



# **Beyond Human Resources:** Towards the high- involvement workplace

**An overview**

## Foreword

The PSA has a vision of modern employment relations that encourages the active involvement of workers, through their unions, in the matters that affect their work. For this to happen, the workplace must be both transformed and transformative – and the transformation must be both sustainable and sustained.

The PSA believes that high-performance workplaces can be achieved through a culture of engagement and collaboration. This means direct, meaningful and regular involvement of the workforce in all matters where it directly influences performance.

The union provides a structured, democratic framework for this. This is essential for sustained high performance and for achieving the productivity gains that employers (and members) seek in a time of scarce resources.

To help visualise how this might work, we asked David Coats to consider the current human resources paradigm, and to suggest some directions for doing HR differently in the future.

In his previous role with the UK Work Foundation, David worked with us on his 2007 publication *Reviving the Public* which gave fresh insights into the debate about public sector management that explored the concept of public value.

In this booklet David looks at current UK and European practice, particularly around the dominant human resources management model – which has failed to fulfil its promise – and proposes some ideas for a new policy agenda for the future.

The PSA believes new ways of working will transform our members' workplaces and improve services for New Zealanders.

We hope that this contribution to the debate about how workplaces can be better, more innovative and more productive helps inspire robust discussion of our vision.

One thing is clear: if we continue to do what we have always done, we will get the same outcomes. We think New Zealanders – and our members and their managers – deserve better.

### About David Coats

David Coats is the director of WorkMatters Consulting, which offers support to organisations wishing to improve employment relations, undertakes research on labour market issues and offers advice on how best to influence public policy.

He is also a research fellow at the Smith Institute and a visiting professor at the Centre for Sustainable Work and Employment Futures, University of Leicester.

David was appointed as a member of the Central Arbitration Committee (the industrial court for Great Britain) in 2005.

Previously he was policy director at The Work Foundation (2004–2010) and Head of Economic and Social Affairs at the TUC (1999–2004), having joined the TUC in 1989 as an employment law specialist.

David is recognised as an expert commentator on employment relations, labour markets and the quality of work. He was a member of the Low Pay Commission from 2000–04.

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# People management and employee engagement

## Managing people well

It is generally believed that motivated and committed employees are the most effective route to the provision of high-quality goods or services, consistent improvements in productivity, and rising living standards. But this is easier said than done, and many workers continue to report widespread unfair treatment, poor management, and disappointment with the quality of their jobs.

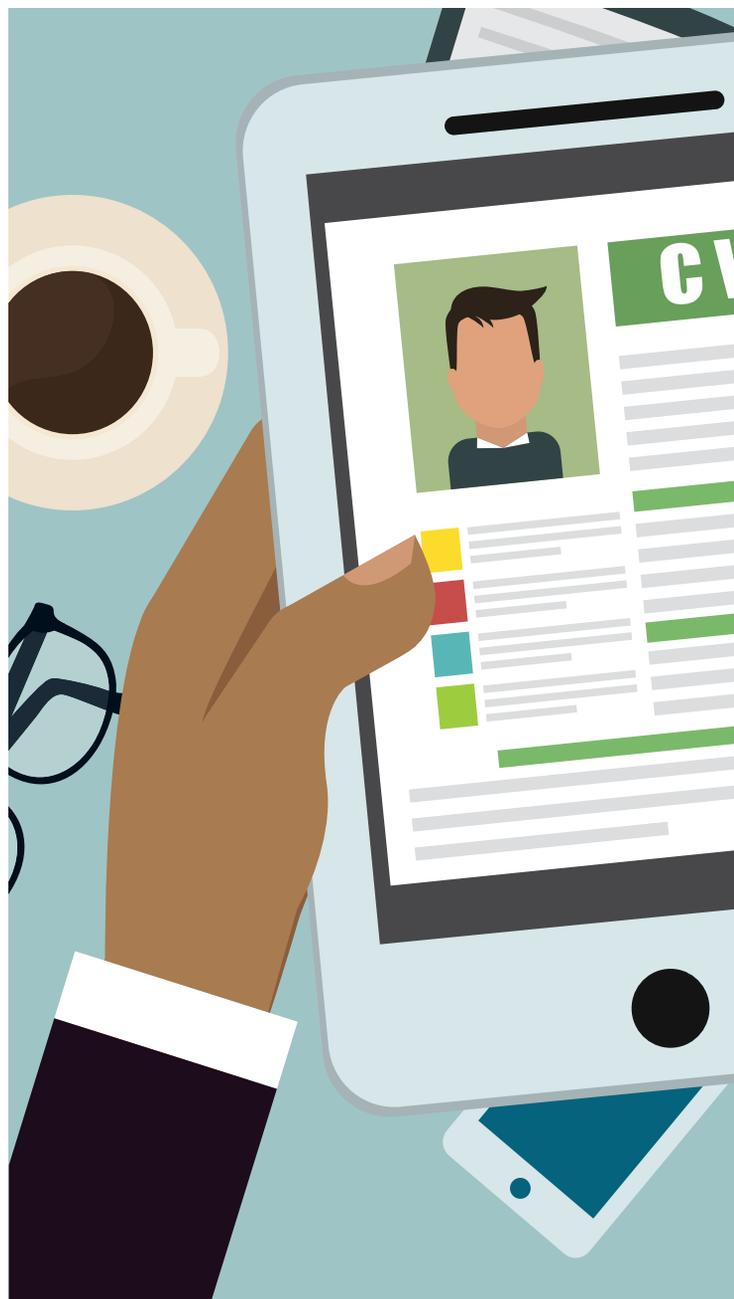
There is much to celebrate in today's workplaces. Positive changes in recent years include:

