

neither case has there been an upsurge in union membership or collective bargaining coverage. Union membership remains high in the public sector in both countries and in the private sector some significant large enterprises remain well organised. So far as the UK is concerned, trade unions have used the legislation to establish bargaining rights for relatively small groups of workers.

**Figure 2: Trade Union Density NZ and UK 1979-2013 (%employees)**



Source: OECDStat

It is difficult to detect a strategy for the organisation of entire sectors, which is how trade unions have grown in the past, and the statutory procedure for trade union recognition is now used relatively sparingly. No doubt some trade unions would argue that the legislation is complex and difficult to implement, but the evidence for this position is relatively weak and those unions affiliated to the British Labour Party have made no serious effort to argue for major changes to the procedure. For example, reform of the recognition procedure did not feature in Labour’s 2015 general election manifesto. The best that can be said perhaps is that the legislative changes in both countries have slowed the speed of membership decline. To all intents and purposes much of the private sector in the UK and New Zealand remains union free.

Some British commentators have argued that trade unions need to make a strategic shift in their attitude to universal rights or works councils systems. Mark Hall and John Purcell, for example, have suggested that reinforcing the information and consultation obligations contained in the UK’s regulations implementing the EU directive is “the last chance for collectivism” (Hall and Purcell 2012). The author of this paper has maintained, not without controversy, that unions must move from organising workers to establish collective bargaining to organising works councils (Coats 2013 and Coats 2005). Essentially what is proposed here is a transitional strategy. At the centre of the argument is the belief that most workers and their employers have become increasingly disconnected from the world of trade unionism. There is a need to re-establish trade unions as legitimate and effective institutions with both workers *and* employers (since trade unions cannot thrive without a

modicum of employer support). Demonstrating a capacity to solve shared problems with the employer at the same time as workers' interests are properly protected is the route to the construction of a new collectivism. Rather than simply attempt to recreate institutions that served the economy well in the past, the focus is on the case for both individual *and* collective participation in the process of workplace change. This position is pluralist in inspiration but also draws extensively on the experience in the Nordic countries. The aim is to create more high involvement organisations that offer high quality work, workplace justice and a fair distribution of rewards. Achieving a higher level of trust at work is central to the case for universal rights – and for trade unions to embrace this position with enthusiasm. Ultimately, the intention is to create a modern system of collective bargaining from the ashes of both managed capitalism and its market friendly mirror image. Trade unions that have rebuilt their credibility through works councils can begin to reinstate the legitimacy of their pay bargaining functions.

Of course, this argument is somewhat less compelling in the public sector where union organisation remains relatively strong. Nonetheless, the principle at stake here (individual and collective participation) is equally relevant. Even if the case for new institutions is rejected, there is still a powerful argument for a change in workplace cultures in the direction of greater employee participation in the management decision-making process.

It is worth noting too, perhaps, that the case for universal rights to information and consultation is gaining some political traction in the USA – another country with a mostly union free private sector. The Commission on Inclusive Prosperity, jointly chaired by Larry Summers (former US treasury secretary) and Ed Balls (former shadow chancellor in the UK) has made a very clear recommendation that a modified form of the German works council model should be implemented in the USA (Center for American Progress 2015). In addition, the Commission has called for changes in the law on trade union certification for collective bargaining to make it easier to organise workers, higher minimum wages, reforms to the system of vocational training and strategic public investments to improve the productive potential of the economy. One can see here a fairly determined effort to learn the lesson that the employment regime matters and influences the initial distribution of incomes before the intervention of the state through the tax and benefits system. These are important changes in the intellectual current, indicating that many of the assumptions made about labour market policy in the pre-crisis period have been abandoned, sometimes by people who were enthusiasts for the market friendly paradigm. Larry Summers, for example, is often seen as one of the architects of the economic policy approach that precipitated the global crisis.

It is not the purpose of this paper to describe in detail a strategy for trade union revival – that requires separate treatment elsewhere. We can confidently assert, however, that the continuation of the status quo is unlikely to establish the conditions for sustainable growth, inclusive prosperity or high quality work. The case for a new approach is hard to resist in principle, although the current condition of political debate and employer opinion suggests that it may be resisted in practice.

### **3.5 Practical examples of a new model**

It would be difficult to sustain the case for a new model if there were no examples demonstrating that the alternative approach has some practical relevance in the developed English-speaking world. Fortunately, there are organisations that have made real progress in reframing their relationship with the trade unions and developing the approach to employee

participation characteristic of high involvement organisations. Kaiser Permanente, a healthcare provider in the USA, is a fine example of what can be achieved in a public policy environment that, hitherto, has been hostile to extensive trade union and worker involvement. Air New Zealand has developed a new approach to employment relations too and Auckland City Council has shown what can be achieved in the public sector in New Zealand. In each case, there has been very little reliance on formal legislative support for the new arrangements – simply because such a framework does not exist in these jurisdictions. Generalising these arrangements across the economy depends upon a number of important factors, including a fundamental shift in public policy alongside a change in the strategic orientation of employers and trade unions.

