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The UK Productivity Puzzle – is employment relations the missing piece?

Keith Sisson

This paper discusses the UK's poor productivity performance and what can be done about it. It's difficult to exaggerate the importance of productivity. It is productivity that is the source of a society's wealth and prosperity. It is productivity that accounts for differences in living standards over time and between countries, reflecting the skills of the workforce, the capabilities of organisations and the technology they use. Productivity is also linked to education and training, finance and governance, equality and wellbeing... the list is almost endless.

Although a very live issue, poor productivity has dogged the UK for decades. There is a measure of consensus that the condition is deep-seated and path dependent, reflecting corporate governance arrangements and a financial system that encourage 'short-termism' and consequently a lack of investment in people as well as technology. But this means, almost by definition, that change is daunting for policy makers to attempt and extremely controversial – powerful vested interests stand in the way of the generally accepted need to re-balance the economy, for example, as the difficulty in reforming the banking sector testifies.

This paper argues that, even so, there is a lot that can be done by adopting a bottom-up approach that focusses on the workplace. The timing is right too – the likelihood of above inflation increases in the National Minimum Wage over the next few years gives us the opportunity to make more of the link between work organisation and improved productivity. A major campaign drawing on Acas experience of how to improve workplace performance could make a considerable difference as well as igniting a renewed interest in employment relations.

Why productivity is important

High levels of productivity don't guarantee prosperity for everyone. How the benefits are distributed is also fundamentally important – for example, the USA is a very productive but also a very unequal society. But few people would argue about the impact of low productivity. Poor productivity means, above all, relatively low levels of pay and high levels of poverty. 'In-work poverty' in particular poses a major problem: if employees are to be consumers who generate demand, society has to subsidize employers to bring earnings up to a 'living wage'. Another effect is a very high level of income inequality, which is damaging for growth and efficiency (United Nations Development Programme, 2005).

Improving productivity involves helping people to acquire skills and develop their talents through vocational training, on-the-job development and promotion opportunities. Moreover, it's not just a matter of technical skills. Social skills are involved such as perseverance and self-discipline, communications, and the capacity to make judgments, along with the ability to work in teams and exercise leadership. There are links too between productivity and engagement. The extent to which employees feel engaged at work influences levels of trust and attitudes towards cooperation that help to shape society's capacity to innovate and change more generally. If employees don't feel they're being treated justly, their contribution recognised and their views sought and acted on, society will be the poorer. Indeed, the UN's *Human Development Report* (2005, Chapter 3), talks in terms of the 'corroding of institutions and weakening of political legitimacy'.

Recently, in the wake of the banking crisis, a lot of attention has focused on why, in the words of Bank of England governor, Mark Carney (2014), 'there should have been a persistent deterioration the UK's productivity performance'. 'Enigma' and 'puzzle' are just

two of the words economists have used to sum up the situation. Productivity, measured in terms of output per hour employed, is expected to decline in a recession, but normally recovers after 18 months or so. But this time it hasn't – the most recent data from the Office for National Statistics (ONS, 2014a) suggest that output per hour was 21 per cent below the average for the other G7 countries and more than 30 per cent less than France, Germany and the USA. Why productivity hasn't followed trend is a subject of on-going debate about whether supply-side or demand-side considerations are uppermost in the explanation (Martin and Rowthorn, 2012) – whether the UK's poor productivity is more plausibly interpreted as a symptom of the shortage of skills or capital or lack of demand and under-utilisation of skills (see also McCafferty, 2014). A failure to take into account the growth of the 'shadow economy' is being put forward as a further possibility.

Interesting though the debate is, the concern here is with what, arguably, is more important and very often missing in the recent discussion. This is why poor productivity is an issue that has dogged the UK for decades and why focusing on the workplace offers an opportunity to do something about it.

