ECONOMIC DEVELOPMENT COMMITTEE **EDC 03-03(p3)**

Date:	**13 February 2003**
Time :	**9.00 - 11.35am**
Venue:	**Shotton Paper, Deeside Industrial Park, Flintshire**
Title:	**Promoting Good Employment Practices in Wales**

WALES TUC CYMRU

Promoting Good Employment Practices in Wales

- the route to competitive success –

Introduction

This paper looks at the advantages of good employment practices. Many of the practices have been known for a long time, but put together they provide the route to competitive success, involving high value-added product strategies, high levels of training and investment, high productivity, high wages and good terms and conditions. They provide the 'high road' that we now need to follow if we are to achieve the ambitions outlined in *A Winning Wales.*

This high road demands high-trust industrial relations, with high levels of participation in decision-making by employees and their representatives, committed to a mutual gains agenda.

The purpose of this paper is to persuade the National Assembly that it can act, at little or no cost, to promote good employment practices in Wales and develop a climate in which employers will be more likely to choose the high road to success.

The high road

In recent years commentators, academics and personnel professionals have come to recognise the importance of the way in which an enterprise organises the work it does. The most important reforms have been those designed to get the most out of the organisation's employees - by enhancing their capacities, removing barriers to utilising these enhanced capacities and increasing employees' motivation to apply them.

These good employment practices go by different names. The HR profession often calls them High Performance Work Practices or Systems, while academics sometimes refer to High Involvement Management. Different authors will produce different lists of good practices, but some items appear repeatedly, such as (in no particular order):

- Regular appraisals of staff,
- Team briefings,
- Commitments to job security,
- Single status for managers and other employees,
- Multi-skilling and intensive investment in training,
- Direct and indirect/representative participation,
- Team working,
- Employee Share Ownership Schemes, and
- Flatter management hierarchies.

The evidence to support them is convincing. In the UK, a 1997 study[i] of the impact of good employment practices on changes in business performance found that Human Resource Management practices relating to employee skills and job design accounted for

- 19% of the variation between companies in change in profitability, and
- 18% of the variation between companies in change in productivity.

The Workplace Employee Relations Survey – Britain's largest and most influential periodic review of what is happening in the world of work – has confirmed this message. An analysis of the 1998 survey looked at the impact of fifteen new work practices on five performance measures:

- Only one, the use of temporary agency workers, had a negative impact on any measure of performance.
- Another two, employee share ownwership schemes and facilitating employee feedback at team briefings, had no effect.
- All the other reforms were associated with better performance, lower turnover, fewer dismissals or a better industrial relations climate.
- And some reforms were successful on more than one measure: family-friendly working arrangements, off-the-job training, regular performance appraisals, fully-autonomous or semi-autonomous team-working, job security guarantees and policies precluding compulsory redundancies.

Similar results have been found across the world. In the 1990s, a major study[ii] of the impact of employee participation reforms in eight European countries (including the UK) found that in workplaces that had introduced 'group delegation', where rights and responsibilities are given to groups of employees to carry out tasks without constant reference back to managers,

- 94% claimed an improvement in quality,
- 58% claimed an improvement in output,
- 37% experienced a reduction in absenteeism, and
- 32% experienced a reduction in sick leave.

Of those workplaces with 'individual delegation', where similar rights and responsibilities are given to individual workers,

- 69% claimed a reduction in throughput time, and
- 53% claimed an increase in output.

More recently, the International Labour Organisation has pointed to similar results found by studies carried out in Australia, Brazil, Canada, China, Japan, Korea, Mexico, New Zealand, Taiwan and the USA.[iii] And by way of comparison a study of 200 British manufacturing firms found that 'low road' work practices – short-term contracts, no employer commitment to job security and low levels of training – were significantly associated with poor performance. Firms with high levels of turnover scored particularly badly on product and process innovation, and all the 'low road' practices (such as high turnover and temporary or fixed term contracts) were linked to low labour productivity.[iv]

But the high road cannot be reduced to a mere technique, its impact depends crucially on workplace relationships. The high road allows organisations to add value by rapid product and process innovation, and this process of change brings those who are managed to centre stage. Rapid innovation demands more decision-making by workers at the sharp end, freeing managers to take a more strategic view and to plan further ahead.

Employee participation and high-trust industrial relations are at the heart of this. It is no use delegating decision making to people who think they are being exploited, or relying on people who are scared to tell you the truth. It may be possible to introduce High Performance Work Systems in a way that reduces autonomy or increases work intensification, but that is not the high road to success.

