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## Why employment relations matter

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# **Why Employment Relations Matter**

**Keith Sisson**

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## **Why Employment Relations Matter**

### **Editor's foreword**

The Warwick Papers in Industrial Relations series publishes the work of members of the Industrial Relations Research Unit (IRRU) and people associated with it. Papers may be of topical interest or require presentation outside of the normal conventions of a journal article. A formal editorial process ensures that standards of quality and objectivity are maintained.

Keith Sisson is Emeritus Professor of Industrial Relations at the University of Warwick and was formerly Director of the Industrial Relations Research Unit. He has written and published widely on the role of management in industrial relations and on the development of employment regulation in Europe.

This is the third of a series of substantial contributions to the Warwick Papers, developed under the project heading *Employment Relations Matters*. The central objective furthered by this paper is to identify the centrality of employment and the employment relationship to broader dimensions of public policy. In this ambitious and wide-ranging discussion, Sisson traces links between developments in the workplace and those affecting health, social cohesion, and economic prosperity. It challenges narrow conceptions of employment relations used previously by academics and practitioners and finishes with focused recommendations for policy makers.

Trevor Colling

## Introduction

This paper has its origins in an on-going project labeled *Employment Relations Matters*. The title captures the double intention: to demonstrate the ways in which employment relations *matters* and to bring people up to date with *the matters* that the subject deals with. It is one of three in IRRU's *Warwick Papers in Industrial Relations* series covering the project's main themes. The two already published deal respectively with the nature of the employment relationship and the significance of institutions in its conduct. The present paper is concerned with the project's first intention, focusing on why employment relations matter in practice<sup>1</sup>.

It is a topic that has received nothing like the attention it deserves. Arguably, the main reason is that for much of the last century employment relations (or industrial relations, to use the then more commonly used term), came to be associated more or less exclusively with the incidence of organised conflict. Perhaps not surprisingly, a reduction in the number of strikes, along with decline in trade union membership and collective bargaining coverage, has led to the view that employment relations (practice and study) no longer matter.

The prevailing ideology of neo-liberalism in the USA and UK has fueled this sentiment. It puts the emphasis on ensuring that 'markets' work efficiently, which means prioritising the quantity over the quality of employment. Such perspectives tend to view the firm as a 'nexus of contracts,' providing little recognition that ownership matters<sup>2</sup>; that the employment contract is a managerial as well as market relationship; that the managerial relationship involves a complex of co-ordination and control structures, employment policies and practices, and employment rights established by law and collective bargaining; and that the quality of employment depends not just on its rewards<sup>3</sup>, but also the demands that it makes physically, emotionally and temporally, and the conditions under which it takes place – all of which reflect the governance regime aka 'employment relations'.

Within the EU, there is a more lively policy debate about such issues. EU social and employment development is at the crossroads between 'activation' and 'capability' routes, reflected in debates about which of the two Treaty 'titles' is to be accorded priority (Salais and Villeneuve 2005): *Title VII* dealing with 'Employment' or *Title XI*

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<sup>1</sup> An outline of the paper was presented to an Industrial Relations Unit seminar in November 2008. I'm very grateful for the many helpful comments and suggestions received there. I am especially grateful to the editor and colleagues who refereed and commented on a first draft of the written version of the paper and to Paul Marginson whose suggestions also greatly helped to improve it.

<sup>2</sup> For Alchian and Demsetz (1972), the organisation is merely 'the centralised contractual agent in a team productive process – not some superior authoritarian directive or disciplinary process'.

<sup>3</sup> In a precursor to the 2009 White Paper, *New opportunities Fair chances for the future*, the Cabinet Office Strategy Unit (2008a) sees job quality as one of the two main ways of improving social mobility, the other being enhancing people's capabilities. It follows the social mobility literature in equating better job quality with more clerical and professional jobs, arguing that the main drivers are 'long-term economic trends' like continuing technological change, a shift to a low carbon economy, growth of emerging economies such as China and demand for higher level and more personalised services.

on 'Social policy, education, vocational training and youth'. The first approach (arguably, another term for 'neo-liberal') is about 'activating' people into jobs, the main instrument being welfare regulation reform. By contrast, the 'capability' approach seeks to improve living and working conditions, along with social protection, both as an end and a means to an end: what matters is what a person can do and be, given the appropriate resources. Similarly, a firm's competitiveness resides not in cost minimisation, but in its capacity to innovate, learn from and cooperate with others. Consequently, rather than deregulating labour markets, government intervention should be designed to improve capabilities - of firms, sectors and territories as well as individual citizens. Herein is the basis for endogenous development that emphasises specialisation in products and services reflecting Europe's specific advantages<sup>4</sup>.

There is certainly much stronger support for the proposition that employment relations matter. In 2001, the European Commission drew up list of indicators of 'job quality' and later communications refer to 'industrial relations quality' as do the Commission's subsequent annual *Industrial Relations in Europe* reports (European Commission 2001a and b)<sup>5</sup>. A number of reports have subsequently sought to develop and extend the characteristics of 'high quality' industrial relations including that of the 2002 *High Level group on Industrial Relations and Change in the European Union*. The European Foundation for the Improvement of Living and Working Conditions (2002; 2004) has been especially active, suggesting the coverage be extended to include the 'capacity' of unions and employers' associations to represent their constituencies and negotiate binding agreements (organisational densities; coverage of agreement; organisational concentration; authority; and centralisation) and those that measure the degree of coordination between them (bargaining coordination; engagement in social pact). These features figure prominently in the European Commission's (2009) latest report on *Industrial Relations in Europe 2008*, which also raises the issue of employment relations 'outcomes'.

Moving beyond the policy arena, there has been no shortage of contributions linking employment relations to significant economic and social outcomes<sup>6</sup>. Many of these contributions come from outside the employment relations community, however, and reflect interest in very specific issues or disciplinary concerns. Perhaps the most obvious example is that of epidemiology and the links between employment relations and occupational health. The problem is that this disciplinary fragmentation makes it

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<sup>4</sup> In the UK, the 'capability' approach is perhaps better known as the 'resource-based view'. As against nexus of contracts thinking, this sees the business as a social organization, which is both a major source and consumer of human and social capital. In the words of one summary of the resource-based view, work organisations are to be seen as 'capability structures' (Morgan, 2005: 5) that create 'distinctive capabilities through establishing routines that co-ordinate complementary activities and skills for particular strategic purposes' (ibid 1). For further details of the contrast between 'nexus of contracts' thinking and the 'resource-based view', see Sisson and Purcell (2009); see also Parkinson (2003).

<sup>5</sup> The ILO's 2004 report, *Economic security for a better world*, covers similar ground. Drawing on a review of data from over 100 countries, it involves a series of indexes covering different forms of such security: income, representation, job opportunity, protection against unfair or arbitrary dismissal, health and safety, and access to basic education as well as vocational training. While all seven are important, the ILO emphasises, the first two (income and representation) are essential for basic security.

<sup>6</sup> Notable recent examples in the UK include Coats (2004; 2005a; 2005b) and his colleagues at the Work Foundation. See also Amicus' *Agenda for Better Jobs* (2006).

virtually impossible to appreciate the full impact that employment relations have. In trying to address the complex issues, there is a need to enter three caveats. First, given the wide scope of the subject matter, the paper is very much an exercise in exploration - there can be no claims to be comprehensive or definitive. The main objective is to stimulate discussion and debate in the hope that the impact of employment relations will receive much greater attention in future. Second, it is very difficult to unravel cause and effect in many of these policy areas. For example, it can be argued that the type of work organisation helps to account for the absolute levels of pay. At the same, however, decisions about work organisation are also influenced by these levels. Finally, very little is said about employment relations' relative impact. Clearly, employment relations are not the only explanatory variable in the case of health or social capital development. The problem in these and other cases is that.

'Data are missing for comparing systematically, and quantitatively, the contribution of industrial relations, exploring differences across Member States and regimes, sectors, instruments and issue areas ... This is above all true of data that would make possible a multivariate approach'. (European Commission 2009: 70)

Whether it will ever be possible to achieve the levels of econometric proof that some demand remains to be seen: the science in the area is in its infancy. Arguably, too, econometric evidence cannot be the whole story, prioritising as it tends to macro-level quantitative data at the expense of qualitative comparisons - there is already an on-going debate about the sufficiency of 'big science' and multivariate analysis in the case of the impact of high performance working (Wall and Wood, 2005; Edwards, 2006a; Hesketh and Fleetwood, 2006). Perhaps the last words should be left to the European Commission (2009: 70): 'if used with wisdom, the comparison of achievements and successes, or failures, across countries or regimes remains a useful learning device both for academics and practitioners, from which inspiration can be drawn'.

In this spirit, Part 1 brings together the evidence establishing the links between employment relations and a range of social and economic outcomes and to identify the mechanisms involved. It focuses on the main levels of activity – from individuals through the family and workplace to the macro level – drawing on a wide range of international as well as UK sources. Part 2 compares and contrasts the impact of employment relations in the UK and a selection of other countries (Germany, France, the Netherlands, Sweden and the USA), largely drawing on social and economic indicator data from the main international agencies. The paper concludes with a discussion of the implications.

## **Part I: Making the connections**

Seven main areas have been identified from the literature where employment relations can be shown to have a major impact. Sections 1, 2 and 3 focus on the areas where the impact on the individual is most pronounced, i.e. living standards, health and personal development, albeit there are also significant implications for society as a whole<sup>7</sup>. Section 4 considers the family, where the balance shifts slightly in the direction of society, and section 5 business performance. Sections 6 and 7 go on to look at social capital and macroeconomic performance respectively

### **Living standards**

There are several possible measures of living standards, including gross domestic product (GDP) that features in Part 2; some embrace both material and non-material considerations such as longevity. The focus here is on what, arguably, is the most meaningful material measure so far as individuals are concerned, namely income from employment: for most of us such income is the only source there is.

Two dimensions have to be considered. The first is the absolute level. If income from employment is absolutely low, the result is likely to be poverty, with implications not just for individuals and their families but also national social security systems: governments come under pressure to subsidise employers in order to cover what might be described as the 'social costs' of labour<sup>8</sup>. Not surprisingly, the avoidance of poverty figures prominently in the justification for minimum wages legislation now present in around 90 per cent of countries (ILO, 2006).

The second dimension is the relative level of income, which brings in the issue of inequality. Even people who are absolutely well paid may nonetheless experience a sense of deprivation if they find that others are earning more for what they think is no good reason; the same is true if they think the size of the difference is unjustified. This is because fairness plays a key role in shaping expectations and fairness depends on comparisons (Brown and Sisson, 1975).

Poverty and inequality are analytically distinct, but closely related in practice. As well as significantly affecting life expectancy (see next section), poverty also results in lower social mobility – the lower the social mobility, the greater the prospect of areas of high deprivation growing up from which it is difficult to escape: 'persistent poverty isolates and excludes'(TUC, 2008: 21). This is because

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As Coats (2004) suggests, there is a fair measure of consensus about what employment means for individual employees in general terms. To take examples published more than 60 years apart, Layard's (2005) 'big seven factors affecting happiness' are very similar to Maslow's (1943) 'hierarchy of needs'. Both emphasise the importance of income from employment in satisfying the basic necessities of life; both highlight the relationship between employment and health; and both stress the role of employment in satisfying the need for respect and meaning, self-esteem and 'self-actualisation'.

<sup>8</sup> As Kaufmann (2009, 312-8) reminds us, it was the Webbs (1897) who developed the so-called 'social cost' justification for minimum wage legislation more than a century ago. The starting point is that human capital, like physical capital requires some 'minimum on going expenditure for upkeep, repair and depreciation if the input is to be maintained for current production and replaced for future production'. Unlike physical capital, however, human capital is not something that employers 'own' and so there is little incentive for them to take on this responsibility. If pay falls below its social costs, therefore, it is society that has to pick up the bill, resulting in 'misallocation of resources and economic inefficiency'.

'The main form of ... mental illness, anxiety disorders, the main forms of inequality - income, gender, and regional - seldom exist in isolation. Rather they create 'mutually reinforcing structures of disadvantage that follow people through life cycles and are transmitted across generations'(UN 2005: 58)

The UN's (2005: 54) central message is that distribution should be put 'at the centre of strategies for human development':

'People are likely to be restricted in what they can do with their freedom and their rights if they are poor, ill, denied an education or lack the capacity to influence what happens to them. To be meaningful, formal equalities have to be backed by what Amartya Sen [1999] has called the 'substantive freedoms' - the capabilities - to choose a way of life and do the things that one values. Deep inequalities in life chances limit these substantive freedoms, rendering hollow the idea of equality before the law.'

There are especially strong links between inequality and mental health, above all in the form of anxiety disorders reflecting concerns about both the financial and status implications of relative deprivation. Here the work of the WHO's World Mental Health Survey Consortium dealing with Belgium, France, Germany, Italy, Japan, the Netherlands, New Zealand, Spain and the USA is especially relevant (Demyttenaere, et al., 2004). Wilkinson and Pickett (2009: 67, Figure 5.1) have brought these results together with those of national studies in Australia, Canada and the UK to show that the more unequal a country's income distribution, the greater the tendency to mental illness.

Inequality matters not just because of the implications for individual well-being, however, but also society at large. To paraphrase the *UN Human Development Report* (2005: Chapter Two) it fuels people's sense of social injustice and corrodes trust and political legitimacy. It is also inefficient. Society as a whole suffers where inequalities based on wealth, gender or region leave a large section of the population with insufficient assets and endowments to make a full contribution. Finally, inequality impedes growth. This effect is especially strong for asset inequality. Limited access to productive assets and/or limited capacity to enforce legal claims can restrict poor people's ability to borrow and invest, holding back growth. By contrast, greater distributional equity can accelerate growth with no inherent trade-offs between growth and equity<sup>9</sup>.

In the UK, two definitions of absolutely low pay might be offered<sup>10</sup>. One is the level of

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<sup>9</sup> The UN's *Human Development Report* (2005: 25) suggests that 'Improved distribution can enhance development through two pathways: one static and the other dynamic. At any given growth rate the larger the share of any increment in economic wealth that is captured by the poor, the higher the ratio of poverty reduction to growth—referred to as the poverty elasticity of growth. This is a static effect. Dynamic effects emerge when changes in distribution affect the growth rate. Extreme inequality can act as a brake on growth'.

<sup>10</sup> Arguably, both these figures err on the low side as measures of low pay and the relationship with poverty. In 2008, the Joseph Rowntree Foundation sponsored research to establish the level of income people think is needed in the UK to afford a socially acceptable standard of living and participate in society (a 'minimum income standard') This suggested that a single working age adult would require £258 per week before tax or £6.88 per hour for a working week of 37.5 hours. A couple +2 children with



the adult national minimum wage, which stood at £5.73 per hour in early 2009. The other, which the Commission on Vulnerable Employment uses, is two-thirds of the median (£6.67 per hour in 2008). On both counts, a picture of the UK emerges characterised by substantial levels of both low pay and inequality. There has been a significant growth in the proportion of low paid workers in the UK (TUC, 2008: 20). In 1977, 12 per cent of workers earned less than two-thirds of the median; by 1998, this had risen to 21 per cent. By April 2006, more than one-fifth (23 per cent) of all UK workers – 5.3 million – were paid less than this amount (£6.67 an hour), of whom 60 per cent were women. In some regions, the proportion of low-paid was well over 25 per cent, while in some constituencies (in Wales, Birmingham, the West Midlands, even the rural West Country) it was comfortably over 40 per cent (Bunting, 2008)<sup>11</sup>.

It also emerges that government policy designed to reduce 'worklessness' has done very little to lift families out of poverty. As the Commission on Vulnerable Employment (TUC, 2008: 20) reports, there has been a considerable increase in 'in-work poverty', i.e. being in low-paid work and living in a household on a low income:

‘Over the last decade, the proportion of households in poverty in which at least one adult is in paid work has significantly increased: almost six in ten households in which adults are living in poverty (57 per cent) are households where one or more adults are in paid employment, up from under a half ten years ago. Over one in seven households in which one or more adults are in paid work is now counted as ‘poor’.’

At the other end of the scale, Brewer (2008) and his colleagues estimate on the basis of SPI data for 2004-05 that nearly five million people earned over £35,000 a year; 4.2 million earned between £35,000 and £100,000; 422,000 between £100,000 and £350,000; and 47,000 earned more than £350,000. The details will be found in Table 1.

A widely used single figure measure of income inequality is the Gini coefficient<sup>12</sup>. As Brewer (2008: 3) and his colleagues report, on the basis of this, inequality rose dramatically over the 1980s, the coefficient rising from a value of around 0.25 in 1979 and reaching a peak in the early 1990s of around 0.34: 'the scale of this rise in inequality has been shown ... to be unparalleled both historically and compared with the changes taking place at the same time in most other developed countries' (ibid)<sup>13</sup>. These trends

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a single earner would require £439 per week or £13.76 per hour.