Why the UK has a long-term productivity problem

The 'productivity gap' between the UK and countries such as France, Germany and the USA is longstanding. This is above all true of GDP output per hour worked, which is the most commonly used measure. Indeed, there are articles in the *Journal of Economic History* with titles like "Britain's productivity gap in the 1930s: some neglected factors" (Broadberry and Crafts, 1992). Moreover, the 'gap' is not confined to manufacturing. In 2004, an LSE Centre for Economic Performance report for the Economic and Social Research Council (2004: 3) concluded that 'the productivity gap between the

UK and the United States was particularly evident in key services, including wholesale and retailing, hotels and restaurants and financial services’.

Going with poor productivity are low pay and considerable inequality. On the basis of the OECD definition of low pay (i.e. two-thirds gross median hourly earnings for full-time employees), the Resolution Foundation (2012) estimates that one in five of all employees in Britain are low paid, marking the country out as one of the worst performers in the OECD. The UK’s Gini coefficient, which is the most accepted measure of inequality, also suggests the country has one of the highest levels of inequality of the major OECD countries (OECD, 2014). The overall cost of inequality to the UK, the Equality Trust (2014) estimates, is around £39 billion a year – the two biggest considerations being poorer mental health and reduced healthy life expectancy.

If employee engagement is also a factor, there is evidence to suggest the UK rates relatively poorly in this respect as well. According to research carried out following the 2009 Macleod report on engagement, the UK ranked ninth out of twelve major countries on this measure (Rayton, 2011: 11). A CIPD (2010) report quoted suggested that as few as eight per cent of UK employees were ‘seriously engaged’ in their work.

Education and skills

Why does the UK have a long-term productivity problem? There is a measure of consensus about the main reasons. First of all, the UK is recognised to have an education and skills problem. A constant refrain of business leaders is that young people don’t have the necessary basic skills required for employment. There is some evidence for this. One measure is the number of children getting five good

GCSEs (A* to C), including English and maths’. As the multi-authored LSE Growth Commission Report (2013: 13) reminds us, in 2011 only just over half (58 per cent) of pupils in England got five good GCSEs (A* to C), including English and maths. In the case of children from disadvantaged backgrounds (classed as those on free school meals or in local authority care), however, only a third (34 per cent) achieved this benchmark. Much is also made of the UK’s very average showing in the OECD’s so-called PISA (Programme for International Student Achievement) tables – in 2012 the UK came 20th in science, 23 in reading and 26th in maths out of a total of 65 countries (OECD, 2013a). The picture is complex, however, especially when it comes to debates around youth transitions into the workplace. Whilst evidence from the CBI (2013a) and FSB (2013) has argued that young people are not ‘work ready’ in terms of social and educational skills, the UK Commission on Employment and Skills (UKCES, 2012b; 2014a) has repeatedly found that, while only a minority of employers actually recruit young people, the overwhelming majority of those that do find them “well or very well prepared for work”.

Certainly, the UK’s poor intermediate level skills record stands out. Here a succession of high-profile public studies can be cited (Keep, 2013): the National Skills Task Force’s reports of the 1990s, various editions of *Skills in England in the 2000s*, The Treasury’s 2006 *Leitch Review* and, more recently, the UK Commission for Employment and Skills’ 2010 *National Strategic Skills Audit for England*. To quote just one statistic, in 2008/9, a report for the Apprenticeship Ambassadors’ Network (2010) estimated that there were around eleven apprentices per 1000 employees in the UK. In Germany, the figure for the same number was forty, i.e. nearly four times as many.

Initially the education and skills problem was seen as one of supply to be remedied

by increased public funding – bringing about what Her Majesty’s Treasury (2002) termed a ‘supply-push’ effect’. Increasingly, however, it has come to be recognised that the skills component is essentially one of demand (Keep, 2002, 2013). In the words of UKCES (2009: 10), ‘The relatively low level of skills in the UK; the limited extent of skill shortages; and the potentially low demand for skills relative to their supply taken together, imply a demand-side weakness’.