What these examples also highlight is the importance of leadership on both sides. The unions and the employers have all been willing to take some risks; they have all demonstrated a capacity to be patient, to build trust and to be flexible in response to unforeseen events. The models applied by Kaiser Permanente, Air New Zealand and until recently by Auckland City Council are often described as “high performance engagement”. Whether they are examples of the high performance work systems or the engagement models we have discussed so far is an open question. The most notable and genuinely striking difference is that they all make provision for extensive trade union participation in strategic decision making *and* offer opportunities for individual employee involvement. They are a practical demonstration in the English-speaking world of the virtuous circle that appears to be a characteristic of work organisation in the Nordic countries, in other words, they are high involvement organisations, offering the mix of union and worker participation that we have explored in our discussion of the importance of both forms of involvement. We have already observed that there are real national differences in employment regimes and that this influences average social and economic outcomes. With determination, however, it is possible to build inclusive or high involvement workplaces even where the employment regime is pulling in a very different direction. In other words, path dependency (or even the employment regime itself) is not a binding constraint. Organisations can *choose* to do things differently and make the principles of *efficiency, equity* and *voice* the central elements of a programme of change.

Achieving these outcomes in the English-speaking world is never easy. For example, progress at Auckland City Council has not always been smooth and personnel changes have occasionally created some challenges. Each of these cases allow us to reach two critical conclusions: first, that implementing an initiative successfully can, in the early stages of a partnership, depend on a small number of individuals offering clear leadership; second, that sustaining these arrangements depends on a reshaping of the organisational culture so that responsibility is widely dispersed. Rather than depending on a small group the *whole organisation* must embrace the new way of working.

#### **Case Study: Kaiser Permanente**

Kaiser Permanente is the largest not-for-profit healthcare provider in the USA, having initially been founded to provide health services to the employees of Kaiser shipyards.

Relationships with the unions followed a rather conventional and somewhat fractious bargaining model until 1997, when the unions approached the employer with a proposal for a different approach, which they presented as a labour management partnership.

As a result, the collective bargaining process is now described as “interest based” rather than merely conflictual. The parties are encouraged to identify with each other’s position so that they understand the needs, desires, concerns and fears of the other party. The goal is to achieve “win-win” solutions, where the final agreement is seen as less of a shabby compromise between two competing positions and more of an effort to institutionalise the sympathetic understanding of each party’s position. To that extent the model is focused explicitly on the achievement of “mutual gains” (see the discussion of the *Mutual Gains Enterprise* below).

Four collective labour contracts (as collective agreements are called in the USA) have been concluded since the inception of the partnership. Perhaps the most important is the *Employment and Income Security Agreement*, which commits the employer to guarantee employment security and the union to an acceptance that flexibility is needed in times of transition. The employer is not guaranteeing that all workers will have jobs for life, but that workers will be moved to “comparable” jobs for a transition period, with pay and conditions guaranteed.

Most importantly, perhaps, the unions and the employer are both involved in defining the issues that need to be addressed and in devising the solutions. This is an exercise in both joint regulation and joint problem solving of the kind that has already been described as a characteristic of the Nordic model of the high involvement workplace.

In addition to this new approach to bargaining, the labour-management partnership facilitates much closer collaboration between employees on a day-to-day basis, with the objective of giving all workers more voice and control. Employees, clinicians and managers work in unit based teams – these are collaborative work groups that seek to improve quality, service and value for money. It is especially noteworthy that the teams are not just responsible for the performance of their unit, but determine the methods and metrics for their performance improvement activities. These projects are aligned with the organisation’s overall strategy, which is itself the subject of discussion with the trade unions. In other words, workers have a voice in setting their own targets to achieve strategic goals that have been agreed with their union representatives. This is an excellent example of industrial democracy in action.

Partnership is credited with improving patient care and in making Kaiser Permanente a better place to work. Perhaps the most important message to emerge from this experience is that the relationship has evolved over time. Both the unions and the employers have been equally willing to resist the temptation that a cosy and unchallenging relationship is to be preferred to the alternative. There appears to be a widely accepted resistance to simply maintaining the status quo.

Not surprisingly, perhaps, the organisation is characterised by transparent communication. This is not simply a matter of ensuring management messages are transmitted to workers, but in identifying examples of good practice in the unit based teams so that innovations can be widely shared and generalised across all relevant operations.

What Kaiser and its recognised unions have achieved is a rather different approach to the bargaining process, the development of a structure for employee participation focused on

performance improvement *and* enriching the quality of work, allied with a communications strategy that reinforces all of these practices.