<sup>11</sup> The Commission on Vulnerable Workers (TUC, 2008: 16) reckoned that nearly two-thirds (60 per cent) of low-paid workers were women, and over two-fifths of low-paid workers in total are women working part time. Disabled people were also at greater risk of being in low-paid work, being 10 per cent more likely than the able bodied to be in low-paid jobs. Ethnicity and age were also important: Bangladeshi, Pakistani and black African were the ethnic groups most likely to be low paid, as were young people.

<sup>12</sup> To paraphrase Brewer et al. (2008), the Gini coefficient condenses the entire income distribution into a single number between zero and one: the higher the number, the greater the degree of income inequality. A value of zero corresponds to complete equality, so that having adjusted for household size and composition, all individuals have the same household income. In contrast, a value of one corresponds to an economy where a single individual has all the income and the rest have nothing.

<sup>13</sup> See Table 5 in Part 2

may go some way to explaining why, between 1998 and 2004, low earners became much more dissatisfied with their pay (in contrast to higher earners, whose satisfaction levels showed strong increases).

**Table 1 Basic facts on the incomes and taxes of ‘high-income’ individuals in 2004–05**

	<i>All taxpayers</i>	<i>Top 10–1 per cent of adults</i>	<i>Top 1–0.1 per cent of adults</i>	<i>Top 0.1 per cent of adults</i>
<i>Number of adults</i>	29,500,000	4,215,483	421,702	46,854
<i>Before-tax annual income</i>				
Minimum value	£5,093	£35,345	£99,727	£351,137
Average value	£24,769	£49,960	£155,832	£780,043
Average relative to all taxpayers	1.0	2.0	6.3	31.5
<i>Net taxes paid</i>				
Higher-rate taxpayers	11.0 per cent	6.6 per cent	99.6 per cent	99.2 per cent
Average net income tax paid	£4,415	£10,550	£49,477	£274,482
Average net income tax rate <sup>a</sup>	17.8 per cent	21.1 per cent	31.8 per cent	35.2 per cent
Deductions permitted from pre-tax income, e.g. pension contributions <sup>b</sup>	2.3 per cent	4.0 per cent	5.2 per cent	6.3 per cent

aThis is measured as average tax paid for each group divided by average total income for each group.  
bThis represents the average proportion of before-tax income that is deducted from before-tax income in order to arrive at taxable income (excluding personal allowances).  
Notes: All data are presented at the adult level and for Great Britain only. There were 46.8 million adults in Great Britain in 2004–05, and the numbers of adults in the richest bands have been calculated assuming that adults not represented in the SPI have incomes below the income tax personal allowance.

Source: Brewer et al. (2008) authors' calculations based on SPI 2004–05.

A particular feature of this inequality is the gender pay gap. Whilst noting many advances in opportunities for women, the *Women in Work Commission* (2006, Executive Summary) goes on to note,

‘Women who work full time earn 13 per cent less than men who work full time, based on median hourly earnings, and 17 per cent less based on mean hourly earnings<sup>14</sup>. These lower earnings leave women at greater risk of falling below the poverty line and of being worse off than men in retirement. Women face an unfair disadvantage and the UK economy is losing productivity and output’<sup>15</sup>.

<sup>14</sup> The gender pay gap refers to the differences between men and women's gross hourly earnings, women's pay being expressed as a percentage of men's pay, and the gap being the difference between this and 100 percent. It can relate to median or mean earnings. The ONS prefers the former because it is less influenced by the extreme values of pay distribution. As the TUC (2008: 13) points out, however, 'The difficulty with this approach is that part of the story about pay inequality is that women are over-represented at one extreme of the distribution and men are overrepresented at the other extreme; this means that gaps calculated using the median under-state the size of the problem'.

<sup>15</sup> A recent study, using data from the British Household Panel Survey, reported the following make-up of the gender pay gap:

- 36 per cent reflected gender differences in lifetime working patterns, including the fact that women, on average, spend more of their careers than men in part-time jobs and have more career interruptions for childcare and other family responsibilities.

A country's pay structure is conditioned by business strategies and the institutional contexts within which these strategies are developed. Although some object to the description of the UK as an 'hour glass economy' (Fitzner, 2006), employment structure is nonetheless skewed towards services, which have large numbers of both high- and low-paying employees – finance is an example of the former and hotels and restaurants the latter. For many (e.g., European Foundation, 2008a), the UK is a hybrid case of 'polarisation' and 'upgrading' – in recent years it has experienced moderate but clear job growth in the second lowest earnings quintile, little growth or net job destruction in the lowest and middle quintiles and strong growth in the top two quintiles. The report goes to suggest that this pattern is related to the destruction of manufacturing jobs (especially in low-technology industries) and the creation of middle-paying to low-paid jobs in personal and social services (many of which have been filled by women working part-time).

A second factor affecting pay structure is productivity. Important here is the business strategy that companies pursue. If a country has a concentration of businesses in sectors with low R&D, as is the case for the UK, pay levels are likely to be low. The same is true if companies compete on the basis of costs rather than quality and numerical rather than functional flexibility: the result is low levels of skill, of productivity and, most immediately relevant, of pay (Delbridge et al., 2006)<sup>16</sup>.

Underpinning these features of business strategy are two institutional considerations, the significance of which will be discussed in more detail in later sections. One is the extent to which *corporate governance* arrangements encourage a focus on short-term profitability as opposed to long-term market share or added value – the former makes it difficult to prioritise quality and build the relationships necessary for its achievement. The other is the *structure of collective bargaining*. Critical here is the level at which collective bargaining takes place and so the coverage. Collective bargaining that is multi-employer and sector wide has two advantages over its single employer equivalent when it comes to low pay: trade unions are better able to confront the monopsonist power of employers, especially where there are legal provisions for extending terms and conditions across a sector; and there is a greater pressure on all firms in the sector to adopt more efficient working arrangements to offset the increases in their employment costs.

## Health

It is widely accepted that employment is good for both physical and mental health. In

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- 18 per cent was caused by labour market rigidities, including gender segregation and the fact that women are more likely work for small firms and non-unionised firms.
  - 38 per cent was caused by direct discrimination and women and men's different career preferences and motives (some of which were also the result of discrimination).
  - 8 per cent was the result of the fact that older women had poorer educational attainment (TUC, 2007).

<sup>16</sup> Even in services, where customer relations might be thought to be critical, companies very often pursue a 'segmentation' strategy: more costly approaches based on relationship management are reserved for customers with high value accounts, whereas more cost-driven approaches involving call-centres and greater input from customers are applied to low value mass market activities (Batt, 2007).

the words of a recent authoritative review of the health of Britain's working population (Black, 2008: 21),

‘There is ... compelling evidence that work has an inherently beneficial impact on an individual’s state of health ... In particular, the recent review *‘Is work good for your health and well-being?’* [Waddell and Burton, 2006] concluded that work was generally good for both physical and mental health and well-being ... Overall, the beneficial effects of work were shown to outweigh the risks and to be much greater than the harmful effects of long term worklessness or prolonged sickness absence.’

In terms of the risks, a distinction can be drawn between 'occupational health' and 'occupationally-related health'. The first focuses on injuries and illnesses that take place in the workplace and/or are directly caused by employment. The second is concerned with 'illnesses and mortality that are influenced by conditions in the workplace but may take place outside of the work environment' (Brenner, 2005: 2).

#### *Occupational health: accidents, injuries and diseases*

It has long been accepted that the physical work environment in which employment takes place is a direct cause of injuries and illnesses. Health and safety legislation at national and EU levels is the most obvious expression. Historically, the emphasis was on injuries arising from accidents, musculoskeletal disorders reflecting the organization of work and/or inadequate equipment, and illnesses, such as cancer, dermatitis and asthma, associated with the use of chemicals and other harmful substances.

In recent years, there has been growing concern with the emotional work environment and the links with stress and mental health (Black, 2008).

‘No story of the rise in mental ill-health is complete without recognition of the increasingly grad-grind character of many British workplaces and the accompanying weakness of management when dealing with long-term sickness and mental ill-health (Hutton, 2005)<sup>17</sup>.’

Harder manifestations of the ‘flexible’ labour market are often implicated in such accounts. Some highlight the greater pressure on performance involving the adoption of stretching targets, along with rigorous appraisal of performance and greater surveillance. Caulkin (2008) suggests that ‘today’s employment anxieties are not about being out of work: they’re about the job itself being more demanding, and the rewards more unequal’. Others emphasise the greater insecurity arising from the 'permanent restructuring' to which the process of 'financialisation' discussed later gives rise (Froud et al., 2000). Redundancy programmes, historically associated with economic downturns, have become an accepted or normal way in which firms handle restructuring (McGovern et al., 2007: 134). Yet another source of insecurity is seen in developments such as 'competitive tendering', 'market testing' and the subcontracting or outsourcing

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<sup>17</sup> James (2008a and b) goes even further. He talks in terms of a modern day virus sweeping the English-speaking world. In the UK, he suggests the era of Thatcher and Blair gave rise to 'selfish capitalism' with not only a significant growth of inequality, but also anxiety, depression and addiction to consumerism.

According to Layard (2004), as many as 16 per cent of adults of working age have a mental illness - and of those up to half are seriously ill. The number of people on incapacity benefit because of mental illness now exceeds the number of people receiving Job Seekers Allowance. The combined cost of lost output, benefit payments, spending on carers and other public services is £22 billion or some 2 per cent of GDP.

of activities previously undertaken in-house, often involving 'off-shoring' to other lower labour cost countries. The result, it is argued, is not just more or less continuous change in working arrangements and expectations about effort levels, but also greater 'fragmentation' of employment, with the employer who pays becoming different from the one who directs (Marchington et al., 2004).

Overall, the basis of the psychological contract in employment is said to be moving from the relational to the transactional, with the emphasis on 'employability' and 'portfolio careers'. More fundamentally, people's sense of certainty about their place in the world is being undermined, threatening their individual resilience particularly in key parts of the labour market (Coats, 2004). Aggregate job tenure has remained relatively stable but men over the age of 50 and those in the bottom income quartile have experienced lower and declining employment security relative to those in the top income quartile (TUC 2008: 44-8).

The major source of evidence on 'occupational health' in the UK is the Health and Safety Executive, to which employers are required to report major injuries and long term absence (more than 3 days), along with certain work-related diseases. As Part 2 will show, the UK has a relatively good record on these indicators. Even so, the impact of employment is considerable, during 2007/8 229 workers were killed at work; 136,771 other injuries to employees were directly reported; 299,000 reportable injuries occurred; 2.1 million people were suffering from an illness they believed was caused or made worse by their current or past work and 34 million days were lost overall (1.4 days per worker), 28 million due to work-related ill health and 6 million due to workplace injury (see, [www.hse.gov.uk/statistics](http://www.hse.gov.uk/statistics)).

#### *Occupationally-related health: stress and mortality*

Stress figures especially prominently in discussions of 'occupationally-related health', proposing a direct link between the managerial hierarchies involved in managing the employment relationship and mortality rates. The basic proposition, highlighting the potential long-term implications of employment, is that working in hierarchical organisations leads to stress, which in turn can lead in later life to the heart disease, stroke and diabetes that together represent 50-75 percent of all mortality (Brenner, 2005: 3). This is because of the instinctive biological mechanisms involved. To paraphrase Marmot (2004: Chapter 5), stress increases the levels of the hormone cortisol; the higher the levels of cortisol, the greater risk of 'metabolic syndrome', which can have a direct impact on the risk of a person developing such diseases. Stress also affects the sympathetic nervous system that is responsible for the adrenaline rush caused in situations where the individual is faced with the option between a 'fight' or 'flight' response. This effect, which causes inflammation, is also related to metabolic syndrome.

The main strand of the argument focuses on the positions of jobs in the organizational hierarchy and reflects the impact of the 'social gradient', i.e. where the individual stands in the hierarchy. Much of the work stems from the development by Karasek (1979) and Karasek and Theorell (1990) on what has come to be known as the 'demand-control model'. Basically, Karasek defines stress on the job according to the demands of the task (how fast-paced and chaotic the workplace is) and the amount of control a worker has in deciding how to meet them. This produces four categories:

- low-demand, low-control
- low-demand, high-control
- high demand, high control
- high demand, little control

A popular perception is that stress is associated with those who are subject to especially high demand jobs such as senior managers. Yet employees in demanding jobs may not experience stress, if demand is predictable and, above all, within their control. This is especially so if their status brings more support and more outlets. By contrast, it is the workers in Karasek's fourth category, most of whom are relatively low status, who are held to be at most risk. Stress may translate into poorer health because of the lack of control and fewer opportunities for full social engagement or participation. In Brenner's (2005: 5) words,

‘the fundamental theoretical assumption ... is that lack of autonomy and control originates with the degree of hierarchy in the firm which represents its administrative structure. The more extensive the hierarchy, the lower the control and autonomy that employees can exercise vis-à-vis management’.

The second strand has its origins in the work of thinkers such as Durkheim and Simmel on the relationship between psychological status and the degree of social integration. In particular, it focuses on the availability of support to individuals and makes links with issues of social capital discussed later. The argument is that, controlling for the influence of economic growth, the availability of 'social support' helps to diminish the harshness of the effects of lack of autonomy and control in leading to stress or illness. In practice, the focus has been on the most fundamental difference observable at the international level, namely that between those employed in complex organizations with social hierarchies and those involved in self-employed and family-owned businesses.

Pretty robust data are available for both strands of the argument. Karasek's original findings having been replicated over the last 20 years in many countries. Brenner (2005; 2006a and b), who provides a valuable overview of the literature, puts it like this: the idea that it is the extensiveness of the hierarchical system of socioeconomic status in society that heavily influences national mortality rates is now ‘a central finding in occupational epidemiology .... The fundamental evidence used to support this position is the best established and largest literature in epidemiology’ (Brenner, 2005: 5).

Perhaps the best known work in the UK is associated derives from the so-called 'Whitehall studies,' which tracked the health of British civil servants from 1967 onwards. In 'Whitehall 1', the focus was on men and embraced 18,000 civil servants across the range of job grades; in 'Whitehall 11', which involved just over 10,000 civil servants, women were covered as well as men. Looking at mortality rates, Whitehall 1 established that there was a 'social gradient' that ran from bottom to top of the organisation.

‘Men in the lowest grade (others = messengers, doorkeepers, etc.) had a three-fold higher mortality rate than men in the highest grade (administrators) ... Grade is also associated with other specific causes of death, whether or not the causes were related to smoking ... While low status was associated with obesity, smoking, less

leisure time physical activity, more baseline illness, higher blood pressure, and shorter height (78), controlling for all of these risk factors accounted for no more than 40 per cent of the grade difference in CHD mortality ... After controlling for standard risk factors, the lowest grade still had a relative risk of 2.1 for CHD mortality compared to the highest grade ... ‘  
(<http://www.workhealth.org/projects/pwhitew.html>)

'Whitehall 11' explored the subjective perceptions of the experience of low control and the external rating of managers. The correlation between the two turned out to be 'surprisingly low' (Marmot, 2004: 128) yet people in jobs characterised by low control had higher rates of sickness absence, of mental illness, of heart disease and pain in the lower back. In the words of the joint Civil Service Unions/Cabinet Office publication (PSU, 2004: 8),

‘Whitehall II showed that the association between low control and increased risk of heart disease was independent of a range of personal characteristics of individuals. The implication was that the relationship related to the way work was organised and the opportunity it gives people for control rather than to any characteristics of the individuals in those jobs ... Low control at work makes an important contribution to the social gradient in mental and physical ill health.’

As for the availability of support to individuals, Brenner (2006a and b) confirms that the more frequent and intense one's social relationships, the more protective an effect there is on illness and mortality. Controlling for GDP per capita in purchasing power parity, he finds that 'the extent to which a nation's formal workforce consists of employees operating outside of standard wage and salary employment (i.e., outside of hierarchical work organisations) is associated with lower age-adjusted mortality (including cardiovascular and accident related mortality)' (Brenner, 2006a: 7). He suggests on the same page that the 'data are also consistent in demonstrating that the extent to which a nation's formal workforce consists of self-employed, and/or are family workers, is inversely related to age-adjusted mortality rates'.

### **Personal development**

In the UK, improving the performance of schools and increasing access to higher education have been major policy issues. The relatively low level of educational achievement and skills of the workforce have been identified time and time again as major contributory factors in poor productivity and adaptability to change (see, for example, Keep, 1994). Yet, as the OECD (2001: 18) has been at pains to emphasise, the development of human capital does not just involve schools or institutions of higher education: 'learning and the acquisition of skills and knowledge takes place from birth to death'. If the family is of overriding importance in our early years, it is employment that is important for most of our lives. In a phrase, the firm is a *learning organization* for better or worse. Although, by definition, much experience may be specific, it almost invariably brings significant general elements. Moreover, the learning involved is not just a matter of technical skills, but also social ones such as perseverance and self-discipline, communications, and the capacity to make judgments, along with critical inter-personal skills such as the ability to work in teams and exercise leadership. Again, there are profound implications for individuals, organizations and society.