- improvements for women in many workplaces
- improvements for people with disabilities
- an emphasis on cultural sensitivity and diversity, which has promoted better working environments for people from different backgrounds
- more employers enabling workers to balance their work and their caring responsibilities.

But there is much room for improvement in many workplaces. In this booklet we outline some of the problems that exist within the workplace. We also discuss how a joint effort by government, employers, trade unions and their members is needed to secure a better, sustainable settlement in the workplace.

Sustained, rising productivity is central to improving our workplaces. Unless productivity is growing – and organisations are managing their staff effectively to achieve this – then incomes will not grow and living standards will either stagnate or fall.

New Zealand has experienced a persistent productivity gap with other major economies for more than 40 years.



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Incomes elsewhere in the developed world are growing faster because more robust productivity growth has been achieved. Continued national prosperity depends on decisive action to crack the productivity conundrum.

## Changing approaches to the management of people

Today's problems associated with managing large organisations are of relatively recent origin. Before the industrial revolution the division of the world into "employers" and "employees" was not well developed. Most relationships were based on social status and hierarchy. Employers did not have to worry about workforce in large factories, offices or department stores because such places simply did not exist.

## Productivity and the public sector

It is sometimes said that it is difficult to measure productivity in the public sector, but political and economic realities place a premium on improvements in both the efficiency and quality of public services.

As societies age and grow richer they display an almost inexhaustible appetite for increased health and education expenditure. Even if the world economy returned to a strong growth path the resources available to governments are always constrained.

The views that public services must deliver "more for the same" or even "more for less", are likely to inform public policy for the foreseeable future. It is very hard to see how these objectives can be achieved without a skilled, motivated and fairly rewarded public service workforce.

The approach adopted to worker management has developed over time and has arguably gone through three distinct phases. In the early 19th century the employment relationship was essentially about the obligations that "servants" owed to their "masters". Over the course of the next 100 years, workers began to organise in trade unions (initially prohibited as criminal conspiracies) and appalling labour standards slowly began to improve.

In the aftermath of the Great Depression and the Second World War, governments across the developed world forged a new social contract between capital and labour. Economic policy was oriented towards creating and sustaining full employment. Trade unions were seen as indispensable institutions, cooperating with employers and government. Collective bargaining was encouraged and became the principal method of determining wages and conditions for the majority of workers.

This was the era of the powerful personnel director, whose task it was to manage relations with the trade unions, achieve change by agreement and avoid the disruption of an organisation's activities by preventing industrial action.