(Source: Kaiser Permanente. [www.Impartnership.org/home](http://www.Impartnership.org/home))

### **Case Study: Air New Zealand**

Air New Zealand has an industrial relations history which, like Kaiser Permanente, created sometimes difficult union-management relationships characterised by “anger and mistrust”, leaving workers feeling “damaged and wounded”.

A new chief executive was appointed at the beginning of 2013 and he took the decision to move the industrial relations arrangements onto a different footing. Both the unions and the employer recognised the existing arrangements as both exhausting and dysfunctional but, contrary to earlier initiatives, an effort was made to work through the problems in partnership with the unions.

A US based consultancy, Restructuring Associates, was commissioned to advise the parties and worked with the unions and the employer to implement a model of “high performance engagement”. As with the Kaiser Permanente case, this is rooted in interest based bargaining and the quest for mutually acceptable solutions where benefits accrue to both the unions and the employer. Moreover, the agenda for discussion is deliberately constructed so that it embraces the whole employment relationship rather than simply wages, working time and working conditions.

In addition to the new approach to bargaining, the airline and the unions agreed that the operational principle should be “people closest to the problem find the solution”. Supervising the whole process is a committee consisting of four management and two trade union representatives. Below this is a network of ten steering committees involving engineering staff, cabin crew and airport workers, with the responsibility to solve problems together, with a focus on the improvement of organisational performance.

The high performance engagement approach is recognised as requiring a significant change in organisational culture, which has proved difficult for some managers and trade union representatives. Demonstrating that the new approach delivers real benefits has helped to embed the change amongst even those who are somewhat sceptical. For example, 1600 cleaners, baggage handlers, ramp operators and check in staff were threatened with contracting out. The decision was taken to look for cost savings under the existing dispensation, avoiding the supposed need for outsourcing. An initiative under the high performance engagement model asked frontline workers to contribute to a committee that had to find savings of NZ\$15 million a year. According to Air New Zealand’s HR director: “They found NZ\$7 million without anyone losing their job, with changes in shift patterns and the way work is done. Wage cuts were avoided too.

Since the introduction of “high performance engagement”, the number of personal grievances has more than halved.

The strength of trade union membership at Air New Zealand (more than 70% of the workforce is organised) is seen as a necessary condition for the success of high

performance engagement. Early and inclusive consultation on major changes is the mantra of both the employer and the unions. It has helped to resolve some potentially tricky issues that, in a conventional arrangement, would probably have led to industrial action – for example, changes to terms and conditions of pilots dealing with sickness absence and a superannuation issue amongst the staff of an Air NZ subsidiary that would otherwise have been resolved in court.

There is one final ingredient in the mix that seems to have made a significant difference to the strength of the new relationship. In conventional settings trade unions are often accused to taking a short-term and tactical view, evincing concern about the next year's wage settlement or other changes to conditions of employment. In this case, however, have deliberately chosen to focus on the long-term, recognising that a successful and growing business is most likely to offer decent jobs with decent levels of pay for employees.

Source: NZ Herald, 24 July 2015

### **Case Study: Auckland City Council**

The Public Services Association of New Zealand (PSA) has a well established relationship with Auckland City Council which both parties were happy to describe as a model of high performance engagement. This partnership arrangement has reached a point where the union has extensive involvement in all aspects of organisational change. The objective is to build a positive relationship where each party can challenge the other with a view to securing a better outcome.

At the centre of the relationship is an agreement *The Way We Work*, which sets out a 15 year joint vision for the council to create a “high performance, high engagement, high trust organisation through interest based bargaining”. The objective, as with Air New Zealand and Kaiser Permanente, is to achieve an appropriate balance of strategic union engagement in major decisions affecting the workforce alongside well-developed opportunities for individual worker participation.

An especially interesting initiative is the *My Time* performance framework. This is another example of a collaborative effort between the PSA and the council and serves to highlight how the high involvement workplace depends on both individual and collective participation. The union had always made it clear that it was opposed to performance related pay (for the reasons adumbrated earlier in this paper) and argued that generalised pay increases are more effective and fair. Evidence was gathered to show that the old personal development planning (PDP) system was not working – it failed to deliver either for the union, most workers or the employer.

The existing performance pay system was therefore abandoned at the same time as the PSA and the council sought to develop a practical alternative that continued to drive performance. Unlike most conventional performance management systems, however, the focus is on individuals taking responsibility for their own performance and development. This is a big change and obviously requires people to be supported so that they can think constructively about how to improve their performance and develop additional skills. Rather than relying on managers to play this facilitation role, the PSA has

developed a buddy system so that people can support each other to think about their personal objectives before they have a discussion with their manager. The principle underpinning the new arrangement is that the organisation has made an explicit declaration of trust in employees; they can be allowed to get on with their jobs. At the same time, however, is was a commitment from the union and the workforce to continuous improvements in performance. In return the employer offers fair pay, enhanced recognition and the promise of personal development.