### *Continuing vocational training*

There are three main ways in which employment is held to contribute to personal development. The first, continuing vocational training (CVT), may be specific or general and may or may not involve public recognized credentials and diplomas. It may take place on or off the premises, but is invariably structured. Individuals and/or the state may bear some of the costs. In the main, however, it is employers who bear the main burden, which can be seen as an explicit form of investment in human capital.

Fuente and Ciccone (2003) give us an overview of the literature on the impact of CVT. Individual workers receiving on-the-job training, they suggest, have 'consistently been found to earn higher wages'. One UK study that they particularly refers to is that of Blundell and his colleagues (1999): individuals undertaking CVT were found to earn on average 5 percent more than individuals who had not.

As for the incidence of CVT, there are three main sources. One is *Eurobarometer*. Gallie (2005: 359), drawing on data for 1996 and 2001, finds that dominant trend was towards upskilling in the 1990s, but no evidence that the pace of change increased in the second half of the period. Even so, over half of employees in both years (59.0 per cent and 54.9 per cent) said they had received no training. A further 14.7 per cent and 17.1 per cent said training was less than one week.

A second source is the International Adult Literacy Survey (IALS) covering OECD countries. Here Bassanini and OK (2004) provide us with an overview of the most recent data<sup>18</sup>. On average, one in four (26 per cent) of employees participated in employer-sponsored CVT each year with an annual training intensity, on average, of about 68 hours, i.e. slightly less than nine working days.

As in the case of health, there are winners and losers. Overall, the authors suggest, CVT may have the perverse effect of increasing inequalities between different groups. Thus, although participation rates are roughly the same for men and women, intensity differs, with women receiving on average 17 per cent fewer hours training than men. The incidence and intensity of training also tended to decline with age and differ considerably across educational and occupational groups. Participation in low-skilled occupations (13 per cent) was about one third of participation in high-skilled occupations (38 per cent). Similarly, it was 16 per cent for workers with less than upper secondary education against 35 per cent for those having a tertiary degree. Hence, the three components of human capital (early human capital, formal education, and on-the-job training) tended to be complementary over the life-cycle of workers. Employees with a high degree of supervisory responsibility also were twice as likely to benefit from CVT as are employees without. Intensity was greater as well: on average, employees performing non-supervisory functions spend less than one-third as much

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<sup>18</sup> Data refer to 1994 for Canada, Ireland, the Netherlands, Poland, Switzerland (German and French-speaking regions), and the United States, to 1996 for Australia, Belgium (Flanders only), New Zealand and the United Kingdom and to 1998 for the Czech Republic, Denmark, Finland, Hungary, Italy, Norway and the Italian-speaking regions of Switzerland.

A follow up study, the Adult Literacy and Life Skill Survey (ALL), was carried out in 2003 in six countries: Bermuda, Canada, Italy, Norway, Switzerland, and the USA (OECD, 2005). The plan is that this will extended to other countries.



time on training as employees with a great supervisory role.

The third, and most up-to-date, source is Eurostat's *Continuing Vocational Training Survey* (CVTS2) (Eurostat, 2003a and b; Checcaglini and Marion-Vernoux, 2008). As well as cross national comparisons, which are considered later, key findings indicate that: large companies invest considerably more of their employees' working time in continuing vocational training (CVT) than small- and medium-sized companies do; candidate countries have the highest intensity of CVT in small enterprises; the amount of working time devoted to CVT in the services sectors, particularly in financial intermediation, is above average; there is a correlation between participation in continuing vocational training and the use of 'new technologies'. In most countries, the participation rates and the hours spent in CVT are higher in companies with new technologies.

#### *Opportunities for on-the-job development*

Arguably, CVT is just the tip of the iceberg of the development opportunities that employment offers. Also important are the opportunities that come with day-to-day working on the job. Here two features of work organization are critical. One is the degree of task complexity: the higher the degree of task complexity, the greater the requirement for the exercise of problem-solving skills and continuous learning. The other is the nature and extent of autonomy – the extent to which employees are allowed to make decisions. A high degree of task complexity can go hand-in-hand with considerable scope for employees to exercise their initiative. Or it can be accompanied by relatively little discretion, where there a more formal structure of protocols (e.g. team work and job rotation practices) and/or tight quantitative targets. For example, two main types of team working have been identified that reflect these different combinations: the 'Scandinavian' or 'Volvo', where team members have considerable autonomy in deciding how their jobs are done; and the 'Toyota', where managers have much greater control over the processes (Frölich and Pekruhl, 1996).

Capturing data on the nature, extent and impact of on-the-job learning is a much more difficult exercise than that for CVT. Drawing on Eurobarometer data for 1996 and 2001, Gallie (2005: 361) found that only 23.3 per cent (1996) and 18.3 per cent (2001) said it was very true that they had a lot of say over what happens on the job. Only 26.0 per cent and 23.2 per cent said this was the case for their ability to take part in decisions affecting their work.

A second source is the **SIBIS** (Statistical indicators benchmarking the information society) consortium, which has developed the Adaptability of work arrangements index (AWAI), building on data from a wide range of sources such as Eurostat's Labour Force Survey and CVT Survey (for further details, see Gareis and Korte, 2002). Two main types of flexibility are formulated - worker-centred and company-centred - based on a number of key component indicators, developed through consensus-building involving experts and policymakers at EU and national level. Looking at the EU15, the AWAI identifies a high degree of company-centred flexibility in France, Ireland, Spain and the UK, whereas Austria, Germany, Luxembourg, Italy, the Netherlands and Sweden are characterised by work-centred flexibility. The highest degree of balance is found in Denmark.

The European Foundation for the Improvement of Living and Working Conditions also

undertakes its own regular representative 'European survey on Working Conditions' across EU countries (see Merllié and Paoli, 2001; European Foundation, 2007a). Especially interesting is the analysis that Lorenz and Valeyre (2004; European Foundation, 2009) have done drawing on the results of the third and fourth surveys carried out in 2000 and 2005. Briefly, they use a form of factor analysis (multiple correspondence analysis) that takes into account 15 binary variables, giving rise to four models of work organisation covering EU countries. Table 2 gives an overview of the results across the 15 countries for which data were available in the 2005 survey.

### **Table 2 Models of work organization**

*The 'discretionary learning' model.* Accounts for 38 per cent of employees; characterised by the over-representation of the variables measuring autonomy and task complexity, learning and problem-solving and to a lesser degree by an over-representation of the variable measuring individual responsibility for quality management. The variables reflecting monotony, repetitiveness and work rate constraints are under-represented. This cluster would appear to correspond to the Swedish socio-technical model of work organisation.

*The 'lean' model.* Accounts for 26 per cent of the population, is characterised by an over-representation of team work and job rotation, the quality management variables and the various factors constraining work pace, i.e. worker autonomy is bracketed by the importance of work pace constraints linked to the collective nature of the work and to the requirement of respecting strict quantitative production norms. Like the first, displays strong learning dynamics and relies on employees' contribution to problem-solving. Yet, compared to the first cluster, autonomy in work is relatively low and tight quantitative production norms are used to control employee effort.

*The 'Taylorist' model,* which groups 20 per cent of the employees. The work situation is in most respects the opposite of that found in first cluster, with minimal learning dynamics, low complexity, low autonomy and an over-representation of the variables measuring constraints on the pace of work. Interestingly, teams and job rotation are somewhat overrepresented in this cluster.

*The traditional model.* 16 per cent of the employees. It is poorly described by the work organisation variables which, with the exception of monotony in work, are all under represented. Methods are for the most part informal and non-codified.

Based on Lorenz and Valeyre (2004).

Later sections will discuss the links between the type of work organisation and macroeconomic performance.

#### *Opportunities for upward mobility*

So far the discussion has focused on the development opportunities that the present job offers. For many employees, however, the most extensive opportunities for development come from the challenges arising from promotion. It is also through these opportunities that employees are most likely to achieve the benefits that come from social mobility.

In practice, the debate has centred on the role that employment relations play in reducing people's scope for advancement and making the contribution they might be capable of. The most obvious groups affected are those who have come to be covered by equality legislation dealing with discrimination on grounds of age, disability, gender, race, religion or belief, and sexual orientation. Women are not only the largest group here, but the one for whom the data are most extensive. In the UK, there have been two major reports in recent years that bear on these issues: the Kingsmill committee's (2001) and the Women and Work Commission's (2006), both of which received evidence, reviewed the academic literature and undertook a number of their own interviews and visits. They offer a stark impression of what is at stake:

'The Commission estimates that removing barriers to women working in occupations traditionally done by men, and increasing women's participation in the labour market, could be worth between £15 billion and £23 billion or 1.3 to 2.0 per cent of GDP. There are huge opportunities for change. Over the next decade, 1.3 million new jobs are likely to be created and 12 million jobs will change hands as workers leave the labour market.' (Women and Work Commission 2006, Executive Summary)

In spite of the slow but steady increase being seen in the share of professional women in the workplace, the nature of women's career paths continues to block them from making progress in organizational hierarchies (ILO 2004b). Occupational segregation can be vertical (restricting the number of women reaching senior positions) or horizontal (restricting the occupations in which women are able to work).

Relatively few women break through the 'glass ceiling', the lack of flexibility at senior levels being particularly acute. Data from the *Women and men in decision-making database* (European Commission, 2006; 2008) show that women are almost invisible in the top 50 publicly quoted companies. On average, only 3 per cent of presidents and just 10 per cent of board members of these key companies were women. The gender gap appears to be largest for the highest-level category of managers – directors and chief executives – with 1.4 per cent of men holding such titles compared with only 0.4 per cent of women (European Foundation, 2007a).

Entire sectors can come to be seen as male or female (Eurostat, 2007a). Traditionally, engineering, physics, the judiciary, law and health service administration are considered 'male' jobs and library work, nursing and teaching (especially in primary education) are considered 'female' jobs.

In the most extreme cases, vertical and horizontal segregation can coincide. Even in female-dominated sectors, such as teaching or personnel, men are more likely to hold the more senior and better-remunerated positions. On recruitment, qualified women tend to be placed in jobs that have a lower value in terms of skill requirements and remuneration. They find themselves in what are considered 'non-strategic' jobs, rather than in line and management jobs leading to higher positions. Thus, they effectively become support staff for their more strategically positioned male colleagues. In the second, specific jobs within the sector come to be associated with one or other of the sexes.

Women also find it difficult to combine work and family life, facing substantial penalties, in terms of pay and progression, for taking time out of the labour market or reducing their working hours to care for children or other relatives (Women in Work Commission, 2006). Women who work part time earn 32 per cent less than the median hourly earnings of women who work full time and 41 per cent less per hour than men who work full time. Women returning to the labour market after time spent looking after children often find it difficult to find a job that matches their skills. Those looking for part-time work crowd into a narrow range of lower-paying occupations due to a lack of quality part-time jobs. Often they have to change employer and occupation – and accept lower pay – to get part-time work.

There is also a measure of consensus about the three main sources of institutions stopping women from climbing career ladders, many of which are common to other disadvantaged groups (Women and Work Commission, 2006; European Commission, 2005; 2007a and b). One is the workplace, where formal/informal policies and practices dealing with issues such as recruitment, access to training and the operation of payment systems pose barriers. The second is the occupation. Many discriminatory barriers are the ‘property’ of the occupation in as much as there are limits on access that may penalize particular groups<sup>19</sup>. The third is the wider society, where social norms and traditions regarding education, labour market participation, job choice, career patterns and the evaluation of male- and female-dominated occupations may be influential.

Additionally, the wider institutional framework may help or hinder mobility. Features highlighted include age-related education and training systems, tax and benefit systems, parental leave arrangements and, perhaps most crucially, the provision of childcare facilities before and during compulsory school years (European Commission, 2007a and b).

### **The family**

There are good reasons for highlighting the impact of employment relations on the family: the family plays a key role in developing human and social capital. In the words of the Ministerial foreword to the Cabinet Office Strategy Unit's *Families in Britain: evidence paper* (2008a; see also Ackers 2000: 6),

‘Families are the bedrock of our society. They nurture children, help to build strength, resilience and moral values in young people, and provide the love and encouragement that helps them lead fulfilling lives.... It is within families that a sense of identity develops, and cultural and social values are passed on from one generation to the next. We often take for granted the fact that families are unparalleled in the sheer range of what they do and provide for us<sup>20</sup>.

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<sup>19</sup> The Milburn report (Cabinet Office, 2009) describes the way in which entry to the professions in the UK restricts social mobility.

<sup>20</sup> The report itself (Cabinet Office Strategy Unit, 2008a: 17) goes on to spell out the key roles that families play:

- Create a setting for children to be born, raised and nurtured
- Help children to fulfil their potential and opportunities in life through emotional, physical and material support by parents and extended family
- Provide emotional fulfilment that enhances individuals’ self-worth

One already link between paid work and the family has been touched already. Relatively low levels of pay mean that many families have little choice but to participate fully in the labour market. Being dual income (or, perhaps more appropriately, '1.5' earner) households means they may achieve this objective, but the quality of family life may also suffer.

Yet working hours tend to vary according to gender and roles within the family. Whilst women work short working days, men's working hours have been considerably longer. These affect individual health and well-being and the quality of family life (see, for example, Pocock, 2003). Boys and teenagers in particular strongly notice the absence of a father whose long working hours keep him from the family home. Family and community interaction are also linked: many employees simply lack the time or energy, after long hours at work, for even basic forms of community participation.

More recently, the duration and flexibility of working time is seen as an issue affecting women as well as men. For example, Rubery (2005) and her colleagues talk in terms of a new 'temporality' developing in the UK. In this, working patterns are increasingly employer-led, that is organized by firms to suit their own specific ways of working, seen as being crucial to competitiveness, rather than around traditional social rhythms. They suggest that the new patterns required workers to work harder and longer and in ways that minimize labour costs.

Important though these issues are, most attention in recent years has focused on the impact the increasing feminisation of the workforce, reflecting the growth of the service sector. One strand is concerned with the impact working mothers have on their children's development in terms of their educational attainment or psychological adjustment. A second links to wider debates about the break-up of the nuclear family and the implications for the care of elderly relatives in an increasingly ageing society (see, for example, Women in Work Commission, 2005).

Also being highlighted is the impact of increasing feminisation of the workforce on the birthrate. Career pressures, together with the cost and difficulty of combining work and family, are reckoned to be leading couples to delay having children or not have them at all. 'Britons put work and fun before babies' is the headline of one newspaper story drawing on an ICM survey story in *The Guardian* (Gillan, 2006). Working mothers are doubly penalised: they earn less and progress more slowly in their careers than women without caring responsibilities and they are accused of damaging their children's development: 'so anyone who through choice or – far more commonly – necessity, combines work inside and outside the home is a loser on every front'<sup>21</sup> .

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- Enable intergenerational and informal support between family members
  - Enlarge the economic opportunities of family members
  - Help create strong and sustainable communities
  - Contribute to social cohesion and crime reduction
  - Bring social and economic prosperity to society
  - Good family outcomes reduce the need for some public services e.g. provision of care, reduced costs of crime and poverty

<sup>21</sup> Such have been the wider implications for the long-term funding of care arrangements that in some countries bounties are being introduced in an attempt to reverse the trend. Two reports in *The Guardian* in January 2006 carried the following headlines: 'Germany agonises over 30 per cent childless

The employment-birth rate link is also being related to the growth in rates of divorce and single-person households. Here the argument is that the growth of dual income couples who are childless encourages a relatively low value to be placed on relationships: if a relationship is not working, it is very easy to end it and try again. In the words of *The Guardian* editorial of 2 May 2006,

‘If what matters most is a good job, no wonder relationships are hard to make and harder to sustain ... Appreciation of the qualities that sustain wider society in good health – tolerance, forgiveness, loyalty, riding out the bad time times as well enjoying as the good – is heard no louder at home than in the neighbourhood. The consequences for both are bad’.

As Part 2 confirms, the UK divorce rate is high compared to some other countries. But it peaked in the mid-1980s and has been stable or declining ever since (Cabinet Office Strategy Unit, 2008a: 22, 24).

As for changes in family life and their impact on children's life chances, the Rowntree Foundations 'Work and family life' programme (Dex, 2003: 44) found that parents thought that employment had a number of negative day-to-day effects, including: irritability and bad moods with the family; lower quality of relationships at home because of the stresses of work; time with spouse curtailed; children not liking parents working at the weekend or when they are ill; parents' feelings of guilt; and work encroaching into family life where parents worked at home.

Other bad effects were considerably more pronounced for couples and lone parents who worked at atypical times of day (La Valle et al., 2002; Bell and La Valle et al., 2003; Baines et al., 2003), reducing their frequencies of family meals, outings and holidays, and helping children with reading and homework.

Although it had expanded under the National Child Care Strategy and the Sure Start programme, child care provision was also seen to be a problem for working parents of school aged children, co-ordinating different child care provision being especially fraught (Skinner, 2003).