A recent Institute of Public Policy Research Report (IPPR, 2012: 2) puts flesh on this conclusion. It emphasises that, while demand for higher-level skills has expanded since the 1980s, nearly half of all jobs in the UK do not require post-secondary education and one-third of firms offer no training to staff. It also quotes data from the 2009 NESS showing that by far the most common explanation for not offering training – given by almost two-thirds of non-training employers – was that employees were already fully proficient in their role. It concluded that ‘many firms in other northern European countries train more, and to a higher standard, than comparable British firms and sectors, and that as a result many jobs that in England are viewed as low-skilled or ‘bad’ are, in other countries, broader and require a deeper level of skill’ (IPPR, 2012: 24).

Low investment strategies

Some of this low skill phenomena reflects the *business strategies* many UK companies pursue. It’s well-established that training rates are closely associated with a firm’s competitive strategy (IPPR, 2012: 14). The higher the quality of the goods or services the business is aiming for, the more likely it will invest in training and development. By contrast, if its priority is low cost, the more likely it is to emphasise standardisation, which means forms of work organisation and job design that have little need for higher skill levels.

Managers are unlikely to admit to consciously eschewing a high quality strategy – an exception being the jewellery boss Gerald Ratner in 1991. Yet many commentators believe this is the case (Delbridge and colleagues, 2006). In the words of UKCES (2009: 10), ‘The UK has too few high performance workplaces, too few employees producing high quality goods and services, too few businesses in high value added sectors’. A particular issue in manufacturing is that the UK lacks the medium sized family firms (the so-called *mittelstand*) that are such a crucial source of innovation and investment in high productivity countries like Germany – the Ownership Commission (2012: 20) estimates that, in the UK, firms with a turnover of between £10 and 100 million only make up one per cent of all companies. Overall, cost-based approaches reliant on technology and outsourcing would seem to characterise the most widespread strategy. The UK’s extensive service sector involving high levels of customer contact is not exempt. Many companies pursue segmentation strategies with a targeted customer approach: high quality relationship management is reserved for customers with high value accounts, with more cost-driven approaches applying to the rest (Batt, 2007).

Lack of *investment* plays a critical role as well. The multi-authored LSE Growth Commission Report (2013) shows that UK investment levels are significantly below those of other comparable countries. The UK has less physical capital per worker than the United States and considerably less than France and Germany. The UK also suffers from relatively low investment in Research and Development. Here the most recent figures show that, in 2010, the UK’s share of gross GDP devoted to Research and Development stood at 1.8 per cent, compared to the USA’s 2.8 per cent, Germany’s 2.8 per cent and France’s 2.2 per cent (OECD, 2013b).

Corporate governance

At a fundamental level are the corporate governance structures and financial system within which companies are 'embedded' and which encourage/discourage particular types of business strategy. The UK's 'variety of capitalism' is usually categorised as an example of the 'shareholder' or 'outsider' model of *corporate governance* (Hall and Soskice, 2001; Sisson and Purcell, 2009). In this model, there's a privileged position for shareholders and an overwhelming emphasis on shareholder value as the key business driver; a high concentration of institutional share ownership which encourages a focus on short-term profitability rather than long-term market share or added value; and relative ease of take-over, which not only reinforces the pressure on short-term profitability to maintain share price, but also encourages expansion by merger and acquisition rather than by internal growth. Finally, there tends to be a premium on 'financial engineering' as the core organisational competence, a domination of financial management over other functions and a tendency to numbers driven, as opposed to issue driven, planning, with in many cases the quarterly reporting of financial results and executive pay systems that prioritise share price.