Resources were jointly developed by the PSA and the council to sustain the *My Time* programme. Workers can use these resources to shape the conversations they have with their line managers and can also call on the assistance of a PSA representative if necessary.

One obvious implication of the changed nature of the performance conversation is that managers are supposed to manage differently. As we observed earlier, the high involvement workplace does not demand the monitoring, control and surveillance that are widespread elsewhere. Managers have to relinquish a degree of control and actually *manage*, remove barriers to higher performance and focus on coaching, mentoring and employee development. This approach reinforces the wider argument that people management is a general responsibility across the organisation, not simply the preserve of HR professionals.

Source: NZ Public Services Association

Readers with knowledge of recent history will find something familiar in each of these examples. They all, in differing degrees, give practical effect to the principles described in Kochan and Osterman's *The Mutual Gains Enterprise* (Kochan and Osterman 1994). This was an early attempt to link the diffusion of productivity enhancing forms of work organisation with employee and trade union participation in the process of workplace and organisational change. In addition, the authors were concerned to ensure that there was a fair distribution of rewards across organisations, not least because this would begin to counteract the growth in income inequality that was undermining the living standards of many Americans.

Kochan and Osterman were recording what had happened in the best workplaces in the USA in the early 1990s and advocating changes in public policy to support the wider diffusion of these practices. Their policy prescriptions, which included the implementation of a works council model and employee representation on boards, foundered on the rocks of partisan politics in Washington DC, but the general workplace principles were applied not just in the USA but in other of other countries too. Once again, we can see that a programme of workplace reform was focused on changes in the employment regime as a necessary but not sufficient condition of success

It is at least arguable that the interest in trade union-management partnerships in the 1990s and early 2000s was inspired by this work. The general direction of the argument made in this paper is consistent with their approach and seeks to build upon the demonstrable success of a similar model in the Nordic countries. Most importantly, Kochan and Osterman described with great clarity the principles that need to be observed if this model is to be sustained. Despite the passage of time, these principles continue to be of great value in identifying an appropriate role for HR professionals in the future, not least because they offer the outline of a very different approach to the management of the workforce. We will

explore these issues later in this chapter, but before we do so it may be worth considering the relationship between productivity and the high involvement workplace.

### Principles Guiding the Mutual Gains Enterprise

#### Strategic Level

- Supportive business strategies (long term not short-term, focused on performance *and* distributional fairness)
- Top management commitment
- Effective voice for HR in strategy making and governance

#### Functional (human resource policy) Level

- Staffing based on employment stabilisation (low labour turnover and limited use of contingent workers, possible use of employment security guarantees)
- Investment in training and development
- Contingent compensation that reinforces co-operation, participation and contribution

#### Workplace Level

- High standards of employee selection
- Broad task design and teamwork
- Employee involvement in problem solving
- Climate of co-operation and trust

Source: Kochan and Osterman 1994

### 3.9 A new framework for thinking about productivity?

As we saw in Chapter 2, the conventional public policy framework has sometimes found it problematic to incorporate innovative thinking about what happens in the workplace. The principles guiding the development of the mutual gains enterprise give some indication of what might be required, but in the summary form described by Kochan and Osterman they may be too general to offer the specific guidance that employers and trade unions are seeking. The same might be said for the notion of high performance engagement described in the case studies. Each of these examples gives an indication of what must be done, but perhaps a more systematic exposition is needed. Totterdill's description of the necessary conditions for workplace innovation is also helpful, but they too are expressed in somewhat general terms. One useful source of further guidance can be found in a new framework developed by the UK's Advisory, Conciliation and Arbitration Service. This has been designed to fill the gaps in the conventional model and is explicitly directed to questions of work organisation, job design and management quality (ACAS 2015). The following elements are identified as areas for action by organisations wishing to improve their performance:

- **Well designed work:** jobs and work are organised in a way that increases efficiency and makes the most of people's skills.
- **Skilled line managers:** managers must have the confidence and training to manage and lead effectively.

- **Managing conflict effectively:** systems must be in place to reduce the likelihood of problems arising and to deal with problems at every stage.
- **Clarity about rights and responsibilities:** a working environment where everyone understands their rights and responsibilities.
- **Fairness:** employees who feel valued and treated fairly.
- **Strong employee voice:** informed employees who can contribute to decisions and are listened to.
- **High trust:** relationships based on trust, with employers sharing information at the earliest opportunity.

This approach is consistent with our assessment of the evidence so far and contains some useful additional ingredients that can assist in the development of a new approach to management. The point about work organisation and job design highlights the importance of autonomy, control and task discretion. Without referring specifically to the notion of “good work”, it is clear that the intention here is to draw upon the epidemiological research recording the impact of work on health. Moreover, it is equally clear that the skills of the workforce must be fully utilised if sustainable increases in productivity are to be achieved. This raises significant questions about management effectiveness. Managers must not just be able to lead, but must be able to make the best possible use of employees’ capabilities.