But by the middle of the 1970s this model was believed to have failed. Both unemployment and inflation were rising. Some employers took the view that trade unions were too strong, standing in the way of necessary change. In the USA and the United Kingdom in particular, governments made conscious policy choices to deregulate financial markets, cut taxes for the better off, reduce the scope and scale of the welfare state and deregulate the labour market with a view to disempowering trade unions.

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This lasted until the financial crisis of 2007–09. “Personnel” had disappeared from the business lexicon, to be replaced by a variety of models of human resource management, people management and the quest for employee engagement. Increasingly, the employment relationship was viewed as an individual bargain between the employer and the employee. The notion that workers and their employers might have different interests and that conflict was sometimes unavoidable was simply not accepted.

The belief that conflict can be avoided through human resource policies and practices looks very odd when judged against the values that apply more widely in society. A central characteristic of all democratic countries is their pluralism, reflected in a tolerance of many different forms of belief and a commitment to dealing with conflict through democratic institutions.

We expect major decisions in other areas in our lives to have been explained, justified and legitimised by due process. Yet, some employers operate as if these democratic principles do not apply when an employee goes to work.

That conflict in the workplace is both inevitable and legitimate is recognised in the United Nation’s Universal Declaration of Human Rights and in the core conventions of the International Labour Organisation.

The right to freedom of association and the right to form and join trade unions are identified as fundamental. Unfortunately, much of the conventional thinking about the employment relationship does not align with the most important values of our society.



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## Human resource management and pro-market reform

Perhaps the most important advantage claimed for this individualised model of people management is that it delivers superior results to the conventional model of trade unionism and collective bargaining. In principle, it is argued that conflict will be eliminated from the workplace, productivity will be higher, workers will enjoy higher wages, and consumers or citizens will be satisfied with the goods and services available in the marketplace.

Few human resources experts explicitly link the individualised model to the low-tax, small state policies adopted by many governments from the late 1970s. But this new approach certainly coincided with the advent of market-centred economic policies.

New Zealand and the UK went down the deregulatory path with enthusiasm, which allows us to compare them with countries like Germany and Sweden that adopted a more measured approach to economic reform.

There, many of the institutions of the immediate post-war era remain intact, including effective rights for trade unions and workers, an employee voice in the boardroom and extensive collective bargaining coverage. Germany and Sweden had higher productivity than the UK and New Zealand in the 1970s and continue to do so today. If anything, the productivity gap has grown rather than narrowed.

It is true that both New Zealand and the UK have enjoyed relatively low unemployment both before and after the financial crisis, but social outcomes in both Sweden and Germany continue to be superior – with less poverty and income inequality.



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They continue to be prosperous, open economies despite globalisation and the challenges confronted during the financial crisis.

Of course, there is more than one route to strong economic performance. The high incidence of income inequality in both the USA and the UK helped to precipitate and prolong the financial crisis. Even the global elites represented by the World Economic Forum have accepted that the levels of income inequality found in many developed countries are unsustainable.

But it remains to be seen whether there will be a decisive shift in public policy to create a more inclusive capitalism in the future.

## The link between people management and performance

If the pre-crisis model of economic policy is now in question, what does this mean for the pre-crisis model of people management? Are the claims of superior performance borne out by experience? Just how much do we know about the supposed link between the effective management of the workforce and organisational performance?

An important preliminary point is that the post-war model was not as dysfunctional as its critics suggested. Certainly, trade unions could sometimes be obstructive, but the best research in this period showed that unions had a varying impact on productivity.

The critical factor was the quality of the relationship between the employer, the union and its members. High trust delivered high productivity. Low trust delivered the reverse. It was hardly surprising, therefore, that governments favoured the promotion of good industrial relations as part of a more comprehensive economic policy approach.

A great deal less is known about the effect of the people management tools and techniques deployed over the last 30 years. Many assertions are made about the link between effective people management and performance. But many of those studies are on a small scale, look at practices at a particular point in time and often fail to identify the independent effect of different practices on performance.

So while there is persuasive evidence showing some of these techniques can boost productivity, it is difficult to be certain which practices work best or why.