One of the implications of the high road is that confident, highly trained workers can carry out a wider range of tasks to meet changing needs with a minimum of supervision. But the Workplace Employment Relations Survey revealed that this ‘functional flexibility’ is not very widespread: in most workplaces, most employees are not trained to do jobs other than their own. Altogether, just 14% of the companies covered by the WERS survey were implementing a majority of the progressive employment practices included in the study - and yet this survey showed that twelve of the fifteen employment practices had a positive impact on performance.

The partnership debate

Many good employment practices may be difficult to implement, and employers who want to make progress can still find it difficult. But, when it comes to partnership industrial relations, the problems are ideological, not practical.

On the high road, employees’ contributions are maximised, by consulting them and involving them in decisions, or through ‘partnership’, as this agenda has come to be known. At times that partnership will be between the employer and the employees as individuals, sometimes with their representatives - and that is where many employers start having problems. Broadly speaking, business opposition to working with employee representatives has two strands:

Firstly, there is the ‘unitarist’ approach, in which the only valid objectives are those set by the company, and Human Resource Managers have the task of persuading or coercing employees into sharing (or at least accepting) them. Secondly, there is the obviously linked notion that employers can have all the advantages of partnership without bothering with representative structures such as unions or works councils. Whilst employers can often be persuaded that the direct involvement of individual workers will make the company more effective, many, remain unwilling to accept the case for indirect representative involvement.

On the other side of the debate there are (in Wales at least) very few people today claiming that individual participation is an insidious plot to sideline trade unions. Most trade union members would agree that direct individual participation can improve company performance. But involving employees as individuals can only take you so far. Building trust partly depends on sharing information, but support for decisions usually also demands an understanding of important business judgements.

These can be difficult to explain, and the information underlying these judgements can often be abstract, and complex. Understanding vital decisions often requires sophisticated knowledge and expertise - that, after all, is one reason why the people who make these decisions are highly valued within the business.

Sharing this information and the reasoning around it with each individual employee may simply not be appropriate. What is more, important decisions are usually hard to understand without access to commercially sensitive information, and senior managers can have reasonable concerns about letting everyone know their plans.

But these decisions are the most important ones for building a living partnership between workers and their employer. The obvious solution is to work with employees' representatives.

Unitarism leaves many workers with less influence than they want on issues that are important to them. A TUC-sponsored study of the attitudes of 1,300 employees *What Workers Want* looked at how much influence workers said they had on various workplace issues, and how much they wanted.

There wasn't much of a gap on those issues relating to how they did their jobs – the sorts of issues normally dealt with via direct consultation and participation. On these issues 59% said they wanted a lot of influence, and 54% said that that was what they got. The big gaps were in the traditional collective bargaining agenda:[v]

Deciding how much of a pay rise the people in your work group should get

	A Lot	Some	A Little
How much influence do you want	27.2%	39.9%	22.3%
How much influence do you have	4.3%	9.1%	11.3%

Deciding what kind of perks and bonuses are offered to employees

	A Lot	Some	A Little
How much influence do you want	24.2%	43.9%	20.8%
How much influence do you have	4.5%	12.6%	15.2%

In other words, nine workers in ten want some influence on pay, but only a quarter believe they have any. Eight workers in ten want at least a little influence on perks and bonuses, but only a third believe they have any.

Indeed, the best recent evidence we have suggests that, despite efforts of employers to make the unitarist approach work, British workers are becoming *less* committed to their employers, not more. The Economic and Social Research Council found that workers have reacted to the increasing insecurity of their jobs and media stories about 'fat cats', and concluded that their employers are less committed to *them,* and responded in turn by limiting their commitment to the company.[vi]

Given all this, attempts to force (or just assume) workers' identification with the company or employing organisation are unlikely to succeed, and nor are attempts to by-pass trade unions. Unions have a history that means workers are more likely to trust them to be independent. And the record of the alternatives suggests they are right.

Consider the aerospace company that set up a works council as a conscious union avoidance strategy – all but one of whose members lost their jobs in the next round of redundancies. As the researcher who visited the company in 1997 noted, "this sent a clear signal to employees that any criticism of organisational strategies, policies and practices could risk future potential job loss."[vii]

In non-union companies the staff will always be more likely to tell their managers what they think they want to hear, and to hide their real views. After all, without a trade union to protect you, the risks of poking your head over the parapet are going to be much higher.

And all this chimes with what workers themselves want. For a long time it has been clear that workers make a distinction between issues on which they want to be consulted as individuals and those where they want to be involved via representatives.