This approach, suggest supporters, avoids potential confusion of objectives associated with the alternative stakeholder model that sees managers having multiple responsibilities (see, for example, Brittan, 2003; Owen, 2003). Most importantly, it helps to ensure that resources are continuously re-allocated to new initiatives – the process Schumpeter (1942) famously described as 'creative destruction', whereby the continuous recycling of investment helps to create new businesses and jobs and simultaneously destroy existing ones. The downside, say critics, is that these arrangements encourage a very short-term approach and have spawned a set of incentive structures that do not encourage

investment or a focus on productivity. Arguably, too, the problem has grown worse because of the change in the type of shareholder following deregulation of the financial sector in the 1980s and the accompanying globalisation of capital markets (Ownership Commission, 2012). Rather than influential individual shareholders who help to align the longer term interests of owners and managers, the key players are increasingly likely to be fund managers primarily concerned with "buy" and "sell" decisions which may be made many times a day. Also intensifying the pressure on managers to focus on short-term financial results has been the growth of a veritable 'industry' of business intermediaries, including city analysts and traders, accounting and law partners, executive pay consultants, and senior advertising and PR executives, all of whom derive their own income from share price-related activities ranging from the buying and selling of shares to merger and acquisition.

The financial system

The *financial system* makes a direct as well as indirect contribution. In the words of the multi-authored LSE Growth Commission Report (2003: 13), 'the UK is home to one of the most dynamic world centres for financial services, yet the country seems unable to deliver adequate long-term finance for innovation and private investment'. UK investment levels, as already reported, are significantly below those of other EU countries. As well as some of the features touched on above, such as 'investor impatience and a hyper-active mergers and acquisitions market', the report goes on to emphasise that short-termism is likely to be 'particularly acute for funding innovation', because it is 'hard to collateralise and highly risky'. Instead, private equity investors tend 'towards funding a smaller number of larger investments in later stage businesses at the expense of early stage venture capital for SMEs with high growth potential'.

Because of the difficulty that investors have in distinguishing between high- and low-risk entrepreneurs, younger businesses in particular suffer from a financing gap because they lack a track record. Finally, they suggest, the UK isn't creating leading global firms.

Productive entrants do not grow to scale nearly as quickly as in the US and this slow 'reallocation' is an important drag on relative productivity. Too often UK firms in high-tech and capital-intensive sectors are acquired by foreign businesses instead of being able to raise growth capital themselves.

Overall, a major consideration is that deregulation of the financial sector in the 1980s brought about a considerable change in the activities of banks. Lending gave way as the main activity to business involving other financial institutions. Central to this was a raft of instruments that policy makers only became aware of during the crisis beginning in 2008. In particular, there were the various forms of insurance against the possibility that an individual or company would renege on debt. Trading in these derivatives had become a business in its own right, giving rise to a 'shadow' banking system.

A transactional model of HR

Adding a further twist has been the spread of 'efficient markets' thinking to the workplace (Sisson and Purcell, 2009). An overall reading of contemporary HR texts might suggest that the 'resource-based' view of the organisation holds sway in current management thinking – people are human resources, the organisation's greatest asset, the key to success etc. Certainly, this is a view that has informed policy in recent decades, from the espousal of 'good employment relations' to 'human resource management' (HRM) to 'high performance

working'. Arguably, however, it is the doctrine of the firm as a 'nexus of contracts' that has in fact become dominant in practice (Parkinson, 2003, 485). This sees the firm as a 'contracting site' and the employment contract as no different from other contracts – as essentially a 'market' or 'transactional' relationship. The considerable increase in sub-contracting and outsourcing that has resulted means that the employment relationship is being 'externalised' and increasingly 'fragmented', with the employer who pays very often being different from the one who directs. The presence of non-standard contracts – ONS estimates suggest that more than 1.4 million people are involved in contracts with no guaranteed hours (ONS, 2014b) – has added further employment insecurity experienced by many employees

UK managers have come to prize such flexibility. There is a considerable downside, however. The more they resort to external (numerical 'hire and fire') rather than internal (functional 'on-the-job') flexibility, the more challenging it is likely to be to secure the engagement of employees. The more difficult it is, too, to pursue policies emphasising quality products and services to which employees can add value.