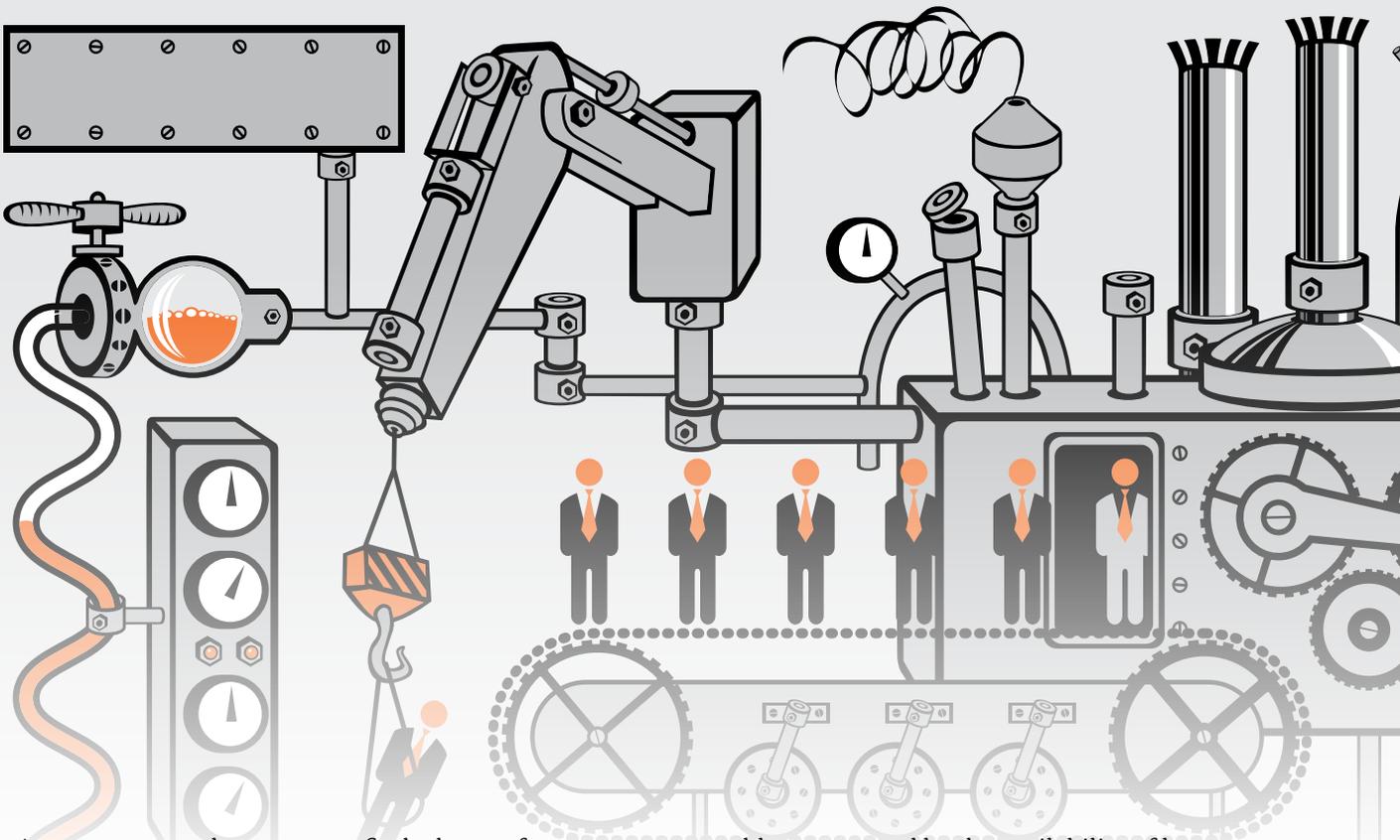
Some of the best labour economists in the world have undertaken this research and they admit that hard causal evidence of the kind that is familiar elsewhere is rare.

Researchers have also tended to start from the belief that these techniques drive high performance instead of being impartial. It is also assumed that organisations all mean the same thing when they talk about teamwork or the delegation of decision-making to workers. Teamwork in one organisation may be completely different from teamwork in another.

## Performance-related pay

Another important element of the human resource management or people management model is linking pay to individual performance.