Analysis of the 1958 and 1970 birth cohorts and the British Household Panel Survey Data in the ESRC's *Seven Ages of Man and Woman* (Iacovou, 2004) offers a harder edge on some of these views. There is evidence of a small negative effect on educational attainment for children whose mothers went out to work before they were one year old, but no effect when mothers went out to work later and possibly some positive effects on later psychological adjustment. Another finds that children whose mothers went out to work had a lower probability of gaining two or more A levels. Overall, however, these effects are very small relative to the much larger effects of socio-economic status and income. In particular, growing up in a poor family has multiple effects on children, both while young and later in life. Adolescents who have grown up poor are more likely to have poor self-esteem, to have low educational aspirations and to play truant. Lone parent families are at substantially higher risk of

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women' (Harding, 2006) and 'Japan to tell its workers: take time off – for the sake of the nation' (McVurry, 2006).

poverty than two-parent families. At the same time, however, maternal earnings turn out to be critical in keeping families out of the poverty that has such a detrimental effect on children's life chances.

In the circumstances, it is perhaps not surprising that recent survey evidence from the International Social Survey Programme reports doubts setting in about whether a woman should be seeking to combine employment and family (Scott, 2008). Whereas in the 1990s, more than 50 per cent of women and 51 per cent of men said they believed that family life would not suffer if a woman went to work, the figure has fallen to 46 per cent of women and 42 per cent of men. Fewer people (54.9 per cent of women and 54.1 per cent of men) now take the view that a job is the best way for a woman to be independent than in 1991<sup>22</sup>.

### **Business performance**

Along with limited liability, the employment relationship has been described as one of the 'two great inventions [that] lie behind the rise of the modern business enterprise' (Marsden, 1998: 3). Even so, the suggestion that employment relations impacts on virtually every aspect of business performance, including its strategic direction, may appear to exaggerate its significance. Arguably, however, this is because employment relations are associated exclusively with the 'managed'. It is often forgotten that most managers are also employees (Storey et al., 1999).

#### *Managing managers*

How managers are recruited, developed and, above all, rewarded is fundamentally important not just for the way they manage 'other' employees, but also for the balance between short-term profitability and investment. It is this balance that influences the organisation's strategic direction. Particularly in the USA and UK, the last two decades have seen a substantial increase in the use of appraisal systems and managerial stock options, together with other share-related bonuses. As well as opening up the substantial gap between the pay of managers and the managed referred to earlier, this is believed to be a major contributory factor in the process known as 'financialisation', i.e. the prioritisation of short term financial results, in the form of cross-sector league tables of EVA (economic value added) and MVA (market value added), at the expense of longer term development of product market share. It is 'financialisation' that has helped to produce the 'economy of permanent restructuring' (Froud et al., 2000) introduced earlier.

In the case of the financial services sector, the effects have been even more dramatic. At the 25th anniversary summit of the British Venture Capital Association, Richard Lambert, the CBI director general, is reported as having singled out the bonus culture as one of the central factors in creating the huge financial problems engulfing the banking sector worldwide (Finch, 2008). In his words,

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<sup>22</sup> The results are even more extreme in the United States, where the percentage of people arguing that family life does not suffer if a woman works has plummeted, from 51 per cent in 1994 to 38 per cent in 2002. About the same number of West Germans (37 per cent) agree, but the number there has risen, having been just 24 per cent in the mid-1990s. Scott (2008) argues that each country is at a different stage in a cycle of sympathy for gender equality. In West Germany, until the 1990s a large majority of people still believed that men should be the family breadwinners while women stayed at home; since then there has been increasing acceptance of working mums.

‘It's clear that a number of investment banks had overlooked basic risk controls in their drive to increase profits ... This pattern of behaviour has been exacerbated by a remuneration structure which has encouraged some employees to take spectacular short-term risks, confident that if things work out well they will reap huge rewards and, if they don't, they won't be around to pay the price.’

At the time of writing, a number of countries, including France, Germany and the Netherlands, are taking steps to impose legal curbs on executive bonuses.

Supposedly, according to the ‘principal-agent’ theory associated with nexus of contract thinking, these remuneration structures are necessary to align the interests of managers and professional employees with those of shareholders. In practice, they appear to operate very similarly to the shopfloor piecework systems which management complained about so much in the 1960s and 1970s. There is the erroneous assumption that it is the activities of individuals that increase performance, when very often it is general movements in share prices that are responsible. There are the spurious benchmarks with an inbuilt tendency to self-inflation – references, for example, to the need to be in the upper quartile of pay levels and/or awards. There are the mechanisms that support mutual ‘back scratching’, such as the cross membership of executive remuneration committees and the use of consultancies whose fees are linked to paybill amounts. There is also the ‘ratchet effect’, which effectively means that while bonuses increase in good times, they do not go down in times of poor or declining performance<sup>23</sup>.

One unintended consequence is that, rather than being standard bearer for the profession of management, senior executives have been accused of becoming little more than ‘hired hands’ with hardly any commitment to shareholders, let alone employees and local communities. In the words of Khurana (2007: 364) whose label this is, excessive pay awards that bear little relationship to performance, misstated earnings, backdated stock options and the like have as their common thread the ‘enrichment of individual executives at the expense of shareholders, employees, and the public trust in the essential integrity of and fairness of the system on which democratic capitalism itself depends’.

### *Managing the managed*

The notion that the arrangements involved in managing employees in general have a direct impact on organisation-level performance has a much longer history. The costs of conflict at work have always loomed large. Initially, as the introduction pointed out, the main concern was with organized conflict and the costs of strikes or collective action short of strikes, such as an overtime ban or ‘work to rule’. More recently, with the decline in trade union membership and collective bargaining, the focus of attention in the UK has shifted to individual disputes and, in particular, those involving an appeal to an Employment Tribunal (ET) under the various statutory provisions.

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<sup>23</sup> The Lex column in the *Financial Times* (16 May, 2009) reports the Association of British Insurers as suggesting that remuneration consultancies ‘have business models which require them to earn fees, which require them, therefore, to modify packages every year, which, therefore, requires the packages to go up’. According to the same report, Warren Buffet, the prominent US investor, refers to remuneration consultancies as ‘Ratchet, Ratchet and Bingo’.



As the Gibbons (2007) report on the operation of ETs establishes, both employers and employees find the tribunal process expensive and stressful. The financial costs of a claim to businesses include time spent by staff handling the claim and the costs of specialist advice. It has been estimated that the Regulations cost firms nearly £290 million a year, including an average of £4,360 in legal fees and 7.71 days of which is directors' and senior managers' time. Tribunal claims are also costly for employees, an average of £2,493 being spent on legal fees alone. In this case, however, the non-financial problems are also important. The burden of preparation and anxiety over what is to come can adversely affect health and strain relationships both within and outside the workplace, and the experience can damage future career prospects. Survey data shows stress and depression were reported in 33% of cases (rising to 43% for discrimination cases). Last but by no means, there the costs to government incurred through funding the Tribunals Service and Acas - in 2005/06 the combined budget being £120 million.

Other more latent expressions of conflict, above all in the form of absence and resignation, which can be regarded as ways of 'exiting' from a relationship regarded as unsatisfactory, also show few signs of decline. The WERS data suggest that, in workplaces with more than 10 employees, the incidence of these two indicators has been relatively stable between 1990 and 2004: around three per cent of working days have been lost through absenteeism in each of the years in which the survey has been undertaken, while voluntary resignations have been running at around 14 per cent (Kersely et al., 2006: 230-1). Absenteeism, the Confederation of British Industry (2008) suggests, cost around £13.2 billion in 2007.

Important though handling conflict has been, it has also long been recognized that much more is involved in managing the employment relationship. Early examples reflect what Commons (1919) called the 'good will' model and start from the idea that better treatment of employees will lead to increased motivation and commitment and thereby improved productivity and/or reduction in costs. In the UK, pioneers included Robert Owen and his Lanark factory system and the Quaker firms and their introduction of superior welfare arrangements at the turn of the nineteenth and twentieth centuries. In the USA, Henry Ford's willingness to pay higher wages than competitors is also an example. More generally, there was a recognition that employers had to make investments in specific forms of CVT if they were to maximise employee's performance.

In the 1960s, the emphasis shifted onto specific features of traditional ways of working, with major weaknesses being identified and alternative practices put forward to deal with them. For example, individual payment by results came to be seen as a major source of conflict as well as poor productivity, with measured day work systems promoted as a superior alternative (NBPI, 1968). Low basic rates of pay and extensive overtime working were similarly criticised for encouraging restrictive practices, with the recipe being annual hours arrangements that introduced disincentives to extending working time beyond basic shift hours (NBPI, 1970). Tayloristic forms of job design were associated with high levels of absenteeism, with job enrichment being promoted (Trist and Bamforth, 1951). Perhaps most controversial was the recognition that the lack of opportunity for employees to make their contribution was putting employers at a

serious competitive disadvantage. In this case, it took Japanese manufacturers to prove the point using techniques such as problem-solving groups and semi-autonomous team working to reduce costs and improve productivity and quality (EPOC, 1997).

Since the 1980s, the emphasis of academics, practitioners and policy makers has moved on to bundles of practices, variously described as high performance work systems, high-commitment management and high involvement management (see, for example, DTI, 2004, the European Commission, 1997; ILO, 2002; OECD, 1997). Put simply, the whole of these systems is seen as greater than the sum of the parts. Especially important is the extent to which practices are both mutually integrated and complementary to operating practices consistent with business strategy. A recent overview (Delbridge et al., 2006) usefully draws on one of the pioneering studies, MacDuffie's (1995) cross-national investigation of 62 car assembly plants, to highlight two sets of linkages. The first is that task-related practices such as team-working and the use of problem-solving groups are likely to positively affect labour productivity when combined with supportive human resource practices, such as contingent pay, designed to enhance employee motivation and commitment. The second is that these internally-consistent 'bundles' of HR practices raise productivity most when there is complementarity with operating arrangements. Workplaces pursuing a 'flexible production' approach with team-based work systems, supporting HR practices and low inventory and repair buffers 'consistently outperformed mass production plants'.

As for the evidence, most linking individual practices to performance comes from case studies and small group and national surveys. Detailed reviews of changes in payment systems will be found in Kessler (1994; 2000), of working time and annual hours arrangements in Arrowsmith and Sisson (1994), of job enrichment in Buchanan (1987) and of participation and involvement in Geary et al. (2003). Each year, the Acas Annual Report also gives details of up-to-date cases dealing with changes in working practices such as multi-skilling or a reduction of overtime working or the handling of stress absence. Typically, the changes result in considerable improvements in the status quo, albeit little can be said about the durability of changes because of the lack of longitudinal information – most case studies and surveys are one-off.

The most comprehensive cross-national representative survey, the so-called EPOC study, investigates the role of direct participation in organizational change in ten EU countries (European Foundation for Living and Working Conditions, 1997; Geary et al., 2003). Like most small group and national surveys, it relies on the reported views of individual managers. Its organisation nonetheless makes it possible to minimize many of the weaknesses of previous surveys by going beyond the simple incidence of named practices such as team working to take into account dimensions such as the coverage, scope and autonomy involved in the practice. Key findings include the following:

- Each of the six<sup>24</sup> different forms of direct participation was associated with improved performance across a range of performance indicators: reduction of costs and

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<sup>24</sup> These were 'individual delegation', 'group delegation or 'team work', 'individual consultation' ('face-to-face' and 'arms-length') and 'group consultation' ('temporary' and 'permanent' groups).

- The more the number forms of direct participation were involved, the greater the effects – those using 3-4 reported greater effects than those with 1-2 on every variable; and those 5-6 practices similarly reported greater effects than those with 3-4.
- The greater the intensity of the form's practice, the greater the effects – for example, the greater the scope of team members to make decisions about task performance and the greater their autonomy in choosing members, the greater the effects.

It also emerged that most of the managers surveyed saw direct and indirect forms as mutually re-enforcing, rather than in conflict. Not only did they value the role of representatives in introducing the direct forms of participation. Most reported that the effects of direct participation involving employee representatives were greater.

In their overview of the literature on the impact of CVT, Fuente and Ciccone (2003) cite a range of authors to suggest that there is 'clear evidence that on-the-job training increases productivity at the firm level' (ibid, 20). This is true of both low and high qualification employees. As well as being a source of innovation and therefore long-term competitiveness, they also find evidence that CVT is 'especially productive in a rapidly changing technological environment'<sup>25</sup>.

The evidence is mixed, however, in the case of the links between CVT and profitability, with some studies arguing that profitability increases and others that it is unaffected (ibid, 8). They suggest that this is not surprising, however, as the link between productivity growth at the firm level and profitability is complex. For example, it may be that CVT is a leading indicator of other factors translating into high profitability.

As for the HPW debate, the jury remains out (Wall and Wood, 2005). In the words of Delbridge (2006: 23) and his colleagues, 'the enthusiasm for 'high-involvement' approaches that was generated by studies of manufacturing plants ... has been tempered by a less than consistent body of evidence that has emerged from subsequent analyses seeking to investigate the broader generalisability of these findings' (see also Black and Lynch, 2004; Godard, 2004; Guest, 2005). As well as weaknesses of research design<sup>26</sup>, two main explanations are advanced for the tempering. One turns on the

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<sup>25</sup> The opening of London's Heathrow Terminal 5 in March 2008 offers an example of the significance of the most basic forms of CVT. Despite months of preparations, the baggage handling system suffered a catastrophic failure on the opening day. Several days of disruption and cancellations followed, costing BA a reputed £50 million as well severe damage to its reputation. It seems that the baggage handlers in particular were woefully under-prepared. Nor was it just a matter of failing to train them in the new working practices involved in operating the baggage system at full speed: many were unable find their work station because they had had little or no opportunity to familiarize themselves with the geography of the new terminal (BBC News Channel, 2008a and b).

<sup>26</sup> Wall and Wood (2005) identify three major problems. the reliance on single-source measures of HRM practices (e.g. from CEO or HRM manager); the use of small samples coupled with low response rates; and the lack of longitudinal studies, especially ones examining how change in HRM practices relates to subsequent change in performance.

connection between working practices and business strategy discussed in an earlier section: moves towards more involved forms of work organization are most effective in organisations emphasising quality and value-added; they are unlikely to deliver maximum benefits for those operating under a cost-minimisation model (Michie and Sheehan, 2005). The other is that effective HWP requires high levels of trust, which are difficult to achieve, given the contradictory pressures to maintain motivation and yet cut costs to the bone. In particular, employee enthusiasm may be limited by past experience, especially if it has involved little more than work intensification and/or job loss (Godard, 2004: 366-8).

Further research will no doubt clarify the issues. The current controversy surrounding the HPW should not be allowed to cloud two very clear findings, however. The first is that firms' policies and practices, it seems, do make a difference - there is considerable dispersion in productivity levels between establishments within both manufacturing (Haskel and Martin, 2002) and services (Oulton, 1996). The second is that the scope for improvement is considerable even allowing for existing business strategies - even the simplest of changes can make a difference.

### **Macro-level considerations: social capital**

This dimension raises the links between the world of employment and levels of trust in the wider society. Indeed, for some it addresses a crisis of democracy: the legitimacy of governments and their ability to get things done. On the face of it, employment seems to have little connection with such issues as these. Yet this is one of the implications of the increasingly influential social capital thinking. As Table 3 suggests, social capital is understood in terms of the 'networks, norms, relationships, values and informal sanctions that shape the quantity and co-operative quality of a society's social interactions' (OECD, 2001; ONS, 2005). To paraphrase the OECD (2001: 42), it resides in relations rather than individuals; it is mainly to be seen as a public good, although it can be dysfunctional when used by one group against another; and it comes from societal investments as well as being the product of inherited cultural and norms of behaviour. Essentially, it is about trust not only in those with whom we are familiar, but also strangers and institutions, and is fundamentally important in facilitating the resolution of collective problems: individuals are more likely to cooperate when others can be relied upon to act in a similar way. Trust is a 'very close proxy' (OECD, 2001: 42) for many of the norms, understandings and values which underpin social cooperation and cohesion. The proposition is that the greater social capital, the greater the contribution to a range of beneficial economic and social outcomes. These include: 'high levels of and growth in GDP; more efficiently functioning labour markets; higher educational attainment; lower levels of crime; better health; and more effective institutions of government' (Performance and Innovation Unit, 2002).

Self-evidently, the workplace is a major beneficiary of social capital – work organisations depend on the acculturation of norms that society helps to mold. But it is not a one-way street. Along with family, schools, voluntary and civic associations, work organizations are also a major source of social capital. Views about justice, for example, or participation and involvement or bullying and harassment are likely to be significantly shaped by workplace experience. Similarly, the extent to which employees feel they can trust colleagues and, perhaps above all, their employer might be expected to have a significant impact on their willingness to think in terms of collaborative and

collective solutions more generally: 'Organisations which 'learn' to socialize knowledge and skills through more effective forms of interaction, networks and norms of trust and co-operation are important sources of social capital' (OECD, 2001: 48)<sup>27</sup>.