In the 1990s, a wide ranging study, covering the European Union and other developed countries commented on employees' "division of labour attitude," as they dealt with "concrete work task problems themselves, while preferring to delegate more general problems to institutions like works councils and unions."[viii]

This was confirmed by the TUC's *What Workers Want* survey. Respondents were asked how they would prefer to deal with a series of issues, individually or on a collective basis:[ix]

Deciding how much of a pay rise the people in your work group should get

	With colleagues	**On your own**
Negotiating working hours and conditions	69.8%	28.9%
Sexual or racial discrimination at work	69.6%	27.5%
Bullying at the workplace	67.9%	29.6%
Training and skill development	66.5%	31.8%
Negotiating salary	63.3%	34.3%
Promotion issues	44.3%	52.0%

Management - attitudes and competence

The high road will always be the road less travelled while managers believe that their staff cannot cope with greater consultation and participation in decision-making, and are only suited to command and control management. High road organisations invest in autonomy, not surveillance, and their managers do not respond to every change with a demand for harder work and longer hours. The high road demands a higher investment in training, and managers who under-utilise the skills their employees have now would be unlikely to make the most of a more highly-trained workforce, or to cope with the higher expectations they would have of their jobs.

The low road, by contrast, does not require managers to have any respect for their staff – indeed, it may be seen as a disadvantage. A study of firms in the pharmaceuticals and aerospace industries described managers failing to consult (or even inform) their staff about major work organisation changes, but still complaining that workers and their trade unions would not get involved.[x] The author of another case study remarked on how frequently the managers refused to accept the legitimacy of workers' responses to change, and on how "employees were often seen as the problem rather than as the means through which solutions to problems could be found."[xi]

One reason for the slow spread of good employment practices may simply be that introducing these changes is just too difficult for some managers. For one thing, they have to be implemented as a 'bundle' of mutually reinforcing practices – just introducing one or two of them will have much less effect.[xii] This is a particularly difficult task for managers. It means changing several very different systems, practices and policies at the same time. Any could go wrong, or the changes could interact in unpredicted ways. Even if everything goes according to plan, introducing the reforms is likely to cause short-term disruptions that will have to be managed on top of everything else.

Case studies from the 1999 Employer Skills Survey reveal the responses of organisations to pressures from their product markets, and the HR implications of these responses. Several of these responses involve adopting good working practices, and merely listing the HR implications indicates the skills required of managers – not all of them are new, but all increase the workload:[xiii]

Human Resource Implications of Responses to Product Market Pressures

Product market response	**Human Resource implications**
Changing work organisation	Developing new ways of working Identifying how skills to be deployed Identifying new skill needs Identifying training needs Recruiting additional staff as required Obtaining agreement to new ways of working
Continual improvement	Developing work culture where employees strive for continual improvement On-going development and training Developing reward structures for continual improvement
Becoming more customer facing	Developing appropriate attitudes in workforce for managing relationships with customers Identifying skill needs to manage customer relationships

All this suggests that we should expect the quality of an organisation's management to have a significant impact on the likelihood that the organisation will introduce work organisation reforms, and how successful the change will be. This prediction was confirmed by an important recent study of partnership arrangements in seven British companies which found that "the quality and vision of company management at all levels of the organisation, from the strategic level on down, contributed significantly to the effectiveness of partnership."[xiv]

The Employer Skills Survey also reveals a distinct difference between better and less well qualified managers, with the better-qualified seeking competitive advantages from the quality of their products and services, and the less-well-qualified emphasising productivity and cost savings.[xv]

There is reason to doubt whether British managers can all match the standards achieved by the counterparts in other countries. In 1997 (the most recent year we have statistics for) average output per head in foreign-owned manufacturing firms in this country was 60% higher than in British-owned firms. Even after taking into account factors such as the size of the firm, levels of capital or skilled labour, there is still a 10–15% differential that cannot be explained away.[xvi]

A recent study of productivity by the Engineering Employers' Federation found that foreign-owned firms are more likely to introduce workplace innovations than UK-owned firms. Of twelve types of initiative, US-owned firms were more likely to use every one, usually substantially more likely. The difference between UK-owned firms and EU-owned was less clear-cut, but EU-owned firms were overall more likely to innovate.[xvii]

The 1998 WERS survey included an employee questionnaire that revealed what workers thought of their managers' skills:[xviii]

- 24% thought their managers were poor at 'dealing with work problems',
- 30% thought their managers were poor at 'keeping everyone up to date about proposed changes',
- 34% thought their managers were poor at 'responding to suggestions from employees', and
- 38.5% thought their managers were poor at 'providing everyone with a chance to comment on proposals.'