Addressing the challenge

In the immediate aftermath of the banking crisis of 2008, there was much talk of the need to re-balance the economy. Many of the proposals put forward were of the type needed to tackle the structural features underlying the UK's productivity problem. In the case of education and skills and investment, for example, there were the LSE Growth Commission's *Investing for prosperity. Skills Infrastructure and Innovation* already mentioned, Manchester's Centre for Research on Socio-Cultural Change's *Rebalancing the economy (or buyer's remorse)*, the Engineering Employers' Federation's *The Route To Growth*

and the Institute for Public Policy Research's *A Plan C to revive a failing economy*. There were many differences of detail, but a common thread was the need to encourage investment and innovation through new public bodies, infrastructure spending, and sector specific tax incentives to expand output, invest in capacity and up skill the workforce.

In the case of corporate governance, and in the light of the Kraft takeover of Cadbury in 2010, there were a raft of proposals from the Kay Commission (2012) designed to 'restore relationships of trust and confidence in the investment chain' and 'improve the quality of engagement by investors with companies, emphasising and broadening the existing concept of stewardship'. More radical proposals from pressure groups and media commentators included curbs on the activities of private equity groups and hedge funds; a short-term capital gains tax for shareholders who take early profits from selling their shares; making takeovers subject to more stringent criteria so that the opportunity for unlocking short-run shareholder value is more difficult; putting a stop to 'short-selling' and 'leveraged' buyouts and takeovers; stripping short-term holders of voting rights and raising the acceptance level required for takeovers. There were also proposals to allow a 'public interest' defence in the event of hostile takeovers. There was even talk of re-visiting the purpose of companies. In June 2010, for example, Hector Sants, Chief Executive of the Financial Services Authority (FSA), suggested that greater intervention was needed from regulators to ensure decisions made by firms deliver the outcomes society expects – a view that seems to have gained a measure of acceptance in the wake of Pfizer's attempt to take over Astra Zenica in the summer of 2014.

In the case of the financial system, influential commentators argued that there

was a need to 'protect the economy from finance' (Wolf, 2012) - banks should not be 'too big and connected to fail' and should be required to have sufficient capital to absorb the shocks that are to be regularly expected. Along with new forms of taxation on bank profits and bonus payments, proposals for reform included the break-up of the big banks, the separation of traditional retail banking activities such as providing credit from investment (i.e. capital market), and restrictions on proprietary trading and ownership of hedge funds by banks. Greater transparency was also demanded, with derivatives and other features of 'shadow banking' being moved on to exchanges. Also, everything should be done to emphasise creating value rather than extracting it. For some, an important lesson of the crisis and 'quantitative easing' that followed, was the need to set up a public investment bank or banks to guarantee a ready supply of credit to SMEs in order to prioritise business lending.

The point of listing these proposals is to remind ourselves how immense is the challenge policy makers face in tackling the structures underlying the UK's productivity problem. It isn't obvious where to start and getting from A to B is difficult to envisage – especially as the agenda could not be completed in one Parliament. The fragmentation of policy responsibility for employment and productivity also compounds these difficulties (Coats 2010; Sisson, 2010). There are powerful vested interests involved as well. They can be expected to oppose specific measures even if they accept the need for change overall. Bankers and the payment of bonuses is the obvious example.

There is, nonetheless, a considerable amount that can be done to improve the current situation. This is above all true if the focus is put on the workplace. Contrary to the impression that many policy makers and

their advisers seem to have, the workplace is not a 'black box' of little or no consequence. The workplace is fundamentally important. Indeed, any attempt to re-balance the economy or develop an industrial strategy without taking into account the workplace will almost certainly end in failure. The same goes for many of the other objectives policy makers subscribe to such as ending child poverty, enhancing the quality of family life, improving health, increasing social mobility and building a knowledge economy. This is because, to return to the opening of the paper, the workplace is where skills, capabilities and technology come together, where people acquire technical and social skills and where social capital is formed. The workplace also has a major impact on health and well-being – positive in that work satisfies the need for respect and meaning; negative in that, as well as physical injuries and illnesses, work can expose employees to stress and related poor health outcomes.