Equally, there is a recognition that conflict is inevitable, so procedures must be in place to resolve problems before they become crises. The ACAS model is therefore explicitly pluralist. Great emphasis is placed on the importance of trust, transparency and the sharing of information, recalling Pfeffer’s insight that open discussion to devise solutions in partnership with the workforce can be a more important source of worker motivation and commitment than performance related pay. Procedural and distributive justice are both important parts of the ACAS framework and voice underpins the overall approach.

Most importantly, it is clear that the responsibility for taking action and putting these guidelines into practice is distributed across the whole organisation. Effective people management is not simply the preserve of HR but is a core line management function too. Our discussion of the importance of worker participation in Chapter 2 confirms this conclusion. Managers at all levels must be able to share information, convene problem solving groups, empower the employees for whom they are responsible and recognise the importance of collective as well as individual forms of participation. Expressed in this way, the model can look hugely ambitious and goes against the grain of much thinking about performance management, the monitoring and surveillance of performance and a regime of targets determined without reference to the workers responsible for delivery. On the other hand, this approach can be read as a practical expression of the principles of efficiency, equity and voice. It is not too fanciful to suggest that the ACAS model is a clear and systematic expression of the conditions that must be met for employers to create high involvement workplaces.

### 3.9 What is HR for?

These considerations bring our discussion almost full circle to the core concern of this paper. Just what is the HR role in the high involvement workplace? One might say, for example, that some of the conventional thinking about HR continues to have considerable persuasive power. All organisations need some structures in place for the management of recruitment, the development of policies for retention, innovative approaches to skills development and

compliance with employment law. Similarly, HR should remain the custodian of organisational policies for diversity and equality. In other words, many of the standard activities of HR professionals will be needed even if a determined effort is made to develop a new model.

Nonetheless, creating and sustaining high involvement workplaces demand significant changes in the functions and roles of HR. As we suggested at the beginning of our discussion, the proposals presented here are a basis for discussion, they do not represent a fully developed model. Nonetheless, it is essential to offer at least an outline account and the following paragraphs briefly describe the contribution that HR professionals might make in the future.

### *High involvement workplaces and business strategy*

One of the central features of Ulrich's reconceptualisation of the HR role (described in Chapter 1) is that HR is an essential element in "strategy execution". Kochan and Osterman make a similar point in suggesting that the HR voice has to be heard in the boardroom: "an effective HR voice in strategy and governance". In the high involvement workplace, the role of HR in the development and execution of business strategy is to ensure that the culture of participation is woven into the fabric of the organisation. This means that the extent of worker involvement must be agreed by senior managers, appropriate structures developed and sustained and agreement reached on further measures needed (training and development for example) to ensure that workers have the capabilities to be effective participants. HR professionals must ensure that senior managers are not deflected from their commitment to an enhanced level of participation. This can be reinforced by worker voice (both individual and collective), acting as a source of countervailing power in the organisation, ensuring that the promise of participation is kept.

### *Developing management skills*

A high involvement organisation needs highly skilled managers who are both committed to the participative approach and have the capabilities needed to make it work. HR can play an important role in identifying those skills (with a particular focus on gaps in the organisation) and in the delivery of training programmes. This is likely to prove a substantial undertaking, not least because many (if not most) organisations have adopted a very different approach to management, which is more about monitoring, control and the correction of errors than it is about coaching, mentoring and unleashing the talents of all employees. Developing and sustaining a higher level of participation requires real change in both management styles and organisational cultures. HR has an essential role to play in creating this new environment.

### *Developing employees' capacity for participation*

Transforming organisations from low to high involvement workplaces can be just as challenging for workers as it is for managers. In the initial stages levels of trust may be low and workers may not be certain just what the employer intends. Equally, if new opportunities are created for both individual and collective participation then workers need

to understand how they should participate. Just what is required of a member of a problem-solving group? How should people behave as these processes unfold? What is a legitimate point for discussion and what is marginal or irrelevant? The answers to these questions are not always obvious and workers may need coaching and development to maximise the value of their participation. This has to be a continuous process, not least because all organisations experience staff turnover and the culture of high involvement has been sustained despite changes in personnel at all levels.

#### *Developing and maintaining the structures of participation, including respect for the trade union role*

Participation obviously requires structures. So far as individuals are concerned, the conversations they have with their line managers ought to change. New arrangements will need to be put in place for joint consultation and joint problem solving and all these institutions will require some maintenance.