The issue of employee 'voice', 'representational security' to use the ILO's term, figures especially prominently. Democracy, as Coats argues (2004: 11), 'is about more than periodic elections on a one-person-one-vote universal franchise ... Citizenship has to be learned. It depends on discussion, debate, the assessment of alternative points of view, a democratic decision by majority vote and a willingness by the losers to live with the outcome'. It is here that membership of trade unions and involvement in collective bargaining is to be seen as fundamentally important. Trade unions not only ensure an independent voice, but also an opportunity to be involved in the democratic processes of argument and voting, while collective bargaining means involvement in both making and administering the rules governing the employment relationship. Marshall (1991) documents how the development of political citizenship (the right to vote, equal justice before the law, rights to freedom of expression) had been supplemented by social citizenship – essentially the rights established by the welfare state enable all citizens to pursue their own path through life and make the best possible use of their life chances. He also explained how trade unions had, over the course of the previous century, modified the operation of the contract of employment through collective bargaining to establish a system, however imperfect, of 'industrial citizenship'. Coats' conclusion does not pull any punches: 'If worker voice institutions are weak then the public domain is weakened. If the public domain is weakened then the quality of our democracy is diminished'.

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<sup>27</sup> The OECD (2001:57-8) goes on to quote studies suggesting that cooperation between management and employees is the basic reason for the competitiveness of the Japanese auto industry. 'In the US company, each worker is eager to make his individual success, and unwilling to tell what he knows to his colleagues. But here, everybody is willing to tell what he knows as much as possible to colleagues. This is because he believes that he can make a success only as a team, not on his own' (Omori, 2001).

The OECD (ibid) also suggests that 'more effective forms of interaction, networks and norms of trust and co-operation' can have an importance beyond the immediate workplace. It reminds us that another reported element in the competitive advantage of manufacturing firms in Japan, along with Germany, and parts of Italy, is reckoned to be the higher levels of trust relations between 'clusters' of local firms, enabling greater cooperation in areas such as R&D, marketing and training and development.

**Table 3 What is social capital?**

Social capital is generally understood as the pattern and intensity of networks among people together with the shared norms, values and understandings that facilitate co-operation within or among groups (OECD, 2001; ONS, 2005). Groups can be geographical, e.g. people living in a specific neighbourhood; professional, e.g. people in the same occupation; social, e.g. families, church-based groups, groups of friends; and virtual such as networks generated over the internet.

**Types of social capital**

- bonding – refers to close connections between people, e.g. among family members or among members of the same ethnic groups
- bridging – refers to more distant connections and cross-cutting ties, e.g. between business associates, acquaintances, friends from different ethnic groups, friends of friends
- linking – describes connections between individuals with differing levels of power within hierarchies.

**Commonly used measures of social capital**

- in people and institutions
- civic participation – the propensity to vote, to take action on local or national issues
- the nature and extent of informal and formal social contact that individuals have with each other in families, workplaces, neighbourhoods, local associations.
- membership and participation in groups and voluntary activities
- 'neighbourliness' or level of satisfaction with immediate local environment.

(Based on ONS, 2003)

Measurement and understanding of social capital is very much in its 'infancy' (OECD, 2001: 43)<sup>28</sup>. The ONS (2005) has, however, recently produced stand-alone data for the UK that draws on the General Household Survey, the Home Office Citizenship Survey and the British Crime Survey:

- The evidence on civic engagement is mixed. Some voluntary organisations, such as trade unions and Federation of Women's Institutes have declined, whereas the National Trust and the English Football Association have experienced growth.
- There has been a decline in 'neighbourliness'. In 1984 the proportion of respondents in the British Crime Survey who perceived their neighbourhood as one in which people 'go their own way' or one where people 'helped each other' were broadly

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<sup>28</sup> As the ONS (2005) points out, efforts to achieve greater standardisation of social capital data on an internationally comparative basis are underway. For example the European Union Survey of Income and Living Conditions has included indicators of social participation, such as contact with relatives and friends, and informal volunteering. It will be some years before the data will be obtained and the first comparisons made, however.

similar, roughly 40 per cent each. By 1992, there had been an increase to 49 per cent in the respondents to the first statement, with a corresponding fall to 31 per cent in the proportion saying most people ‘help each other’.

- There has been a decline in political trust. This is reflected in lower electoral turnouts for local, national and European elections - the turnout for the 2001 UK general election, at 59 per cent, was the lowest turnout for any post-war UK general election. The proportion of respondents who ‘just about always’ or ‘most of the time’ trusted British governments fell from 39 per cent in 1974 to 16 per cent in 2000.
- There has also been a decline in social trust. Here the source is 1959 Civic Culture study and the World Values Survey. In 1959, 56 per cent of adults agreed that ‘most people can be trusted’, but by 1981 this had fallen to 44 per cent. BSA data suggest that over the next two decades, between 1981 and 2000, the level of social trust remained stable around this figure, whereas the World Values Survey shows a decline to little more than a third.

Clearly some of these findings are consistent with the decline of collective ‘voice’, the increasing individualisation of the employment relationship and the greater insecurity that many studies refer to. How far they reflect developments in employment as opposed to the wider trends in society like those mentioned by Hutton earlier, however, is impossible to say. Certainly there is internationally comparative evidence reviewed in the next section and in Part 2 to suggest that there is direction from employment to society. At the same time, several findings, such as the decline in some forms of civic participation and political trust appear to be far from unique to the UK<sup>29</sup>.

### **Macro-level considerations: employment, productivity and inflation**

The approach in this section is slightly different from that of previous ones. The focus is on the relationship between the arrangements involved in the governance of the employment relationship and key macro-economic economic outcomes such as employment, productivity and inflation. At issue is the nature of the linkages and the extent of the impact. Two main debates have given rise to considerable controversy and it is around these that the arguments and evidence are discussed. The first turns on the impact of the legal framework of employment relations and the degree of protection it gives to employees. The second brings in the degree of centralisation of a country's structure of collective bargaining/social dialogue arrangements.

#### *The significance of employment protection*

The first debate concerns the legal framework of employment relations and, in particular, the significance for economic performance of the protection afforded to employees. Employment protection legislation (EPL) has always been controversial: employers complain that it restricts their flexibility to hire and fire; trade unions argue that it is necessary to guarantee a measure of security both on grounds of social justice and performance. In 1999, the OECD produced an index of employment regulation<sup>30</sup>,

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<sup>29</sup> See OECD (2001: Chapter 3 and Appendix E) for a review of the evidence from a number of its member countries.

<sup>30</sup> The index comprises regulation on temporary forms of employment, specific requirements for collective dismissal and protection of permanent workers against (individual) dismissal. The latest listings will be found in Chart 2.1 on page 72 of the OECD's 2004 *Employment Outlook*.

purporting to show that that there was a positive correlation between the extent of employment protection and the level of unemployment: the higher the levels of EPL, the higher the levels of unemployment. Not surprisingly, the findings proved to be highly controversial, critics arguing that the OECD was wrong to consider employment protection just as an exogenous cost for employers and had failed to recognise the potential positive welfare implications. As a previous section pointed out, for most workers, the great advantage of employment as opposed to the labour services contract, is that it reduces uncertainty (Marsden, 1998: 5). The greater the security employees enjoy, be it from redundancy or pressure to work harder, the more likely they are to cooperate.

In 2004, the OECD returned to the issue with a more balanced appraisal. To paraphrase its overall conclusions:

- The net impact of EPL on aggregate unemployment is ambiguous and can only be resolved by empirical investigation. Employment protection regulation fulfils its stated purpose, which is to protect existing jobs. At the same time, it tends to limit firms' ability to fire and so reduce the re-employment chances of the unemployed.
- It is possible to detect a link between EPL and employment rates for specific groups such as the young and prime-age women, while there may be positive links to the employment rates of other groups. This is because these two groups are more likely to be subject to entry problems in the labour market than other groups and so disproportionately affected by the effects of EPL on hiring decisions. Differences in the strictness of EPL for regular and temporary jobs may be an important element in explaining the rise in the incidence of temporary work for youth and the low skilled (this is less the case for other groups, notably prime-age men)<sup>31</sup>.
- EPL has benefits as well as costs and these need to be taken into account in any overall assessment. It may foster long-term employment relationships, thus promoting workers' effort, co-operation and willingness to be trained, which is positive for aggregate employment and economic efficiency. In addition, by promoting firms' social responsibility in the face of adjustment to unfavourable economic circumstances, a reasonable degree of employment protection could be welfare-improving, i.e. it can help balance concern for workers' job security with the need for labour market adjustment and dynamism (OECD, 2004a).

Helping to make the connection is the earlier discussion of work organisation and the four models in Table 2. It might be expected that the 'learning' model would be associated with better outcomes in terms of such variables as the growth of GDP, relative unit labour costs in manufacturing and international competitiveness – for one thing, it does not entail the expensive overheads associated with extended managerial and supervisory hierarchies. But the 'learning' model does not exist in a vacuum. In

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<sup>31</sup> The OECD (2006: 20) updated its analysis two years later. Its conclusion was that, 'In line with a number of previous studies, no significant impact of employment protection legislation on aggregate employment was found. However, effects appear to vary across labour market groups. Stringent employment protection seems to depress youth employment while it may benefit older workers'.



developing the implications of their analysis, Lorenz and Valeyre (2004) suggest that the relative importance of the 'lean' and 'learning' models differs according to the degree which the labour market is regulated as measured by the OECD's overall index of employment protection legislation. Basically, the argument is that the 'learning' model requires institutional support for establishing substantial forms of autonomy in work. Arguably, EPL is one of the critical factors in that support, producing something akin to a virtuous circle. Employees feel more secure in their jobs and so, for the reasons discussed in the social capital section, are more ready to embrace change; employers, for their part, have less to fear from undercutting and so are more likely to make investments in training and development, offering further encouragement to employees to embrace change, and so on.

#### *The significance of the structure of collective bargaining*

A second major debate centres on the impact of the degree of centralisation of a country's structure of collective bargaining and/or social dialogue arrangements. Throughout the late 1980s and 1990s, the level at which pay bargaining took place was held to play a key role in the trade-off between wages, inflation, levels of unemployment and rates of economic growth. In a first phase, the emphasis was on the level where collective contracts were formally negotiated (Calmfors and Drifill, 1988). In a second, the focus shifted onto the degree of co-ordination of bargaining. Centralisation and co-ordination, Soskice (1990) argued, should not be confused. Once the cross-sector co-ordination characterising many of western Europe's sector-based bargaining structures was taken into account, the hump-shaped relationship between the levels of bargaining and macroeconomic outcomes broke down and countries, with coordinated bargaining arrangements appeared to outperform those with uncoordinated, decentralised structures<sup>32</sup>.

Both highly centralized and/or highly coordinated and highly decentralised bargaining structures were held to outperform intermediate ones, the argument going like this. Where bargaining was centralized/ coordinated, negotiators had to take account of the wider economic consequences of their actions. Where it was fully decentralised, negotiators had to have concern for the impact of settlements on the firm's competitiveness. Under bargaining which was neither centralized/coordinated nor fully decentralised, such as the sector-based systems common amongst the EU-15, the wider economic consequences of a decision by wage negotiators in any one sector, in terms of higher costs and unemployment, could largely be externalised to other sectors.

In the 1990s, the links between the rate of increase in wages and unit labour costs and the co-ordination of collective bargaining broke down, reflecting the adoption by central banks of non-accommodating monetary regimes committed to very specific inflationary targets (Iverson, 1999; Hassel, 2002). Even so, the structure of collective bargaining and social dialogue remains influential. For a start, as the OECD (2004b: 130) observes,

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<sup>32</sup> Traxler et al. (2001) agree that the co-ordination rather than centralisation of collective bargaining is the key concept, but emphasise the importance of its *vertical* as well as *horizontal* dimension. A critical factor in securing wage moderation is the nature and extent of 'bargaining governability', i.e. the effectiveness of mechanisms of vertical co-ordination which ensure that lower levels comply with the terms of higher level agreements. These include the provisions for legal enforceability of collective agreements and, in particular, the arrangements for extending their provisions throughout a sector.

'high union density and bargaining coverage, and the centralisation/coordination of wage bargaining tend to go hand-in-hand with lower overall wage inequality. There is also some, albeit weaker, evidence that these facets of collective bargaining are positively associated with the relative wages of youths, older workers and women, with little evidence that employment of these groups is adversely affected'.

Again, there are also connections to be made to the discussion of work organisation models and EPL in the previous section. To paraphrase Lorenz and Valeyre (2004), the collective coordination of the labour in market in the Netherlands and the Nordic countries has arguably played an important role in securing greater cooperation and flexibility at local level. First, it buffers the workplace from the distributional conflict over pay that can so easily prejudice such cooperation. Second, it provides a more solid foundation upon which employers can make the extensive investments in training and skills that are a precondition for adopting such strategies.

Both these arguments can also be applied to the sector-based arrangements so criticised in the first phase of the debate. These not only to encourage employers to increase productivity through the introduction of new technology and changes in work organisation (the so-called 'shock effect'); they also make it possible to develop a coordinated approach to doing so, training being the most obvious area. In the absence of such institutional support, it is difficult for individual companies to withstand competitive pressures for cost minimisation<sup>33</sup>.

A second thread runs from the structure of collective bargaining to the discussion of social capital. Here the emphasis is on the extent of employee 'voice'. The implication of Coats' argument is that those countries with wide-ranging provisions for employee 'voice' reap a benefit in terms of greater trust. Individuals are more likely to feel a sense of mastery over their work if they know that their employer will consult them before major change takes place, that they will have a voice in the process and may be able to shape the outcome. In Panic's (2007: 159) words, discussing the significance of centralised collective bargaining/social dialogue in Sweden,

‘The importance of these and similar policies is that they create a unity of purpose and trust ... that enable employers, employees and government to cooperate closely in finding mutually satisfactory solutions to major economic challenges and crises. That gives the countries an advantage of critical importance in conditions of globalisation, which invariably creates serious adjustment problems ... ‘

Hutton (2008) also makes the links with the limits on inequality that the OECD findings associated with greater collective coordination. Capitalism, he argues, depends on trust and a willingness to shake hands. Ordinary citizens will only embrace change and potential loss of jobs if they have fair opportunity to benefit and acquire assets to cushion themselves. In his view, the evidence is overwhelming that trust and reciprocity are best fostered where reward and risk are distributed fairly.

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<sup>33</sup> This argument also appears to help to explain differences in the productivity effects of minimum wage legislation. In countries where there is little or no sector-based bargaining, such as New Zealand and the UK, there is little evidence of the 'shock effect' on productivity. In Denmark, however, where such arrangements remain the norm, the effect is more in evidence (McLaughlin, 2009).

## **Summary and conclusion**

In each of the areas there is evidence showing that employment relations have a considerable impact. The absolute and relative levels of pay are major determinants of poverty and inequality and, along with the duration, distribution and flexibility of working time, have substantial implications for work-life-family balance. The type of work organization – in particular, the extent to which it enables control over demand and encourages autonomy and decision making – has profound implications for both health and personal development opportunities. Similarly, the extent to which work organisation encourages information/knowledge sharing and cooperation/team working influences business performance and productivity, as do appropriate HR policies and practices (especially those dealing with participation and involvement); and the greater the integration of HR policies and practices, the greater the influence. The nature and extent of employment security and employee ‘voice’ influence levels of trust and so make for a cohesive society and create the capacity to innovate and change, which are reflected in such macroeconomic performance indicators as the level of GDP, employment levels and competitiveness.

## **Part 2: The UK in comparative perspective**

Part 2 of the paper turns to comparing and contrasting the UK with other countries. In the light of the discussion in the previous section, it begins by briefly highlighting the distinctive features of the UK's employment relations framework. It goes on to compare the UK with other countries on the basis of a number of social and economic indicators associated with the impact of employment relations.

As Part 1 pointed out, it is early days in the collection of robust cross-national comparative data dealing with issues such as social capital. Even so, there are a number of areas where comparable data exist, in particular courtesy of the four main international organisations and their agencies, i.e. the European Commission, the International Labour Organisation, the Organisation for Economic Cooperation and Development and the United Nations.

To ease the problem of digestion, five countries have been selected as the basis of comparison with the UK – France, Germany, the Netherlands, Sweden and the USA. Each of these is a major competitor and/or characterised by different institutional frameworks of employment relations, reflecting state tradition and/or national business system: France is an example of the ‘Latin’ model, Germany and the Netherlands the ‘Rhineland’, and Sweden the ‘Nordic’<sup>34</sup>. The USA is included because of its size and because it is often bracketed together with the UK on account of both its legal framework of employment relations and its brand of ‘shareholder’ capitalism.

### **Institutional considerations**

In terms of the UK’s national employment relations framework, three reasonably well-known features stand out. First is *the extent of employment protection legislation* (EPL). Even with the increase in individual employment rights in recent years, the UK is

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For further details, see Chapter 2 of Marginson and Sisson (2004).

widely recognised to have one of the weakest frameworks of such rights<sup>35</sup>, offering little counterweight to the privileges of shareholders. Indeed, in the OECD's (2004: 72, Chart 2.1) list of countries by employment protection legislation, the UK is second only to the USA in terms of the weakness of its employment security provisions.