The missing ingredient – improving workplace performance

Focusing on the strong link between productivity and work organisation, the international evidence suggests that there is considerable room for improvement. For example, the LSE (ESRC, 2004: 3) report cited earlier suggested that half of the productivity gap with the United States was due to 'different ways of working - how firms are organised and how they use technology'.

Work organisation characteristics

In the UK, two features of work organisation in particular stand out. One, which is especially long-standing, is a reliance on overtime working – the National Board for Prices and Incomes showed more than forty years ago how this encouraged restrictive practices and sloppy management (NBPI, 1970). Eurostat (2013) suggests that, while overall average hours worked in the UK are similar to those other countries (i.e. around 40 hours), the proportion of the workforce

working more than 48 hours is one of the highest in Europe.

A second characteristic is a preference for a 'lean' as opposed to a 'learning' model of work organisation (European Foundation for the Improvement of Living and Working Conditions, 2009). Both types draw on employees' capacity for continuous learning and problem-solving, but one (the 'learning' model) emphasises worker autonomy, while the other (the 'lean') focuses on managerial control and tight quantitative norms to fix the pace of work. It's the 'lean' rather than the 'learning' model that predominates in the UK, the proportion of 'learning' workplaces being half that of Sweden and even less than the 27-country average. In the UK the direct control of a superior is also relatively more important in determining the pace of work than it is in France, Germany, the Netherlands and Sweden. A further feature is that the UK employs more 'senior managers' proportionately than other EU countries – some 14 per cent to 15 per cent as against an EU average of under 10 per cent and just over four per cent in Germany.

The picture that emerges, in other words, is of UK workplaces where relatively extensive managerial hierarchies try to get employees to work harder. It is not one where the emphasis is on employees being encouraged to work smarter

It may be argued that the wider structures do not encourage UK managers to recognize the importance of training and development, employment relations and work organization. Crucially, they mean that these managers don't see training and development as investment, nor work organisation and employment relations as areas where they have scope for innovation and continuous improvement. Business is essentially about marketing and finance leaving little time for anything else.

It doesn't have to be like this, however. Indeed, compelling evidence for saying so is to be found close to home. Reports of the work of the Involvement and Participation Association, the more recent *Engage for Success Movement*, and new research published by Acas (Dromey 2014) are a few examples of a strong body of evidence that has been growing for a number of years and which provides a clear link between improved productivity and workplace management approaches.

Acas advisory projects

However, it is perhaps in the reports of the workplace projects that Acas Senior Advisers carry out that the most continuous stream of direct practical evidence is to be found. Government funded, Acas (the Advisory, Conciliation and Arbitration Service) is best known for its work in helping to resolve disputes at work. By contrast, its 'Advisory' work, which builds on and contributes to its conciliation work, receives relatively little attention. Yet in a typical year Acas Advisers will carry out some 200-250 projects spread across manufacturing and services and embracing both public and private sectors (Acas, 2011a) in which Acas works with managers and employee representatives to bring about change and innovation. Sometimes these projects arise from a conciliation exercise and sometimes from attendance on Acas training courses (Dix and Oxenbridge, 2004) and they can also flow from a question to Acas Helpline on issues as varied as absence management, grievance handling and introducing new work systems.

The reports of these workplace projects are especially valuable in showing how much scope there is for improving performance and contributing to productivity. To take just one example, a research summary dealing with an 'Innovative Workplace Initiative' in the East Midlands cautiously estimated that the overall benefits across the eight organisations involved were over

£900,000 (Acas, 2011b). In one case, the benefits came from something as simple as a saving in management time – one manager estimated he had achieved a 75 per cent reduction in time spent on disciplinary and grievance matters. In most others, it came from new ideas leading to a change in working arrangements: re-organisation of a warehouse, disposal of waste materials, revised purchase order documentation, improved machine design/development and a move to integrated manufacturing arrangements. Invariably, the examples are very low tech and so are easily dismissed. But, as Sir David Brailsford and his team have shown in elevating the UK to the pinnacle of world cycling, the 'marginal gains' approach has a lot going for it (see, for example, Quigley, 2012).