It is also important to learn the lesson from the European examples discussed above that bargaining about distributional questions must be dealt with in a separate realm from solving problems in the workplace. The distinction drawn between the functions of trade unions and works councils in Germany offers some guidance for the future. Inevitably HR professionals will be involved in both activities, but it is important for all participants to be clear about when bargaining is taking place across the table and when problems are being solved around the table.

Many HR professionals today have no direct experience of working with unions. One objective of the model described here is to ensure that there are wider opportunities for both individual and collective worker participation. If these hopes are fulfilled then trade unions are likely to become important institutions in many more workplaces. As has already been discussed, trade unions have the biggest positive impact on productivity when high trust relationships have been forged with the employer. An important element of the HR role in the future will be to ensure that all managers (including those in HR), have the capacity to foster and sustain these high trust relationships. Moreover, if trench warfare is to be avoided both unions and managers must treat each other with respect, recognising their somewhat different roles and responsibilities. A central element of the argument made throughout this paper is that conflict at work is inevitable; ensuring that trade union-employer relationships are generally cordial can help to reduce tension and make it easier to solve the difficult problems when they arise.

#### *Monitoring progress, identifying problems, facilitating dialogue*

It is essential too for progress towards the high involvement workplace to be monitored. Employee surveys can play an important role here, obviously administered by HR professionals. But steps must be taken to assess management performance too, which suggests that a process must be in place for evaluating whether managers are able consistently to involve their staff in decision-making and problem solving. It is not suggested that pay should be linked to performance on this dimension, particularly given the analysis of PRP presented earlier. Nonetheless, performance has to be assessed and support offered to those managers who find it difficult to develop and sustain the culture of involvement. Recruitment and selection processes can help here of course, so that over time a body of managers is recruited with the skills and capabilities needed in the high involvement workplace. In the short-term, however, there could be a large number of managers who

find it challenging to embrace the new culture. HR professionals have a central role to play in managing this transition with sensitivity and skill.

We observed at the end of Chapter 1 that employee surveys could be a useful device to identify problems in the workplace and provide a framework for a dialogue with workers and their representatives about where change is needed. All organisations can benefit from taking regular temperature readings of their employment relations climate, but the real advantage stems from using the survey as a diagnostic tool to identify where action is needed. Once again, the focus should not necessarily be on some HR policy or practice to fix the problem. It is more likely that progress will be made if workers and the employer seek to solve problems together.

In some cases, especially where joint problem solving is taking place, there may be a case for a facilitated dialogue. HR professionals can assist in this endeavour, either by taking direct responsibility for the conversation or for finding external sources of support.

#### *A new approach to performance management*

Despite the criticisms that have been made so far of intrusive performance management systems there can be little doubt that all organisations need to manage their performance – otherwise how could the *efficiency* element of efficiency, equity and voice be delivered? Targets and objectives certainly need to be set and there should be regular conversations between managers and staff about the progress that is being made. The real difference in the high involvement workplace, however, is the *content* and the *tone* of these conversations. Managers should be more focused on the question “how can I help you to do your job more effectively?” than they are on the question “why haven’t you met your targets?”. Workers must be involved in the process of setting their own targets.

Furthermore, recalling the evidence that relating individual effort to outcome can be difficult, these conversations should be an opportunity for individual employees to make observations about the systems, processes or technologies that they use and identify where there may be wider problems to be solved. Most importantly, perhaps, as the PSA’s experience at Auckland City Council demonstrates, workers ought to take the lead in these conversations about performance and development. The cultural shift required is large, but the successes already achieved in the best workplaces demonstrate that this new approach is more than wishful thinking.

There is no guarantee that managers will be able to have these conversations immediately with employees and no guarantee that workers will have the confidence to speak up. Of course, a higher trust environment sustained by more extensive collective participation can give workers the confidence they need, but even in these circumstances managers may need the support of HR professionals to get the most out of these conversations.

This account could be read as meaning that in the high involvement organisation all workers will behave like angels. That is not the intention at all. Organisations will need to have procedures in place for dealing with underperformance (potentially leading to dismissal) and disciplinary matters. The important point, of course, is to ensure that these procedures are seen to be fair and consistent with the *equity* objective. Once again, this is properly the province of HR, although in the high involvement workplace it ought to be the case that these matters are subject to a higher degree of joint regulation – as is the case with the German works councils discussed earlier in this chapter.

### *Developing innovative approaches to pay*

Can a high involvement workplace operate performance related pay? Certainly the criticisms of Pfeffer and Sutton, Deming and others recorded in Chapter 2 would suggest that the answer is no. Kochan and Osterman in their principles of the mutual gains enterprise, call, slightly cryptically, for “contingent pay that reinforces co-operation, participation and contribution”. They refer more specifically to team based pay or pay systems that reward objectively assessed skills acquisition. Perhaps the most compelling answer to the pay conundrum is that all workers should be able to share in improvements in organisational performance. Blasi and Freeman’s research is compelling here, noting that gainsharing works best where it is supported by arrangements for worker participation.