It has been argued that performance-related pay is the people management technique with the most robust evidence base. But this evidence is based on very partial studies that seek to generalise findings from particular experiences.



A more measured assessment finds that performance-related pay is only effective in limited circumstances where:

- the task is easily learned and there is little or no dependence on other employees
- it is easy to monitor and measure quality
- employee goals are simple and straightforward.

Organisational (and individual) goals are often complex and new forms of work organisation depend on more intensive collaboration between employees. Moreover, people do respond to incentives and employers can sometimes get more than they bargained for. For example, poorly-designed bonus schemes led UK sales representatives to sell personal payment protection insurance to people who didn't need it – or were too high a risk. More seriously, fraudulent behaviour in the City of London was

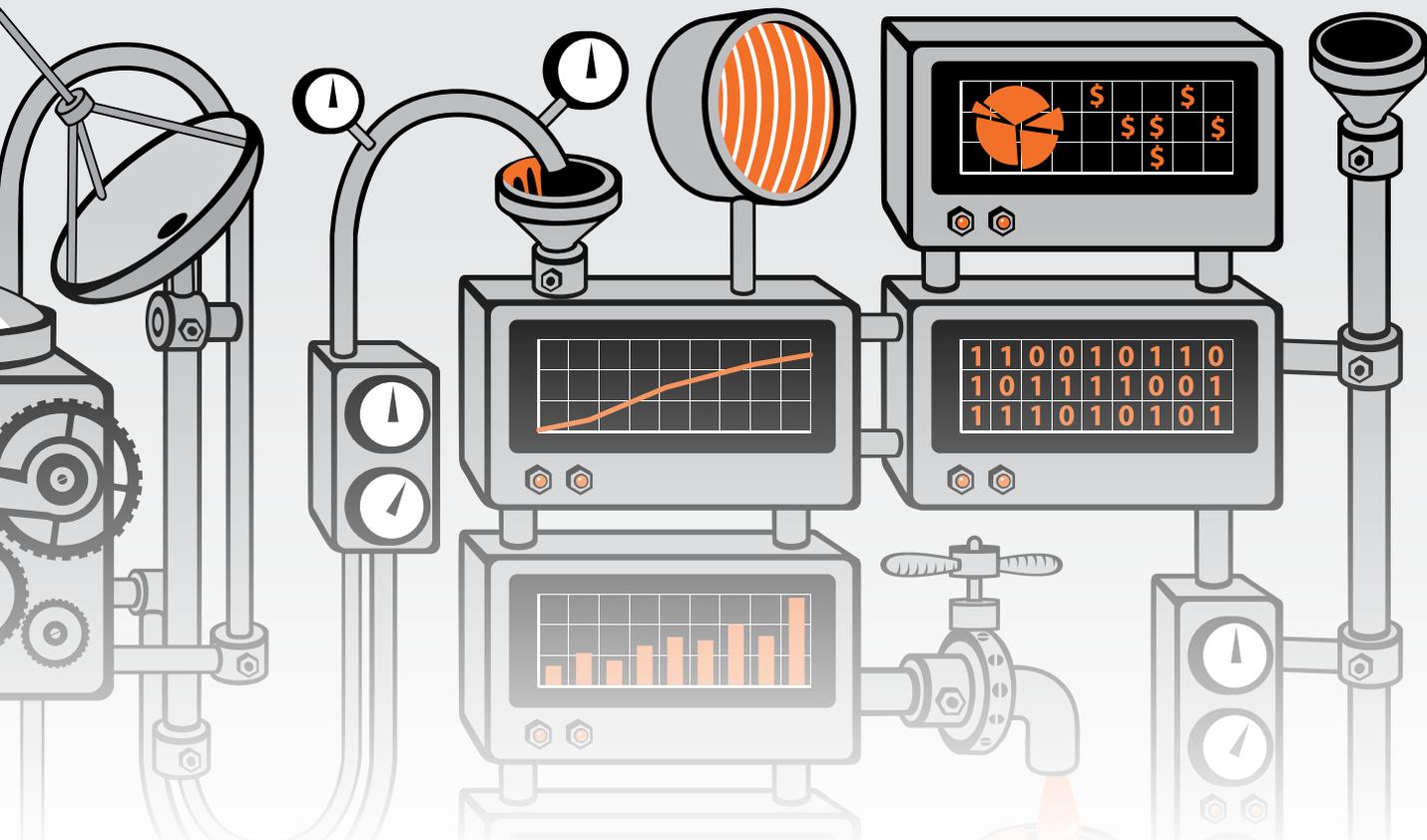
arguably encouraged by the availability of large bonuses.