The mechanisms by which these improvements were achieved are also very simple. Essentially, they boil down to two. One is the introduction or revision of policies in the key areas of people management. Simply having clear and easily understood policies in key areas of employment relations such as discipline, grievance, equality and absence can make a massive difference to effective workplaces if they are backed up by the right skills and leadership.

New processes were the second mechanism. The common thread is better communications systems that put people at their heart. It could be the way in which managers communicate with employees – in one case, the catalyst was the introduction of a newsletter, in another more delegation and in a third individual appraisal arrangements. Especially important, however, were mechanisms that enabled and encouraged employees to voice their views – these could be departmental meetings, focus groups or joint consultative meetings. The critical point is that these enabled managers to benefit from the knowledge and experience that

employees have of the detailed operations, the problems and the pitfalls, and how they might be dealt with to reduce costs and improve productivity, quality and customer care. To benefit, of course, managers have to listen.

It is also possible to find examples in the Acas case files of what can be achieved in terms of enhancing productivity when there is a step change in arrangements. Further details of two of these will be found in the Boxes. The first deals with the better use of working time and the second with smarter working.

As well as involving its advisors face to face in workplace projects such as these, Acas also makes this collective experience available online in the form of guides, training materials and self-help tools such as its 'Model Workplace' and elearning modules. Crucially important is that most of these are designed to encourage thinking about solutions to deal with the specific circumstances of individual organisations rather than offering a 'one-size-fits-all' remedy. The 'Acas Model Workplace', for example, is a tool rather than a 'blue-print' - it asks a series of basic questions about each element of work organisation and people management, leading to bespoke advice and suggestions for improvements tailored to the user's particular organisation or workplace.

The problem is how to diffuse such services and materials more widely. Currently, Acas uses a range of delivery mechanisms such as email, telephone calls, training courses and face to face meetings. Understandably, however, it's essentially a largely reactive process. A more pro-active approach would require much greater resources and, as Acas users often report, can run the risk of getting lost in the all the noise that businesses feel they have to contend with.

Box 1 A case of working time change.

This company was characterised by relatively low basic rates of pay and high levels of overtime working. A steering group comprising managers and employee reps took a two-pronged approach to this, developing both new shift patterns and a system of 'reserve hours' working.

A major management objective was to eliminate the site's "historic tradition" - common to the manufacturing sector more broadly - of the "end of the month rush", whereby the majority of output was produced in the final week of each month. They aimed instead to work around weekly production targets, in order to provide customers with "a better flow of product". Prior to the introduction of the system, employees worked a 37-hour week plus overtime. Under the reserve hours scheme, all employees would receive a salary calculated at 40 hours' work, comprised of 37 basic work hours and 3 reserve hours per week. The basic salary was increased to compensate for the additional working hours, along with shift premiums, holiday pay, pensionable earnings, and redundancy pay.

Managers stated that they hoped that employees would "work smarter and more productive" within the 37 hours. If they met their production targets within the 37 hours, they would not have to work the extra three hours per week, despite being paid for them. Stewards believed that the reserve hours system held certain advantages over the previous system of working hours. These included the increase in basic pay for all shopfloor employees who went on to the system, which also flowed through to increases in associated benefits; and the fact that it provided employees with a more stable income, rather than having to rely on the vagaries of overtime working.

Box 2 A case of team working. This small manufacturing company had a traditional functional work organisation with fairly rigid demarcation lines and little or no flexibility between jobs. Job roles were mainly gender-based and productivity levels relatively low. A joint management-trade union programme was initiated with help from Acas. Instead of the traditional pattern, cell-based teams were introduced, with team members responsible for production, cost, quality, engineering and materials movement. Maintenance was also involved with the introduction of a “Total Preventative Maintenance” programme whereby.....