What Jeffrey Pfeffer described as tinkering with pay systems has conventionally been an HR responsibility. In the high involvement workplace HR could be the custodian of a more positive set of arrangements focused on answering the question whether the pay system supports participation *and* performance. There is a strong case for a proper evaluation of effectiveness to take place regularly, principally to ensure that the pay system is consistent with the objectives of the preferred organisational culture.

### *A focus on the quality of employment*

A clear implication of the case presented in this paper is that HR professionals must take responsibility for monitoring the quality of employment. Autonomy, control, task discretion, justice and voice in the workplace have all been identified as factors affecting health outcomes, motivation, commitment *and* organisational performance. In too many organisations today these concerns are ignored and more attention is paid to giving workers advice on diet and exercise or, in the worst cases, resilience training so that people can cope with a higher (probably intolerable) level of job strain. This may be another example of Keith Sisson’s “doing the wrong things better” syndrome. Encouraging employees to eat more fruit is unlikely to make much difference if they are subjected to persistent bullying or unreasonable workloads.

A critic might say that measuring the quality of employment on these dimensions could be a huge bureaucratic exercise, requiring unnecessary interventions by HR professionals, with a high degree of uncertainty whether the initiatives that emerge will make any difference. A twofold response can be offered to this criticism. First, HR professionals are, through performance management systems, already responsible for bureaucratic monitoring, often without any evidence that these systems are really improving performance. Organisations may be heavily invested in these initiatives even though the results *are* uncertain. Second, in the case of the job quality factors there is overwhelming evidence to show that these aspects of the working environment matter. Enhancing autonomy or guaranteeing voice and justice have proven positive effects. It would be absurd to say that there are no costs associated with high involvement workplaces but, if managed properly, the benefits outweigh the costs by some margin.

### *Information, communication and transparency*

HR professionals already have responsibility for communications with the workforce – although in many cases these activities are entirely reserved to HR. In part the reason for that phenomenon may lie in the fact that there needs to be clear and consistent communication across the organisation. New initiatives must be described in similar terms

to all employees otherwise confusion will reign. In the high involvement workplace, however, there should be much wider information sharing. This means that operational managers may have to take responsibility for activities currently reserved to HR. We have already dealt with the importance of ensuring that all managers have the skills they need to operate in the high involvement workplace and that it is the role of HR professionals to ensure that these skill needs are met. It is important too, however, for HR to monitor the quality and effectiveness of communication and information flows across the organisation, identifying any obstacles to the maintenance of the participative culture. Again, a critic might say that HR will become a “big brother” function, peering over the shoulders of managers to ensure that they stick to the organisation’s rulebook. There may be some risk of this kind, but the role is not to allocate praise or blame but to ensure that the systems work effectively so that the organisation’s culture is sustained. Perhaps this is best understood as a practical example of the “integrity” discussed extensively by MacLeod and Clarke in their description of the enablers of employee engagement. “Integrity” cannot simply be taken for granted; organisations need to know that everybody is behaving in a way that is consistent with the principles of the high involvement workplace. Far from being another inappropriate example of surveillance the proposal here is that organisations must assure themselves that they *are* behaving with integrity.

#### *A much higher level of joint regulation?*

An obvious consequence of all that has been said so far is that a much wider range of workplace issues should be subject to a degree of joint regulation in the high involvement workplace. An example of what is envisaged can be found in the description of the powers of a German works council set out earlier in this chapter. It is not suggested that either the UK or New Zealand should simply take that Works Constitution Act from Germany and apply it in a very different environment, but that joint discussion of all these issues takes place in Germany without there being any adverse impact on organisational performance – if anything, the impact is generally positive. Of course, as the European Working Conditions survey makes clear, the mere existence of an institution with legislative foundations does not guarantee effectiveness. The Nordic countries have more high involvement workplaces than Germany even though the *formal* institutions for worker participation may look weaker. The important point in this context is the relative power of the actors. Nordic trade unions are much stronger than German trade unions. They have a more powerful workplace presence and can therefore make the institutions work to the advantage of employees. The point of principle still stands, however; joint regulation is an essential ingredient of the high involvement workplace. In the British and New Zealand context employers must surrender some of their prerogatives and HR professionals must develop the skills *they* need to ensure that wider joint regulation continues to deliver the goals of *efficiency, equity and voice*.