Jeffrey Pfeffer and Robert Sutton have suggested that a very different approach could prove more effective:

*“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 priorities. What a novel idea.”*

### **The importance of worker participation**

Pfeffer and Sutton argue there should be a serious conversation between workers and their employer about organisational objectives and the governance of the workplace. In essence, they recognise employees do not surrender their rights to be informed, consulted and treated with respect when they cross their employer's threshold.



Evidence shows that trade unions in conventional settings can have a positive impact on productivity. There is similarly compelling evidence concerning the impact of worker participation (both individual and collective) on productivity and performance. A survey of 10 European countries in the mid-1990s found that employee representatives were agents of change, working with the employer to transform the workplace.

These results were confirmed by studies in the USA, showing that it was the mix of individual and collective worker involvement, principally through trade unions, which drove improvements in productivity. Research in Germany found that the productivity gains associated with teamwork, autonomous work groups and flatter hierarchies were only secured in workplaces where workers were involved in the process.

Many employers have argued that giving workers an equity stake in the business, through employee share schemes, boost productivity. The evidence suggests there is a one-off effect on productivity associated with the introduction of an employee share scheme – but for that effect to be sustained over time, workers must have the opportunity to participate in the process of decision-making in the future.

A similar point applies in relation to the high-performance work systems used by some employers. These arrangements are found most frequently in unionised workplaces, because the practices depend on a high level of trust between workers and their employer. The opportunity to influence workplace decisions is the lubricant that makes the system effective.

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## Finding high-performance work systems and employee engagement

Despite the evidence that worker participation makes a difference to productivity, both high-performance work systems and high levels of employee engagement can be hard to find. A recent study in the UK found that the incidence of high-performance work systems had fallen in the last five years. Research in both the USA and the UK has revealed that barely one-third of the workforce in both countries are “engaged” in the terms used by the human resources profession.

By focusing on the relationship between the employer and the individual employee, the standard model of people management fails to capture the social realities of the workplace. By not accepting the legitimacy of conflict or the need for structured dialogue through effective institutions (trade unions or other consultative bodies), many human resource professionals are actually making it less likely that their organisation will secure high performance.

The old model of industrial relations may well have needed reform, but too many positive aspects were abandoned. Human resource professionals and trade unions need to think more deeply about the goals of the employment relationship and devise a more effective approach to the management of people.

## The outlines of a new model: Efficiency, equity and voice

Policymakers, human resource professionals and trade unions need a fresh start, learning from experience and building a new model on the useful elements drawn from both human resource management and the “old” model of industrial relations. All participants in the labour market would benefit from a new approach that responds to today’s problems and recognises

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that technology, competition and rising consumer expectations will continue to drive change across the economy.

Our starting point is not a fully developed new model or a manual for effective people management, but will hopefully begin a conversation on this important issue.

Employers want to run organisations that are efficient and effective. Workers want to be fairly treated and guaranteed a stake in the critical decisions affecting their lives. These broad goals can be summarised as **efficiency**, **equity** and **voice**. They offer us a lens through which to view the realities of working life today and a useful analytical tool for understanding the process of change in the world of work.

For example, can we be confident that work in the digital economy, sometimes described as the “gig economy”, is consistent with these principles? There is an open question about the direction, scale and scope of economic change today, but whatever the future may hold there can be little doubt that both workers and employers will continue to hold fast to these broad objectives.

## A new policy agenda?

Giving workers legal rights to be informed and consulted, both individually and collectively, has a big impact on the influence they can have on their work systems.