This judgement is repeated by respected neutral observers, such as the Work Institute,[xix] and senior managers, as represented by the Council for Excellence in Management and Leadership.[xx]

For a long time unions have believed that one problem is that managers are under-trained and under-qualified. We recognise, however, that this picture has improved in recent years. Most managers in larger companies now receive at least some formal training, and the number of managers with higher qualifications is rising. The fact that the proportion of managers with degrees has risen from 23% in 1996 to 30% in 2001 is encouraging.[xxi]

Nonetheless, there is still a long way to go. In 1997 the average NVQ level achieved by managers and administrators was only slightly higher than the average for all occupations. And just 45% of managers and administrators report having received any training in the previous 12 months – a proportion that is only six percentage points higher than the average for the whole workforce.[xxii]

There is also a problem with the quality of management training and development. Indeed, the CEML specifically argues that the problem that concerns them most is not so much the supply of management qualifications as that "the supply is mixed in quality, often inflexible, may lack practical application, is light on leadership development, presents a confusing plethora of options to the consumer and is not sufficiently customised to meet the specific needs of the organisation or of the individual.

To some extent this reflects a demand problem, with CEML reporting that many organisations are "unclear and unfocused" about just what they want from management training and development. They are therefore unsatisfied with what they get, but unable to specify what they would like to see changed. As a result, more than a quarter of employers believe that the management training and development they pay for has "little or no impact on the organisation."

To summarise, some organisations may take the low road simply because their managers are too incompetent or inefficient to deliver anything more ambitious. This in turn reflects two underlying problems:

- Although there are some hopeful signs, there are still too many managers with little or no training and with low or no qualifications;
- There is a dysfunctional system in which the supply of management training and development is of too low quality, and the demand is too unfocused to call forth any improvements in that quality.

Product and business strategies

It is easy to explain why some businesses don't introduce good employment practices: they don't have to. In 1988 Finegold and Soskice wrote an influential article, suggesting that Britain was caught in a "low-skills equilibrium, in which the majority of enterprises staffed by poorly trained managers and workers produce low-quality goods and services."[xxiii]

Firms caught in this equilibrium would rarely have room to invest in work organisation or upskilling, and indeed such an investment might not be worthwhile for them. Firms producing low-quality goods usually have to compete on the basis of cost, and "Fordist" production remains ideally suited to them: minimally skilled workers, performing standardised tasks can produce cheap goods and services. If effectively managed, they can produce these goods and services on time, and achieve consistent standards – what has been described as reliable production to a low spec. What these workers and their employers cannot do is to produce goods and services to a high specification.

There is an obvious parallel between the concept of the low-skills equilibrium and the notion of the 'low road'. Yet there has been a tendency to discuss business and product strategies as if firms had a choice of either:

Low value added goods/services	or	High value added
Competition on the basis of price	or	'Premium' prices
Low spec, low complexity	or	High spec, complex
High volume	or	Low volume – more customised
Low skills	or	High skills
Low pay and conditions	or	High pay and conditions
'Fordist' production	or	High performance work practices

Of course, the notion that there is only one low-skills equilibrium has only to be set out this schematically for it to be apparent that reality is rather more complicated than this:

- Price competition can be fierce in ‘high spec’ markets;
- Firms engaged in mass customisation usually require sophisticated work organisation, but they aren’t low volume;
- Premium prices may reflect advertising, rather than complexity or scarcity, as with designer labels;
- Some products achieve a premium status by being more labour intensive, without necessarily requiring more skills; and
- Firms with a market segmentation business strategy may have a low value-added strategy for one product and high value-added for another.

The Wales TUC’s concern is not with whether or not a single low-skills equilibrium exists, so much as with the viability of business and product strategies in which good employment practices are less likely, and here the idea of a low-skills equilibrium continues to provide valuable insights. In particular, we should be concerned that, for a long time, British industry has been concentrated in low-skill and low-quality product markets.

A NEDO analysis of international trade in the 1970s found that the UK was over-represented in standardized price-sensitive products, but under-represented in skill and innovation-sensitive products.

In the 1980s and early 1990s NIESR comparisons of matched samples of British and Continental European firms in industries as disparate as kitchen furniture, clothing and biscuits found that British producers tended to adopt low quality, low complexity, low-price product strategies.[xxiv]

More recently, it has emerged that some German auto component manufacturers specialise in high value-added products which are no longer made in Britain. 3.4% of British car production (55,000 cars) is in the upper medium/luxury segment, compared with 17.1% in Germany (800,000 cars.)[xxv]

British firms have, up until now, had the option of business and product strategies that allow them to avoid introducing good working practices. But this room for manoeuvre is likely to shrink. Firms operating in internationally traded sectors are likely to face increasing competitive pressures. If they compete on the basis of price they have two options for survival: increased productivity (and the record so far does not bolster confidence) or competing on labour costs with workers in poor countries.