### **3.10 Challenges for unions and workers**

The challenges for organisations and individual managers are matched in scale by the challenges for trade unions and employees. For unions, the high involvement workplace requires an adaptation of the conventional practices of collective bargaining. Certainly, bargaining on pay and other conditions of employment has to continue, but the nature of the joint regulation of the workplace has to change too. Most notably, perhaps, unions have to embrace the efficiency goal and make a joint commitment with the employer to the success of the organisation. Moreover, much of the activity in the high involvement workplace is directed to the solution of shared problems. This general orientation has much more in common with the activities of works councils in continental Europe or trade unions

in the Nordic countries than it does with the practices (and union attitudes to universal rights and employee involvement) that have been historically widespread in the developed English speaking world. It is almost certainly the case, however, that the outlines of the approach applied in the high involvement workplace can be found in Kochan and Osterman's mutual gains enterprise and in the partnership agreements that have been forged with employers by progressive unions in both the UK and New Zealand. There is a well-developed body of good practice on which to build a new model, exemplified by the case studies recorded in this chapter.

Nonetheless, the skills required of union representatives in the joint problem solving activities characteristic of the high involvement workplace are rather different from those demanded in conventional collective bargaining. The objective is to agree solutions to workplace problems with employers and work to improve organisational performance. This is not at all like a traditional bargaining environment focused on the division of the spoils.

Greater direct employee involvement also requires unions to give up control too, recognising that some issues may be dealt with by ad hoc groups of workers and managers beyond the conventional bargaining machinery. This can be a considerable challenge and is not without some risks. There is also a case for saying that the employment relations agenda will change significantly if more organisations become high involvement workplaces. The quality of work, work organisation, job design, skills development and utilisation are all likely to come within the purview of workers and their representatives. Unions must develop expertise in all of these areas if they are to cement their role in the workplace of the future.

The strength of workplace organisation is an especially important point here – whether works councils and universal rights to representation are brought into existence or not. Unions must develop an enhanced capacity to communicate with and involve members. Joint problems solving is an inherently different activity from bargaining and requires unions to walk a fine line between expressing the legitimate grievances of the workforce and understanding the imperatives of change and workplace reform to deliver organisational success. Of course, one might say that this is nothing new. As Alan Fox recorded in his 1966 assessment, both unions and employers have always underestimated the importance of the *non-bargaining* elements of their relationship, even though in practice, the organisation of the workplace and the management of people have consumed just as much time and effort as pay negotiations (Fox 1966)<sup>25</sup>.

Making workers active participants in workplace change also presents genuine challenges. This is new and demands a different set of skills and behaviours. Workers may have more voice and more control but they also have more responsibility. In other words, workers must understand that they have the opportunity to make a greater contribution by sharing responsibility with managers for boosting productivity and thinking constructively about how organisational performance might be improved. Expressed in these terms, the scale of the change needed looks daunting. That some organisations are already making extensive use of this model in English speaking countries and the undoubted successes recorded in the

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<sup>25</sup> And, as Freeman and Medoff demonstrated in the 1980s, confirmed by Kochan and Osterman in the 1990s, unions have built successful productivity coalitions with employers in sometimes hostile public policy environments, proving that it is possible to develop high trust relationships beyond the limits of normal pay bargaining (Freeman and Medoff 1984, Kochan and Osterman 1994).

Nordic countries (where 40% of the workforce are located in high involvement workplaces) demonstrates the practicality of the proposals presented in this paper.

### 3.11 Conclusion

Our central argument has been that work is a fully human activity and that the rights we take for granted in society are equally applicable at work. Industrial democracy may be described as a fundamental human right but most models of people management deployed since the 1980s have found it hard to capture this idea. Indeed, the unwillingness to countenance the realities of conflict *and* co-operation helps to explain why most of the conventional models of people management have failed to deliver their promise.

We have described how the goals of the employment relationship need to be reconfigured, giving equal weight to *efficiency, equity* and *voice* and we have argued that a judicious mix of both individual employee involvement and collective worker participation (through trade unions and works councils) is most likely to create a virtuous circle of high quality jobs and decent rewards for all in the high involvement workplace. That the status quo has outlived its usefulness is confirmed by the unavoidable fact of the financial crisis and the collapse of the market fundamentalist paradigm that has determined public policy over the last thirty years. There is an opportunity to build a new model of inclusive prosperity, which ensures that all groups in society share the fruits of economic growth. Sustainable prosperity depends on sustainable growth and therefore on sustainable levels of demand, delivered by a higher level of income equality. A new approach to the management of people and a new model of employment relations in the high involvement workplace are both essential if developed countries are to build economies fit for the challenges of a more globally integrated world.

Entrenching this new model depends on a deep-rooted political consensus where employers, unions and policymakers all agree upon the ends in view. This does not mean that the normal process of political debate has to end; there can still be furious disputes about foreign policy, taxation, law and order or the scope and scale of the state. Most importantly, perhaps, employment relations has to be depoliticised to the extent that all political parties have a shared view about the importance of worker voice and agree to respect the principles of industrial citizenship. Countries with inclusive employment regimes have sustained these arrangements no matter who happens to be in government. It would be a significant step forward for policymakers in the developed English-speaking world to adopt a similar approach.

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