The second distinctive feature is the *limited provision for employee 'voice'*. The statutory right of representation for the purposes of collective bargaining is workplace rather than sector or nationally-based as it is in France, Germany, the Netherlands and Sweden (Marginson and Sisson, 2004). Effectively, like their counterparts in the USA, trade unions in the UK are faced with a 'catch 22' situation - they have to have members to secure recognition, but they cannot demonstrate the benefits of membership without recognition. There are also no statutory provisions for compulsory works council-type bodies as there are in France, Germany and the Netherlands: the way in which the Labour Government implemented the EU national level information and consultation directive in 2004 effectively enabled employers to avoid setting up collective 'voice' mechanisms, which was the directive's intention.

The UK also stands out on, again along with the USA, on account of its *highly decentralised structure of collective bargaining* (Traxler et al., 2001; European Commission, 2009). The tentative forms of national level social dialogue that emerged in the 1960s and 1970s were abandoned in the 1980s. The incoming Labour Government of 1997 followed its Conservative predecessors in setting its face against systematic national level social dialogue - 'partnership' has been seen primarily as an organisation-based rather than national level activity (Taylor, 1999). Critically, being rooted in procedural rather than substantive rules, the UK did not develop the detailed sector multi-employer agreements that supplement and extend the legislative framework in most other EU member countries (Sisson, 1987). Save for a few sectors such as engineering construction and printing, multi-employer collective bargaining at sector level has been in decline since the 1960s. The result is that, whereas in 1980 collective bargaining covered some nine out of ten workplaces in the private sector, by 2004 this had dropped to less than two in ten (Kersley et al., 2006: 179-84).

The main exception to these generalisations is health and safety. In this area, the UK not only has extensive legislation guaranteeing employee 'voice' at the workplace level, but also long established social dialogue institutions, in the form of the Health and Safety Executive (HSE), dating back to the Robbins report of the early 1970s (for further details, see Bach, 1994). This has enabled the HSE to go beyond an enforcement role to be a major influence on the promotion of good practice.

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<sup>35</sup> As the then Prime Minister boasted in the foreword to the proposed programme of legislation outlined in *Fairness at work* (1998), the UK would remain 'the most lightly regulated labour market of any leading economy in the world' (House of Parliament, 1998: *Fairness at Work*. London: The Stationary Office.

Ironically, the financial and economic crisis of 2008-9 has led employers' representatives to complain about the relative lack of employment security in the UK. In the light of a 75 per cent reduction in orders, Matthew Taylor, chief executive of JCB, is quoted as saying: 'We are making some very good employees redundant and that hurts'. He went on to contrast the position in the UK with that in Germany, where it was possible to put JCB's employees on a two-day week, with the Government making up some of the wages to avoid lay-offs (*The Sentinel*, 2009).

There are also a number of features of the *corporate governance arrangements* of the UK's brand of 'shareholder capitalism' that are distinctive and highly relevant to the conduct of employment relations:

- a privileged position for shareholders and an overwhelming emphasis on shareholder value as the key business driver as opposed to the interests of other stakeholders
- a high concentration of institutional share ownership by investment trusts, pension funds and hedge funds, which encourages a focus on short-term profitability as the key index of business performance rather than long-term market share or added value
- relative ease of take-over, which not only reinforces the pressure on short-term profitability to maintain share price, but also encourages expansion by M&A rather than by internal growth, along with the reconfiguring of the corporation through outsourcing, off-shoring and restructuring.
- a premium on 'financial engineering' as the core organizational competence, the domination of financial management over other functions and numbers driven as opposed to issue driven planning (Sisson and Marginson, 1995; 2003) .

Many of these features came to be exaggerated, following financial deregulation in the 1980s (so-called 'Big Bang') and the accompanying globalisation of capital markets. Not only was the City of London given much freer rein, but access to credit and credit markets was also substantially eased. The effect was to increase opportunities to borrow (leverage) on the basis of expected rises in asset values. Apart from the USA, no country was more affected by 'financialisation' than the UK. Along with high levels of M&A activity (ONS, 2007) and other kinds of investment/ divestment heavily financed by debt, evidence for this comes in several forms: the rise in the number and financial assets of hedge funds<sup>36</sup>, the financial resources leveraged by private equity companies<sup>37</sup> and the levels of executive pay and stock options<sup>38</sup> helping to fuel the

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<sup>36</sup> According to IFSL Research, in 2007 London was the second largest global hedge fund centre after New York, being home to two-thirds of the 1,500 European-based funds. Its share of global hedge fund assets more than doubled between 2002 and 2007 to 20 per cent with the result that, at the end of 2007, four-fifths of the stock of European hedge fund assets totaling around \$500bn were managed out of the UK, the vast majority from London.

IFSL Research goes on to explain that London's strong position is due to many factors including its local expertise, the proximity of clients and markets, a strong asset management industry and a favourable regulatory environment. London is also a leading centre for hedge fund services such as administration, prime brokerage, custody and auditing. The financial barriers to entry into prime brokerage are high and business is principally conducted by large investment banks. With around a half of European investment banking activity conducted through London, it is a natural location for prime brokerage services (for further details go to *IFSL Research Hedge Funds 2008* at [www.ifsl.org.uk](http://www.ifsl.org.uk)).

London also saw the growth of a veritable 'industry' of business intermediaries who derive their income from share price-related activities ranging from the buying and selling of shares to M&A (Folkman et al., 2006). In 2003, their numbers were estimated to be around 20,000 on the basis of tax returns of those earning more than £250,000 a year (Erturk et al., 2006).

<sup>37</sup> One review (Private Equity International) suggests that London was also second only to New York in terms of the location of the number of major private equity companies. Eleven of the top 50 by

significant growth in income inequality.

Although they have featured in case studies and general overviews, lack of data has meant that it has rarely been possible to make systematic cross-national comparisons at workplace level. Fortunately, the flow of such data is beginning to improve. Especially valuable are the European Foundation's living and working conditions surveys introduced earlier. It will be recalled that Lorenz and Valeyre's (2004) analysis draws on the 2000 survey results to distinguish four main models of work organization. Especially relevant is the distinction between the 'learning' and 'lean' models. Both draw on employees' capacity for continuous learning and problem-solving, but the one emphasises worker autonomy, while the other prioritises managerial control and tight quantitative norms to fix the pace of work. It emerges that, even allowing for different degrees to which national producers are positioned on the high-technology or high quality end of product markets, there are significant differences between countries. Table 4, which draws on the 2005 survey results, estimates the relative importance of the four models across the five EU countries.

Quite clearly, compared to the other four EU countries, it is the 'lean' rather than the 'learning' model that predominates in the UK. Indeed, the proportion of 'learning' workplaces in the UK is even less than the 27-country average, while that for the 'lean' model' is higher: the UK's proportion of 'learning' workplaces is less than half that of Sweden, while its figure for 'lean' ones is twice as many. At the other end of the spectrum, the UK also stands out on account of the high proportion of 'traditional' workplaces – almost twice that of Sweden and, again, above the 27-country average<sup>39</sup>.

The same survey (European Foundation, 2007: 6, Figure 1.3) also makes it possible to get an impression of the extent of managerial hierarchies in the different countries. Perhaps not surprisingly, this mirrors the dominant model of work organisation. Consistent with the top down control of the 'lean' and 'traditional' models, the UK employs more 'senior managers' proportionately than the other EU countries. Indeed, of the 27 EU member countries only Ireland and Italy reported higher proportions. In the UK, something of the order of 14 per cent to 15 per cent were categorised as 'senior managers' as against an EU average of just under 10 per cent. In the Netherlands and France, the proportion was about the average at around 8 per cent. In Sweden and Germany, only just over four per cent were in the 'senior manager' category.

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funds raised since 2002 were located in London – other European capitals could only muster four between them (Amsterdam, Paris and Stockholm (2))

<sup>38</sup> See, for example, Towers Perrin 'World Total Remuneration' reports.

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The fourth *European Working Conditions Survey* (2007: 51, Table 6.1) also includes several indicators of autonomy at work: three of these have to do with the worker's freedom to exercise control over the work process (the ability to choose or change the order of tasks, the methods of work and the speed or rate of work); the fourth refers to the influence the worker has over the choice of working partners, and the fifth concerns the ability of the worker to interrupt their work in order to take a short break, when they wish. On the basis of a composite indicator drawn based on the five indicators, of the five European countries, Sweden and the Netherlands displayed the highest levels of autonomy, followed by France. The UK was in fourth place, at around the EU average, with Germany bringing up the rear.

**Table 4 National differences in work organisation models** (per cent of employees)

	'Discretionary Learning'	'Lean '	'Taylorist'	'Traditional'
France	47.7	23.8	17.5	11.0
Germany	44.3	19.9	18.4	17.4
Netherlands	51.6	24.3	11.4	12.7
Sweden	67.5	16.0	6.9	9.6
United Kingdom	31.7	32.4	17.7	18.2
EU-27	38.4	25.7	19.3	16.4

Source: European Foundation (2009)

There is yet a third set of relevant findings from the European Foundation' working conditions survey (2007: 57, Figure 6.7) that bear on work organisation. This involves the relative importance in determining the pace of work of the direct control of a superior as opposed to the demands from other people. Consistent with the other sets of findings, it emerges that, in the UK, the balance is much more in favour of the direct control of a superior than in France, Germany, the Netherlands and Sweden. Indeed, in the words of the survey report, whereas in countries such as Sweden the direct control of a superior is 'almost negligible' in determining work, in the UK it remains 'important'.

In short, the UK stands out not just on account of its national institutional framework – one that prioritises shareholder value with little employment protection and scarcely any provision for employee 'voice'. Also distinctive are the institutional arrangements involved in managing the employment relationship at the level of the organisation. Managerial hierarchies, it seems, are more extensive in the UK than in other countries and there is much greater reliance on 'lean' and 'traditional' models of work organisation involving supervision. By contrast, the 'learning model' that encourages employee autonomy and initiative is less in evidence.

### **Social indicators**

In this and the following section, the focus is on indicators of the impact of employment relations in the areas discussed in Part 1. An area where the UK compares relatively favourably is occupational safety. According to the most recent data from Eurostat published by the HSE, it emerges that in 2005:

- The British rate of work-related fatal injury (1.4 per 100,000 workers) was the lowest across the EU, the average rate, excluding transport accidents, being 2.3 per 100,000 workers.
- The British rate of workplace non-fatal over-3-day injuries at 1,271 per 100,000 workers was the third lowest among EU member states.
- Industries reporting above average incidence of fatal and serious injuries were agriculture, construction, manufacturing and transport (for further details go to [www.hse.gov.uk/statistics/european/index.htm](http://www.hse.gov.uk/statistics/european/index.htm)).

Further data on occupational health are available from the European Foundation's

(2007: 61, Figure 7.1.) fourth working conditions survey. In their answer to the question 'Does your work affect your health?', only a fifth of UK respondents responded affirmatively, putting the UK at the bottom of the list. All the other five countries reported higher levels, with the EU average being 35 per cent. The proportion taking leave because of ill-health was also less than Germany, the Netherlands and Sweden. Only France had a smaller proportion (European Foundation, 2007: 64, Figure 7.7).

Arguably, fatal and non-fatal injuries at work are the exception that helps to prove the rule. As the previous section pointed out, it is in this area that the UK not only has extensive legislation guaranteeing employee 'voice' at the workplace level, but also long established social dialogue institutions in the form of the HSE. It is wholly consistent with the arguments of previous sections that it is because of these arrangements that health and safety policies and practices in the UK enjoy a very particular legitimacy.

A different picture emerges, however, in the case of mental health. Wilkinson and Pickett's (2009: 66-8) have brought together the evidence from the WHO World Mental Health Survey Consortium (Demyttenaere et al., 2004) and national studies for Australia, Canada and the UK featured in Part 1. Consistent with the extensive income inequality, it emerges that the UK had one of the highest levels of mental illness of the 12 countries. Indeed, only the USA had a higher level. In the UK, more than one in five people had a mental illness, whereas in Germany fewer than one in ten did.

The UK's comparatively good showing in occupational safety also fails to be repeated in the case of *occupationally-related health*. As the Black report (2008: 29) observes, life expectancy is the most commonly used comparative indicator of overall health, being based on objective mortality data collected routinely in most countries. There are two measures: overall life expectancy calculated from birth and the probability of dying before reaching the age of 60. Here our source is the United Nations Development Programme's (UNDP) latest (2007) collection of Human Development Indicators. As will be seen from Table 5 (Row 2), overall life expectancy in the UK was 79 years in 2005, which is higher than that of the USA, but less than the other EU countries. The probability of dying before the age of 60 (Row 3) in the UK was on a par with France, Germany and the Netherlands, but some way behind Sweden. Arguably, for the reasons discussed in Part 1, these results reflect differences in work organisation, along with levels of income inequality, more of which below.

For *poverty* and *inequality*, our source is again the UNDP's 2007 collection of Human Development Indicators. Row 4 of Table 5 gives details of the proportion of the population living below the poverty line. The UK clearly stands out: the proportion of the population below the line (12.5 per cent) is almost twice that in Sweden and one and half times that in the Netherlands, Germany and France. Only the USA has a higher proportion in this state.

Row 5 of Table 5 gives details of the Gini coefficient, which it will be recalled is an overall measure of the spread of a country's income distribution between the highest and lowest earners – the higher the figure, the greater the income inequality. It will be seen that, at 36.0, the UK again stands out, the level of income inequality being only exceeded by that of the USA.



**Table 5 Social indicators**

	France	Germany	Netherlands	Sweden	UK	USA
GDP per head (PPP, US \$), 2005 <sup>1</sup>	30,386	29,461	32,684	32,525	33,238	41,890
Life expectancy at birth, 2005 <sup>1</sup>	80.2	79.1	79.2	80.5	79.0	77.9
Probability at birth of dying before 60th birthday (per cent of cohort, 2000-5) <sup>2</sup>	8.9	8.6	8.3	6.7	8.7	11.6
Population below 50% of the median poverty line, 2004-5 <sup>4</sup>	7.3	8.4	7.3	6.5	12.5	17.0
Gini index of income inequality various dates <sup>3</sup>	32.7	28.3	30.9	25.0	36.0	40.8
Divorce rate per 1000 of population, 2005 <sup>7</sup>	2.2	2.7	2.0	2.2	2.6	
Prison population per 100,000 of population (excl. foreigners), average 2004-6 <sup>8</sup>	95	95	105	80	144	[667]
Social trust (per cent of those who trust 'most people') <sup>6</sup>	23	36	69	76	30	36
ILO Economic Security Index, 2004 <sup>5</sup>	0.83	0.79	0.86	0.98	0.74	0.61

1 Table 1, UNHDR (2007)

2 Table 4, UNHDR (2007)

3 Table 15 UNHDR (2007)

4 Table 4 UNHDR (2007)

5 Table B Appendix, ILO (2004)

6 Halpern (2005) in Panic (2007)

7 Table 6 page 7, Eurostat (2006)

8 Table 8 page 9, Eurostat (2007b)

The UK also has a large gender pay gap. In 2006, according to the calculation of the TUC (2008) based on the European Commission's *Equality Between Women and Men – 2008*, the gender pay gap stood at 20 per cent in the UK, which is a third higher than the 27 country EU average of 15 per cent. Of the larger EU members, only Germany had a bigger gap (22 per cent)<sup>40</sup>.

To achieve their levels of pay, many UK employees also have to work longer hours than their counterparts in most other countries, thereby intensifying the impact of employment on health and family life. Eurostat figures compiled by the European Commission for its 2008 report suggest that, while overall average hours worked in the UK were similar to those other countries (i.e. around 40 hours), the proportion of the

<sup>40</sup> The TUC reminds us that the European Commission presents the gender pay gap in 'unadjusted form' – the difference between men's and women's average gross hourly earnings as a percentage of men's average gross hourly earnings. The gender pay gap is based on several data sources, including the European Community Household Panel (ECHP), the EU Survey on Income and Living Conditions (EU-SILC) and national sources. The target population consists of all paid employees aged 16-64 that are 'at work 15+ hours per week'. For further details, see European Commission (2007: 2008).

workforce working more than 48 hours was the highest in Europe even taking into account the new member states. At 18 per cent, it was more than twice the EU average at 8 per cent. The proportion of the workforce working more than 48 hours in Sweden was 1.6 per cent and in the Netherlands 1.1 per cent (for further details see European Commission, 2009, 64: Chart 2.4).

Working longer does not necessarily mean working harder, however. The same European Commission report (2009: 61, Table 2.9) draws on the European Foundation's 2005 survey of working conditions to produce an index of work intensity combining answers to questions about 'working at a very high speed' and 'working to tight deadlines'. Respondents in the UK, along with those in France and Netherlands, reported less intensity than the EU average. Of our five EU countries, only Germany and Sweden reported higher levels<sup>41</sup>.