The strength of the union

It is difficult to calculate the relative strengths of the different determinants of business strategy. Corporate governance, who gets to decide what, is obviously part of the picture. And management competence is another – firms won’t opt for good employment practices if managers don’t believe they are capable of delivering them.

Another factor will be the relative strengths of firms' different stakeholders. If part of the problem is the lack of restraint on shareholders' appetite for immediate returns, then part of the solution is likely to involve enhancing other stakeholders' ability to articulate their interests and ensure they are taken into account in resolving conflicts of interest.

One of the weaknesses of the British model of corporate governance is the failure to give a significant voice to any stakeholders other than those who own shares. Workers, in particular, lose out - they share the risks that follow on from strategic business decisions, but do not usually share in the rewards, and their interests come a long way behind shareholders' when these decisions are being made.

In our system of ownership and governance strong unions are particularly important. Unions particularly stress the importance of keeping to agreements and try to make sure that employers do what they have promised. When short-term financial pressures or a new senior management team moves in, these characteristics mean that unions can be particularly important in restoring a longer timescale.

And the evidence is, that when it comes to implementing high performance work practices, unions have a very positive influence. A 1999 study of direct and indirect employee involvement in 25 European multinationals, for instance, concluded that relying only on direct participation, to the exclusion of unions led to less employee involvement (and poorer productivity). The authors were so struck by this, that they labelled it their "most important finding."[xxvi]

Not only is direct participation not an alternative to indirect, the evidence shows that direct participation is more effective where there is also a union voice. In the 1990s, the massive Employee Direct Participation and Organisational Change programme concluded that, "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 effects were positive."[xxvii]

In the United States, Black and Lynch analysed the large-scale Educational Quality of the Workforce National Employer Survey, and found that reforms to take advantage of employees' contributions had the greatest positive effect in unionised establishments: "In terms of the impact of employee voice on labor productivity, we find that unionized businesses have higher productivity."[xxviii]

Recent British survey results go even further. An analysis of data from the 2001 CIPD Training and Development Survey found that, where unions are involved in training policy there is a higher probability that the company will use a number of good employment practices: staff attitude surveys, workplace consultative committees, job rotation, mentoring, train-the-trainer programmes and quality circles.

Data from the 1998 British Social Attitudes Survey indicate not just that unions can help build partnership, but that strong unions are the key. Where unions were strong, effective and supported by management, trust in the firm's managers was "either higher than, or similar to, trust among employees in non-unionised workplaces. ….. However, where unions were weak, ineffective or faced management opposition, employees were less trusting of management than where there was no union present."[xxix]

What we want the National Assembly to do

The Wales TUC wants to see the National Assembly promoting an economic environment in which companies and other employing organisations in Wales are encouraged to take the high road of adopting good employment practices that will deliver measurable benefits to the employing organisation, to its employees and to the wider economy of Wales. The Wales TUC wants to see the National Assembly positively supporting workplace partnership as a significant factor in the achieving of *A Winning Wales.*

In particular the Wales TUC looks to the National Assembly and the Welsh Assembly Government to:

- Support the action plan as presented by the Welsh Assembly Government's Task and Finish Group on Workplace Partnership,

- Agree and implement a partnership agreement with Assembly staff and their trade unions with a commitment to becoming an exemplar employing organisation,

- Require all public sector bodies funded by the National Assembly to review and report on their employment practices with the view to them developing partnership agreements with their staff and their trade unions,

- Include good employment practices, as evidenced by workplace partnership, within the criteria to be considered when awarding public procurement contracts and require a similar approach by all public sector bodies funded by the National Assembly,

- Undertake a review, with ELWa, into the provision and quality of management training with the view to establishing a centre of excellence for management training in Wales.

Notes

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iii Ashton and Sung, 2002, 17 – 19, *Supporting Workplace Learning for High Performance Working*, *ILO*
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vii Thompson, 1999, 66, *People Management in UK Aerospace: Case Studies*
viii Frohlich and Pekruhl, 1996, 150, *Direct Participation and Organisational Change*
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xvi Pain, 2001, 153-4,l *"Inward Investment", New Economy*, *IPPR*
xvii EEF, 2001, 42, *Catching Up With Uncle Sam*
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xix Which reports *"that change management demands high levels of skill which many managers do not possess." (Sharpe, 2002, 9)*
xx CEML's 2002, 4, *Managers and Leaders: raising our game*
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xxviii Black and Lynch, 1999, 19.
xxix Bryson, 2001, 102. *"The Foundation of 'Partnership'? Union Effects on Employee Trust in Management", National Institute Economic Review, No 176*