Public policy shapes the context in which workers and employers reach an understanding about their rights and responsibilities. In Denmark and other Nordic countries, public policy has created an inclusive labour market, with widespread opportunities for all, limited income inequality and a high level of social mobility.

An integrated approach brings together the following policy elements:

- the initial skills formation system
- continuing vocational training – usually described as lifelong learning
- the position of organised labour – particularly whether there is an appropriate balance of power between workers and their employers.
- initiatives to reduce the unnecessary differences between diverse groups in the workplace, creating more variety in work and decent protection for all
- a determined effort to get the unemployed back into sustainable jobs and give them real opportunities for development and progression
- significant investment in active labour market programmes alongside a “light touch” regulation of hiring and firing.

Some of these are sponsored by the state but many are under the control of employers and trade unions. As a result, the predominant organisational form in the Nordic countries is the high-involvement workplace, where workers have high levels of job control and high levels of organisational participation. Job quality in these countries is the highest in the world.

Of course all countries are different and a critic might argue it is difficult to transfer this system to countries with very different traditions, cultures and employment regimes. But there are practical examples of high-involvement workplaces in the liberal market economies of developed English-speaking countries.

Kaiser Permanente, a major healthcare provider in the USA, has forged a strong partnership with trade unions to promote extensive worker involvement.

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Air New Zealand has adopted a similar approach in recent times.

Auckland City Council has explored the possibilities of a new approach to performance management with extensive employee participation. The PSA has played a central role in this initiative, cementing its commitment to a high-involvement model of industrial relations with a view to ensuring that workers have more extensive voice, both individually and through their trade union. The policy challenge is to determine how to generalise these good examples so that they become the norm.

## What should the state do?

In most European Union countries, by law larger employers must allow employees to elect work councils. These operate even in non-union worksites, and help adjust national-level labour agreements to local conditions. They have a legal right to be informed and consulted about workplace changes.

The system is not universal, however; in Sweden participation continues to be channelled through the trade unions and in Denmark works councils are constituted on a voluntary basis. In all cases, these arrangements are supported by trade unions and their members.

Unions in Austria and Germany say that their good employment performance in the post-crisis period is best explained by the flexible approach to working time endorsed by works councils and employers.

The state either mandates participation in work councils by law or offers deliberate encouragement or support for a collective bargaining system that promotes participation. In neither case do policymakers take a laissez-faire view, and it does not leave outcomes to the fluctuations of the labour market.

For a country like New Zealand, the question is whether a higher level of participation could be secured by entrenching rights for all workers to information and consultation on significant employer decisions. A similar discussion is taking place in the UK, where some commentators argue that the establishment of a works council system is the “last chance for collectivism”. Others have suggested that a revival of trade unions using conventional means is unlikely, and that unions need to make a strategic shift towards organising works councils, rebuilding their credibility with workers and employers.

When it becomes clear that trade unions are playing a constructive role in the workplace, offering something valuable to workers and employers, it should be possible, on this view, to develop a modern system of collective bargaining.

Continued Conservative governments in the UK will limit the prospects for this approach and the same might be said for New Zealand unless the Government changes its attitude to the promotion of collective and individual workplace participation.

## What does this mean for the human resources profession?

Even if legislative change is unlikely, there is a strong case for saying the human resources profession should be drawing on the successful experiences observed elsewhere. Simply doing the wrong things better or seeking to manage a flawed status quo is not an option. The case for change in people management policies and practices is compelling.

Once this argument is accepted the discussion must address the fundamental question, just what is human resources for? All organisations need a system that manages recruitment, retention and discipline, keeps

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accurate records and develops training programmes to ensure that the skill base of the organisation can sustain good performance.

If the case for a new approach is accepted, serious attention must be given to developing the human resources function in a very different direction. The following elements of organisational policy and practice must be central for the high-involvement workplace:

- integrating 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, especially respecting and understanding 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
- developing innovative approaches to pay 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.

A new approach to the management of people and a new model of employment relations are essential if developed countries are to build economies fit for the challenges of a more globally integrated world. Building this new model depends on political consensus where employers, unions and policymakers all agree on the goals – and how they get there.

Importantly, employment relations needs to be depoliticised so 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.









**For a better working life**

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