In the case of *continuing vocational training*, the UK appears at first sight to compare relatively favourably, being one of the few EU countries to achieve the Lisbon 2010 target of 12.5 per of the workforce in adult learning – indeed, its record is only bettered by Sweden and the Netherlands (European Commission, 2009, 60: Chart 2.2)<sup>42</sup>. The more detailed analysis enabled by Eurostat's CVTS (Eurostat, 2003a and b)<sup>43</sup> paints a less flattering picture, however. Checcaglini and Marion-Vernoux (2008) offer an overview of the most recent (2005) data. On the basis of the numbers of firms providing training, employees' rates of access to vocational training and the mean number of hours an employee can expect to spend in training during a given year, they distinguish four groups of countries. The first group, which includes France and Sweden, was the most actively involved. Here around three-quarters of firms declared that they had trained at least one employee that year and almost one French employee out of two spent 28 hours on CVT on average, corresponding to 13 hours per employee. The UK is bracketed in the second group, along with Germany and the Netherlands. Here employees have lower rates of access to CVT courses and the number of hours is less. Thus, in the UK, less than one employee out of three on average benefited in 2005 and the number of hours spent annually undergoing CVT per employee amounted to only about six hours, regardless of the size of firm. Furthermore, employees' rates of access to training courses in the UK had decreased by some 30 per cent since 1999.

As Part 1 emphasised, CVT is just the tip of the iceberg so far as the role of the workplace in developing human capital is concerned. Also important is *on-the-job development*. Here, as the discussion in the previous section confirms, UK workplaces would appear to offer less opportunity for learning than those in the other EU countries, the 'lean' and 'traditional' models of work organisation being more prominent.

In the case of *occupational mobility*, the UK is like the other countries in that relatively

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<sup>41</sup> Full details will be found in European Foundation (2007:58, Figure 6.9).

<sup>42</sup> In the UK, achieving the Lisbon target is highly correlated with the recognition of trade unions: respondents in workplaces where trade unions were recognised were more likely to have members of the workforce in workplace training than those that did not.

<sup>43</sup> The two main sources of evidence on CVT appear to be slightly conflicting. On the basis of Bassanini and OK's (2004) overview of the most recent International Adult Literacy Survey (IALS) covering OECD countries data, training intensity and participation rates were greatest in the Nordic countries, the United Kingdom and New Zealand.

few women break through the 'glass ceiling', the lack of flexibility at senior levels being particularly acute. In the case of managers who are women, the UK was around the average (i.e. around 31 per cent) in 2003 (European Commission, 2005: 16/2007); The UK is around the average for membership of executive bodies, although here the average is much less at around 10 per cent (European Commission, 2005: 16). In the case of representation of women among top levels of civil servants, the UK had one of the lowest proportions (10 per cent) in 2007; it was middling so far as level 2 is concerned at around between 20 and 30 per cent (European Commission, 2008: 46).

One feature that is distinctive is the pattern of part-time working in the UK. Along with the Netherlands and Sweden, the UK has one of the highest ratios of part-time to full-time working for women (42.3 per cent in 2007)<sup>44</sup>. The average usual hours worked each week, however, is one of the lowest (19.4 hours) (Eurostat, 2008: tables 1 and 4). Part-time workers, it is widely acknowledged, suffer in terms of opportunities for promotion as well as training and development. Arguably, the shorter the hours they work, the greater the problem.

The UK hardly does better on the more general social capital indicators. In the case of divorce, in 2005 (Table 5, Row 6) the number per 1,000 of population was, along with Germany, the highest of the five EU member countries. It had peaked in the 1980s, however, and had been stable or declining ever since (Eurostat figures quoted in Cabinet Office, 2008a: 25). In the case of the prison population (Table 5, Row 7) - a measure of how successful a country is eradicating the underlying causes of crime (Panic, 2005) - the UK had the highest proportion of the five EU countries. Indeed, it was almost twice that in Sweden.

There are, as previously pointed out, considerable difficulties associated with defining and measuring *social capital*. In the light of these, the level of trust in society has widely come to be regarded as a 'very close proxy' (OECD, 2001: 42). The most commonly quoted indicator comes from the so-called 'World Values Survey, which is regularly conducted in most countries. Basically, it takes the form of the proportion of people who say that they trust 'most people'. Row 8 in Table 5 gives the most recent results for the six countries. It will be seen that the UK ranks fifth, the level of trust being only half that in Sweden and the Netherlands; it is even exceeded by that of the USA. Only France has a lower score.

The ILO's 2004 *economic security index* offers us a final measure of the UK in comparative perspective (Table 5, Row 9). Briefly, this is a composite index which takes into account the seven forms of insecurity listed in Part 1. Sweden enjoyed the highest level of security. The Netherlands, France and Germany also featured in the top ten. The UK was in 15th place and the US 25th.

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<sup>44</sup> There is another interesting contrast between the UK and Sweden. Both countries have roughly the same employment rate for women. In Sweden, the maternal employment rate (i.e. the number of women with children in employment) is only slightly lower than the overall rate, whereas it falls to two-thirds in UK. Also a much higher proportion of maternal rate is part-time in UK. Public spending on childcare in Sweden is around five times that of UK. In the UK, two thirds of women without children have full time jobs, whereas less than a third of mothers are in full time employment.

In summary, the UK compares relatively unfavourably on many of the social indicators associated with the impact of employment relations. This is particularly true of the indicators of poverty and inequality, occupationally-related health and social capital development. In as much as the levels of *poverty* and *income inequality*, coupled with long working hours, have significant implications for the quality of family life, it seems not unfair to suggest that employment relations goes some way to understanding the problems being experienced in this domain as well. Arguably, too, the exception proves the rule. Occupational safety is an area where the UK compares relatively favourably: it is also the area where the UK has long-standing employee 'voice' and social dialogue institutions.

### **Economic indicators**

The focus now shifts onto the main commonly used indicators of macroeconomic performance and competitiveness – it will be recalled that these figured prominently in the two debates involving the connection between employment relations and macroeconomic performance discussed in Part 1. Tables 6 and 7 replicate the data that Panic (2007) has brought together, dividing the recent past into two periods. The first, 1989–98, begins with the collapse of communism, followed by German reunification a year later. The second period, 1999–2004, starts from the inception of European Monetary Union. In both case, the source is the OECD's *Economic Outlook*.

At first sight, the UK's record looks relatively impressive. Rows 1 and 2 in Table 6 suggest that the UK enjoyed above average *growth* in both periods, helping to account for the relatively high levels of GDP reported in Table 5. Row 3 confirms that this was matched by relatively low levels of unemployment<sup>45</sup> – especially in the second period. The growth in consumer prices or inflation (Row 4) was also relatively restrained, again, especially in the second period. The one indicator suggesting that things might not be quite as good as they seem appears in Row 5 and relates to the *balance on trade*. Along with the USA, the UK was the only country in negative territory in both periods.

With the virtue of hindsight, it is clear that the UK's performance, along with the USA's, flattered to deceive. It was largely based on consumer spending and heavy borrowing, the magnitude of which only became fully clear with the financial and banking crisis.

As Panic (2007) persuasively argues, there are two other relevant comments to be made about the data in Table 6. The first relates to France and Germany, whose relatively poor performance commentators regularly attributed to their supposedly excessively regulated labour markets and costly social model. This performance largely reflected the constraints of European monetary policy during the two periods, with Germany having to cope with the added burden of unification. The second, which concerns the performance of Sweden and the Netherlands, reinforces the argument that economic performance and the quality of working life are far from being mutually exclusive.

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<sup>45</sup> According to the Cabinet Office's Strategy Unit (2008b) report quoting a European restructuring monitor report (European Foundation, 2008), job quality has been improving in UK on the basis of the increase in the proportion of higher paying jobs. This is true, but the report goes on to say that this movement was not as strong as in other countries. As an earlier section indicated, the UK, along with Germany, was classed as a hybrid case of 'polarisation' and 'upgrading'..

Sweden's performance was similar to the UK's and, if anything, the Netherlands' slightly better; yet both these countries scored very highly on the OECD's EPL index.

**Table 6 Macroeconomic indicators** (annual averages, per cent: A=1989–98; B=1999–2004)

	France		Germany		Netherlands		Sweden		UK		USA	
	A	B	A	B	A	B	A	B	A	B	A	B
Growth of real aggregate demand	2.4	1.9	0.7	1.3	1.4	2.0	1.9	3.6	3.1	3.0	3.4	0.6
Growth of GDP (at constant prices)	2.2	2.1	1.2	1.8	1.7	2.4	2.8	3.8	2.7	3.0	3.0	1.6
Unemployment (standardised)	10.6	9.4	7.2	8.5	5.8	3.3	6.7	5.6	8.1	5.2	5.9	5.2
Consumer prices	2.2	1.8	2.7	1.3	2.1	2.8	4.0	1.4	4.0	1.2	3.3	2.5
Balance on trade in goods and services as per cent of GDP	0.7	1.1	0.0	0.9	4.2	3.1	0.7	5.4	-1.9	-2.1	-1.4	-4.4

Source: Panic (2007) based on OECD, Economic Outlook 2005.

Arguably, the competitiveness indicators in Table 7 give a more realistic picture of the UK's relative position. As Row 1 confirms, in the first period, the UK experienced the biggest rise in *manufacturing unit labour costs* of the six countries. Absolute performance improved in the second period, but relatively was hardly better - Sweden achieved a reduction in unit costs. The changes in *consumer prices* relative to that of the manufacturing sector in other countries shown in Row 2 similarly show a decline in competitiveness: in the other countries there was a reduction or only a slight increase in relative prices, whereas in the UK there was an increase of almost 4 per cent. Rows 3 and 4 show the impact in terms of exports. The UK's rate of *growth of exports of goods and services* (Row 3) fell behind that of the other European countries in the second period. Its *export performance*, which is shown in Row 4, was similarly weak. In the first period, it managed to match Germany's. In the second, however, it dropped not only in absolute but also relative terms, being exceeded by the four other EU countries. Overall, taking into account the various measures, Panic (2007) scores the UK lowest of the countries for export performance in both periods.

Just in case there is any doubt, the UK's poor performance cannot be attributed to the incidence of industrial conflict as it was so often in the 1960s and 1970s. As they have in most countries, strikes in the UK dropped to an all-time low in recent years, becoming largely a public sector phenomenon (Dix et al., 2009). In the words of one recent international comparison talking of the UK, 'Turbulent industrial relations in the 1970s became more 'peaceful' in the 1980s, and in the 1990s conflict levels became as low as in the central European countries, a trend which has continued in the 2000s (Scheuer, 2006)<sup>46</sup>.

<sup>46</sup> The UK does not appear to be exceptional in the case of 'unorganised conflict' either. An OECD (Rae, 2005) analysis drawing on the European Labour Force Survey found that, in 2004, Sweden reported the highest number of sickness absence days per full-time equivalent employee (around 25 days). Of the countries included in the comparison here, France came next with 16 days, followed by the Netherlands

**Table 7 Changes in international competitiveness** (annual averages, per cent): A =1989–98; B=1999–2004

	France		Germany		Netherlands		Sweden		UK		USA	
	A	B	A	B	A	B	A	B	A	B	A	B
Relative unit labour costs in manufacturing (a)	-1.4	1.1	1.4	0.0	0.5	1.2	-2.4	-2.3	4.4	1.2	-0.4	-1.2
Relative consumer prices (a)	-0.2	-0.3	0.2	-0.8	-0.5	1.3	-1.0	-1.0	1.2	3.9	0.	0.4
Growth of exports of goods and services	6.5	3.6	5.7	5.6	4.5	5.7	6.5	4.5	5.7	3.4	7.9	2.6
Export performance (b)	0.6	-1.8	-1.1	0.4	0.9	-0.7	0.6	0.4	-0.4	-2.2	0.6	-2.8

a In dollar terms, relative to that of the manufacturing sector in 42 countries. Minus indicates improvements in competitiveness.

b Change in each country's volume of exports of all goods and services relative to that of the volume of total imports of goods and services into its export markets. Minus indicates that the performance is deteriorating.

Source: Panic (2007) based on OECD, *Economic Outlook 2005*.

In drawing this section to a close, two points can be made, both of which run contrary to conventional wisdom. The first is that the UK's 'light touch regulation' approach can hardly be said to be associated with superior economic performance. True, UK can boast of higher rates of employment than France and Germany, but the quality of many of these jobs must be in doubt in the light of comparative data on low pay and work organisation. In terms of competitiveness, the UK scores poorly on a number of the key indicators. Arguably, this reflects reliance on the 'lean' and 'traditional' models of work organisation: working longer hours, higher levels of supervision and proportionately more senior managers, it seems, are no substitute for employees working smarter. Numerical flexibility, to put it another way, is no match for functional flexibility. The second is that the experience of countries such as the Netherlands and Sweden suggests that the quality of working life and economic performance are far from being mutually exclusive as they are so often portrayed in the UK<sup>47</sup>. Taking improving working life into account makes it possible for managers to get the motivation, commitment and loyalty that they increasingly need for success. Improved performance makes it possible for managers to bring about a sustained improvement in working lives.

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with 14, the UK with 13 and Germany with eight.

<sup>47</sup> One colleague asked why the Netherlands and Sweden seem to stand out. It is only possible to speculate. It may be that there is a 'small country' effect at work, which reinforces the arguments about the importance of links between employment relations, greater levels of trust and superior economic and social performance. Another possibility is that the arrangements are rooted in long-standing social compromises, above all in the case of Sweden – in the words of the European Commission's (2009: 70) *Industrial Relations in Europe 2008* report discussing the position of the Nordic countries generally, there is 'a long tradition of learning to do things in a particular way'.

## Conclusions and implications

Even with the caveats raised in the Preface, there is a considerable body of evidence to confirm that employment relations matter. Table 8 draws on the reviews in both Parts 1 and 2 to summarise the results. The first column outlines the main impact of employment relations on living standards, health, personal development, the family, business performance and social capital and macroeconomic performance. The second gives details of the links and mechanisms that are involved.

In terms of links and mechanisms, the institutions making up the governance regime to which the employment relationship is subject are fundamentally important. To summarise the argument in the paper in this series dealing with them (Sisson, 2007), these institutions are the 'rules of the game', establishing both rights and obligations. But they are much more than the 'external constraints and incentives structuring the purposeful choices of self-interested rational actors' (Scharpf (2000: 5) that most economists regard them as. Institutions not only define 'what actors can do, but also their perceptions and preferences - and thus what they will want to do' (ibid). Behaviour, in other words, is context-dependent.

As for which institutions are important, much depends on the national legal framework, the structure of collective bargaining, and the role and status accorded to employer's organisations and trade unions (European Commission, 2009). But also extremely influential are the nature and extent of the managerial hierarchy, the type of work organisation and HR policies and practices – all of which can and do differ from country to country reflecting the balance of power and distribution of resources in the wider society.

These conclusions can be elaborated by reminding ourselves of the results of putting the UK into comparative perspective. The UK compares relatively unfavourably on many of the indicators associated with the impact of employment relations. The rate of employment may be higher in the UK than other countries. Yet its quality is often poor and the levels of pay low, resulting in relatively high levels of poverty and inequality, with implications for social mobility. Work organisation in the UK, being typically rooted in the 'lean' and 'traditional' models, with extensive managerial hierarchies, is not only bad for people's personal development and long-term health, but also extremely inefficient, helping to account for the UK's relatively poor competitiveness performance.

As well as the type of work organisation, there are other institutional features that help to understand the impact that employment relations has in the UK. Employment protection legislation is limited, which means insecurity and a reluctance to embrace change. The decline of collective bargaining, above all at sector level, means that large sections of the workforce no longer enjoy the benefits of the additional standards that come from collective agreements. Coupled with the absence of any provision for national social dialogue, it also means that the role, status and membership of key intermediary organizations such as trade unions and employers' organizations have been seriously affected: the UK no longer possesses the networks necessary for co-ordinating continuous improvement in key areas of HR practice – CVT is perhaps the

most obvious example<sup>48</sup>. Along with limited employment protection, the relative lack of employee 'voice' – at workplace, sector and national level – means that employment is not contributing to social capital development to the same extent as it is in other countries.

Also fundamentally important are the 'financialisation' and 'permanent restructuring' that the UK's corporate governance institutions have encouraged. These have made it very difficult for operating managers to develop any consistency in approach to employment relations, let alone create the long-term relationships that the 'learning' model requires. They have also discouraged the pursuit of business policies that emphasise quality products and services, helping to explain the UK's relatively poor overall competitive position. Encouraged by the weakness of trade unions and an institutional framework favouring numerical rather than functional flexibility, many UK managers have continued to compete on the basis of low-wage and low-skill labour. As well as hardly encouraging employees to go the proverbial extra mile, working harder rather than smarter has the wide ranging implications for the poverty, health, quality of family life and competitiveness discussed in previous sections.

On the basis of these conclusions, those involved in teaching and researching in the area would seem to have little to fear: employment relations matter. There are a couple of stings in the tail, however. The first is the need to recognize that it is the conduct of the employment relationship that makes employment relations matter – too many studies continue to convey the impression that employment relations is just about trade unions and collective bargaining. The second is the need to put greater emphasis on the outcomes of the conduct of the employment relationship. Arguably, it is by prioritising these outcomes that the subject of employment relations is going to fulfil its potential. As well as the links with business performance and high performance working, there are wide-ranging opportunities for focusing on the connections with individual well-being (especially personal development). The same goes for the connections with the quality of family life<sup>49</sup> (long hours and working time are critical here) and social capital (which appears on hardly anyone's agenda). The multi-level, multi-disciplinary and multi-method approach the subject brings also means that it is uniquely qualified to develop the over-arching analysis that is required.

More focus on outcomes would also increase the opportunities for contributing to policy debates, thereby helping to raise the subject's profile. In keeping with this recommendation, the Annex offers some personal thoughts on how some of the gaps in the UK's employment relations institutional framework might be dealt with.

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<sup>48</sup> One particular result is that, unlike many EU member countries, the UK has been unable to take advantage of the increasing flexibility built into EU employment directives, reflecting their increasing 'reflexive' and 'procedural' orientation. In the absence of national and sector arrangements for social dialogue, it is effectively restricted to the legislative route in transposing EU initiatives. Standards and entitlements have had to be laid down in law, with mechanisms other than collective bargaining, such as employment tribunals and/or the courts, ensuring compliance and redress. An unfortunate consequence is a growth of legal dependency. The parties to the employment relationship are encouraged to resort to legislation rather than trying to sort things out for themselves – something which, hardly surprisingly, does little to help to promote engagement or trust and therefore social capital development.

<sup>49</sup> Ackers (2002: 4) argues that 'neglect of work-and-family relationships is perhaps the most striking single instance of the anti-social character of traditional IR ...'



For UK policy makers, the conclusions must make grim reading. For two implications should be pretty clear. The first is that many of the objectives they have set themselves – ending child poverty, enhancing the quality of family life, improving health, increasing social mobility and building a knowledge economy (see, for example, Cabinet Office, 2008b) – are unlikely to be achieved unless there are substantial changes in the UK's institutional framework of employment relations. Above all, there has to be a shift from the 'traditional' and 'lean' forms of work organization that are so harmful to people's health and personal development as well as being a drag on business performance. The second is that they will have to help to bring these changes about, which means embarking on an extensive programme of intervention along the lines suggested in the Annex<sup>50</sup>. For the 'market' is not going to deliver the 'learning organisation' and knowledge economy any more than it is a responsible banking system. The shrinking in the size and influence of the financial sector, along with a reining in of 'financialisation', may lead to a refocusing on product and process as the main forms of competition and, in terms of horizons, greater emphasis on the long as opposed to the short term – all of which will put a premium on better employment relations. Even so, it will be very difficult for individual companies to shift from 'traditional' and 'lean' forms of work organization on their own – there needs to be a combination of institutional 'carrots and sticks' to encourage them to do so.

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<sup>50</sup> Conceivably, there could be EU initiatives seeking to promote the 'capability approach'. The problem is that this raises the UK's vexed relationship with Europe, which is likely to become even more complicated if there is the return of a Conservative Government at the next election.

**Table 8**

**Why Employment relations matter: summary of findings**

Main areas of impact	Links and mechanisms
Living standards	
<ul style="list-style-type: none"> <li>■ poverty</li> <li>■ inequality</li> </ul>	<ul style="list-style-type: none"> <li>• pay levels (absolute and relative) reflect inter-relationship between type of work organization, business strategy and employment structure - the more emphasis on 'low cost' as opposed to 'high quality' operations, the greater the likelihood of low pay</li> <li>• the design and operation of pay &amp; reward systems, in particular, managerial systems, have major implications for pay structure and equality/inequality</li> <li>• the same is true of the level of collective bargaining/social dialogue - collective coordination (multi-employer ) helps to achieve greater equality</li> </ul>
Health	
<ul style="list-style-type: none"> <li>■ physical health</li> <li>■ mental health</li> </ul>	<ul style="list-style-type: none"> <li>• the extent to which work organisation exposes employees to health and safety hazards is critical; but nature and extent of safety policies/practices can moderate the impact - the more employees and their representatives are involved in their design and operation, the greater the moderation</li> <li>• the greater the employment insecurity, the greater the vulnerability to stress and mental illness</li> </ul>
Personal development	
<ul style="list-style-type: none"> <li>■ technical skills</li> <li>■ social skills</li> <li>■ personal growth</li> </ul>	<ul style="list-style-type: none"> <li>• the more control the type of work organisation allows employees over work demands, the less likely they are to suffer stress leading to cardiovascular diseases and relatively premature death</li> </ul>
	<ul style="list-style-type: none"> <li>• the workplace is a major source of human capital</li> <li>• the greater the availability of CVT opportunities, the greater the individual's career prospects and earnings potential</li> </ul>
The family	
<ul style="list-style-type: none"> <li>■ children's upbringing</li> <li>■ extended family</li> <li>■ marriage &amp; birthrate</li> </ul>	<ul style="list-style-type: none"> <li>• the more work organisation involves autonomy, task complexity and problem-solving, the more scope for individual learning and development</li> <li>• work organisation and HR policies/practices are a major influence on promotion opportunities and so scope for personal growth/upward mobility</li> </ul>
Business performance	
<ul style="list-style-type: none"> <li>■ strategic direction</li> <li>■ investment</li> <li>■ innovation</li> <li>■ productivity</li> <li>■ quality &amp; reliability</li> <li>■ costs</li> <li>■ profitability</li> </ul>	<ul style="list-style-type: none"> <li>• pay levels that are absolutely low are a major cause of child poverty;</li> <li>• duration, distribution and flexibility of working time have major implications for work-life-family balance (including ability to undertake caring responsibilities) potentially influencing birth and divorce rates</li> </ul>
Social capital & macro-economic considerations	
<ul style="list-style-type: none"> <li>■ levels of trust</li> <li>■ levels of /growth in GDP</li> <li>■ employment/unemployment</li> <li>■ competitiveness</li> </ul>	<ul style="list-style-type: none"> <li>• managerial pay &amp; reward systems influence balance between 'short' and 'long' term horizons and so strategic direction, investment decisions and profitability;</li> <li>• the nature and extent of managerial hierarchy have cost as well as control implications</li> <li>• the type of work organisation and the extent to which it encourages information/knowledge sharing and cooperation/team working influence performance and productivity</li> <li>• the nature and extent of HR policies/practices (especially those providing for participation and involvement) do the same</li> <li>• the greater the integration of HR policies/practices, the greater the influence</li> </ul>
	<ul style="list-style-type: none"> <li>• the workplace is a major source of social capital</li> <li>• employees' experience of trust spills over into other spheres</li> <li>• the same is true of views about the appropriateness of behaviour, eg bullying and harassment, fairness and justice</li> <li>• the nature and extent of employment protection legislation are linked to levels of growth and competitiveness - employees who feel more secure in their jobs are more likely to embrace change</li> <li>• the structure of collective bargaining and 'voice' arrangements are similarly linked - collective coordination (multi-employer ) helps to secure workplace cooperation and flexibility as well as greater equality</li> </ul>

## **Annex: Dealing with the UK's institutional 'gaps'**

Just as the challenge for UK policy makers in the case of banking and finance is to deal with the institutional failure that has caused so much damage, so too it is in employment relations. In recent years, progress has depended on individual employment rights and certainly there is considerable scope for initiatives, notably in the area of employment protection. Such is the nature of the challenge that is faced, however, that these are unlikely to be sufficient on their own. A more integrated approach is needed that combines a number of complementary initiatives that are sensitive to current realities.

### **Corporate governance**

Although it may be wishful thinking to expect to be able to transform the UK from the 'shareholder' to the 'stakeholder' model of capitalism, there are things that can be done to shift the balance. First, there is the process of 'financialisation' and the operation of the 'casino economy'. Here, as policy makers increasingly recognise, there are considerable opportunities to put a stop to the abuse of share ownership – they include much more stringent controls over the activities of hedge funds and private equity companies, along with practices such as 'short-selling' and leveraged buy-outs. Second is the function of business and the need to move the emphasis away from short term 'shareholder value maximisation' as the goal – in the words of a recent *Financial Times* (2009) leader, to pursue 'shareholder value maximisation' as an operating goal 'confuses cause and effect and conflates goals with metrics'. Here there is considerable opportunity to build on the Company Law Review's recommendations in respect of Operating and Financial Reviews, whose role in achieving greater transparency is considered below (for further details, see Armour et al., 2003). Third are the codes of conduct dealing with corporate governance – these need to emphasise the critical role that business plays in the development of human and social capital. Fourth is M&A activity. Here, as well as requiring more extensive justification, there is considerable scope to develop acquired rights and collective redundancy legislation in ways that considerably raise the costs of behaviour that has potentially damaging consequences for employees and their local communities.

### **Greater transparency of policies and practices**

In the absence of the sector-wide provisions of multi-employer collective bargaining, it would help if businesses were required to publish much fuller information about their policies and practices across a range of HR issues: for example the results of compulsory equal pay audits<sup>51</sup>; the ratio of senior executives pay to that of other employees<sup>52</sup>; their training and development spend; their procedures for informing and consulting with employees; their policies on improving the quality of working life etc. etc. A vehicle for doing this might be the Operating and Financial Reviews touched on earlier. Not only could the information made available be brought together in the form of 'good' or 'best company' practices across the whole gamut of HR policies and practice. There is also considerable scope to exploit the wider potential of benchmarking, with comparisons being made between companies and the use of 'naming and shaming' intensified. Such benchmarking also offers the prospect of greater

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<sup>51</sup> In the words of the Women in Work Commission (2006: 3), 'Equal pay reviews can benefit women, provide clear incentive systems and reduce the costs of litigation'.

<sup>52</sup> At the time of writing, the Labour peer, Lord Gavron, has introduced a Private Member's Bill which would force firms to state the ratio of bosses' to workers' pay in their annual reports.

downwards as well as upwards accountability. Regular social audits developed in consultation with employee representatives would make it possible to turn the spotlight on management performance and ensure not simply a level of minimum rights, but continuously improving standards.

### **Promoting employee voice**

Relatively speaking, the UK has a shortage of mechanisms that employees have to 'voice' their views. Sadly, the opportunities that the EU directive offered to extend the coverage of national level information and consultation voice mechanisms were not taken up. In the circumstances, it may seem naïve to suggest that these provisions need to be revisited in the light of experience. Yet there is an urgent need to address the institutional void that exists in many workplaces if there is any chance of fully harnessing the skills and talents of employees and the simplest way of doing this is to implement the EU's national level information and consultative directive as it was intended, i.e. employers should be required to introduce collective information and consultation processes. A revamping of the provisions for trade union recognition is also overdue. Here developments in the USA might suggest a way forward: the likely amendment of the National Labor Relations Act under the Obama administration is expected to make it much easier for trade unions to secure recognition and establish the basis for representation and collective bargaining<sup>53</sup>.

### *Sector forums*

This proposal picks up one of the specific commitments of the trade union-Labour Party 'Warwick agreement' of 2004 and is designed to help fill the vacuum left by the decline of multi-employer collective bargaining. It involves the setting up of 'New sectoral forums bringing social partners together in low paid sectors to discuss strategies for productivity, health and safety, pay, skills and pensions'. Such forums could help to improve productivity and performance in their sectors through the provision of information, the sharing and dissemination of good practice, and common services (e.g. training programmes, benchmarking 'clubs' and, perhaps most importantly, sector-based holiday pay funds, sick pay funds and pension schemes). In doing so, the forums would also provide a focal point for greater inter-agency cooperation and coordination, making 'joined-up government' a more realistic proposition. Acas involvement would help to facilitate the forums' proceedings and give significant legitimacy to its outcomes. Acas could even, on a forum's recommendation, propose the issue of a statutory Code of Practice underpinning employment standards in the sector - Acas

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<sup>53</sup> According to AFL-CIO, 'the Employee Free Choice Act would allow workers, not corporations, to choose whether and how they want to form a union. It would give workers a fair chance to form unions to improve their lives by:

- Guaranteeing that if a majority of workers wants a union, they can have one, allowing them to form unions by signing cards authorizing union representation;
- Providing mediation and arbitration for first contract disputes; and
- Establishing stronger penalties for violation of employee rights when workers seek to form a union and during first contract negotiations'.

The key point is that, if enacted, this bill would require the National Labor Board to certify a bargaining representative without directing an election if a majority of the bargaining unit employees signed cards under the so-called 'card check' process.

Codes are not legally binding in the sense that failure to follow their standards would attract liability, but Employment Tribunals would be obliged to take them into account where relevant<sup>54</sup>.

#### *A national consultative process*

There is also a need to fill the lack of 'voice' mechanisms at national or macro level. Here, arguably, it is a question of adapting an existing institution - it would be a relatively simple matter to build on Acas' long established reputation for independence to fill the void. A revamped Acas Council reporting through the cabinet office could be given the power to suggest initiatives in key areas of employment relations as well as being called upon for policy advice. Such a move would help both to overcome the lack of expertise of policy makers in the area and to develop a much-needed joined up approach cutting across current departmental boundaries<sup>55</sup>. An added advantage is that Acas is intimately involved in the social dialogue structures of the Scottish Parliament, the Welsh Assembly and many of England's Regional Development Agencies.

#### **A leadership role for the public sector**

Public sector organizations are in a particularly strong position to exercise a leadership role. Not only do they employ upwards of six million people. According to the Wood Committee (2004), the public procurement market represents around 16 per cent of the EU economy measured as gross domestic product, or €1,500 billion per annum. In these circumstances, public services have a potentially critical role in spreading 'good practice'. Directly, it is within their power to set an example of better job design. Indirectly, they have the ability to require certain standards of the contractors who provide them with goods and services<sup>56</sup>.

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<sup>54</sup> The Employment Agency Inspectorate and the HSE have similar powers in their respective spheres of activity.

<sup>55</sup> The fragmentation of policy responsibility for the area compounds the many other weaknesses – until June 2009, there were three departments directly involved (Business, Enterprise and Regulatory Reform, Work and Pensions, and Innovation, Skills and Universities), along with the Treasury, which sets the parameters for public service pay covering nearly a quarter of the workforce. A cynical view is that BERR's portfolio was a hotchpotch, which only really made sense if government was deliberately trying to avoid the issues. BERR supposedly had 'lead responsibility in Whitehall for championing the interests of employees' and yet was also the 'voice for business across Government'. Of its annual budget, which was just over £3 billion in 2008, half went on nuclear decommissioning, and the rest on a range of issues from trade promotion to energy security supply, to championing entrepreneurial businesses through the Regional Development Agencies. Whether the setting up of a new super ministry combining BERR and Innovation, Skills and Universities makes any difference remains to be seen.

<sup>56</sup> A very specific example is that of diversity and equal pay. The Women in Work Commission (2006, Recommendation 35, xvi) argued that:

'Public authorities should ensure that their contractors promote gender equality in line with the public sector Gender Duty, and equal pay in line with current legislation. This intention should be flagged up in contract documents to ensure that it is built into contractors' plans and bids. Government should appoint a ministerial champion of procurement as a means of spreading best practice in diversity and equal pay matters. Private sector companies who engage in substantial procurement should also use procurement to spread best practice'.

More generally, the Government's White Paper on social mobility published in January 2009 stated that 'The Government will consider legislating to make clear that tackling socio-economic

### **Active labour market policies.**

In recent years, the UK has introduced a raft of policies that emphasise the importance of mutual obligation linking rights and responsibilities in the employment area. This means that condition of the receipt of different forms of benefits is that individuals are expected to participate in activities and programmes designed to improve their employability. Examples include the various 'New Deal', 'Welfare-to-Work' and 'Pathways to Work' programmes for the young, the unemployed and people with a disability. By analogy, different forms of tax allowance and assistance might be linked to encourage employers to dispense with low quality jobs. Likewise, above inflation rises in the national minimum wage might be used to encourage employers to introduce new technology and/or improve job structures<sup>57</sup>.

### **Information and advice.**

A considerable amount of information is now available through bodies such as Acas, the HSE and the Equality and Human Rights Commission, in the form of national helplines and dedicated websites as well as printed publications. The materials also embrace a wide range of different types, e.g. business support tools that provide active assistance with procedural compliance; self-assessment tools, such as 'information and consultation' and 'age-proofing' diagnostics, that enable employers to achieve compliance with the requirements of legislation, along with e-learning materials making it possible for employees as well as employers to bring themselves up-to-date with legislation and/or 'good practice' at their time and place of choosing. Lack of awareness, however, continues to be a major problem as queries to helplines confirm. Employers in particular need to receive relevant information and advice automatically. Arguably, this could best be done by introducing a subscription service which would be a requirement of company registration.

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disadvantage and narrowing gaps in outcomes for people from different backgrounds is a core function of key public services'.

<sup>57</sup> Here the Women in Work Commission (2006, Recommendation 29, xiv) argued that 'The Low Pay Commission's standing terms of reference should be amended to include a gender impact assessment as part of each report. Targeted enforcement of the national minimum wage should be directed at sectors employing large numbers of women.'

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