A large-scale training programme was conducted to ensure that all team members were multi-skilled and flexible in terms of their ability to handle a spread of tasks and share skills. According to managers and union representatives involved in the process, both demarcation and direct manning numbers were reduced, with a number of voluntary redundancies being possible as part of the package.

The teams resulted in improved morale and quality, the latter through the allied introduction of the maintenance programme. Managers believed that there was a direct and positive link between the outcomes of the change programme and improvements in company performance. The new manning scheme led to an increase in productivity of over 20 per cent and a halving in absence levels from 8 to 4 per cent. There was also a reduction in waste and in customer complaints.

The value of dialogue is at the heart of the change programmes cited here. Managers work with employee representatives to analyse and seek solutions to problems as well as develop strategies for innovation.

The problem is the UK lacks the general social dialogue arrangements used to deal with issues like work organization in Germany, the Netherlands and Sweden. It also doesn't have Germany's *Länder* structure of regional government, which helps to compensate for benefits of the small size effect that Sweden and the Netherlands enjoy. In Germany, too, membership of chambers of commerce is compulsory rather than voluntary as it is in the UK – which means that it's more difficult for employers to remain unaware of the opportunities for improving innovation and productivity through continuous workplace and workforce improvement.

In his recent report for the Labour Party on the challenge of low pay, Alan Buckle (2014: 29) talks in terms of the Low Pay Commission being empowered to recommend task forces of key stakeholders to tackle the issues of productivity and performance. This is a positive step forward in in as much as it recognises the fundamental importance of the workplace and the role it has to play in developing any serious industrial strategy. Missing, though, is any suggestion about how these task forces might be got off the ground.

Arguably, this is a job for the employer's organisations in the key sectors – notably manufacturing, care, retail, and SMEs – working in cooperation with Acas, the Low Pay Commission and the representative trade unions. In manufacturing employers' organisations such as the Engineering Employers' Federation have the staff and expertise needed to ensure that the materials are tailored to suit the circumstances of the sector, with recognizable language and examples being crucial. Also organisations like the Engineering Employers' Federation are already involved in delivering a range of consultancy-type services to their members and so are very experienced in what would be involved on the ground.

Admittedly, in some of the service sectors, there is much less experience of such activities. Organisations of employers have tended to major on trade rather than employment issues. This should be seen as an opportunity rather than a threat, however, and Senior Acas Advisers might be seconded to help them get things off the ground and develop the much-needed employment relations competence.

A regional dimension would also be required for such a campaign to reflect different patterns of industry and activity – whether, for example, mainly low paid or high paid jobs are involved. Here there would be key delivery roles for Chambers of Commerce and the Local Enterprise Councils (LEPs) – a feature of the initiative which would seem to fit very well with the job of ‘improving the business support landscape’ that the government set for LEPs in its response to the Lord Heseltine’s 2013 *No stone unturned* report.

As well as being made widely available and promoted, such materials might also be incorporated into the continuing professional development programmes of the accountancy bodies and the Law Society. Many SMEs rely on their accountants and solicitors for information and advice on employment relations matters.

In the light of what’s been said about the weakness of the UK’s institutional framework, it hardly needs emphasising that such an initiative is unlikely to get off the ground without government support and funding. This also shouldn’t be a problem, however. The sums of money involved are relatively small compared to the likely gains. The initiative would seem to fit perfectly with the increasing acceptance that government has a key entrepreneurial role to play in promoting the knowledge economy (Cable, 2014; Mazzucato and Perez, 2014). It’s an added bonus that, in this particular case, the

investment has already been made – it’s a matter of diffusing the knowledge that one of its own most trusted agencies (Acas) has acquired.

The government also has more direct roles to play. Public services are well placed to lead by example. First, they are significant employers in their own right – the public sector employs upwards of six million people and, as the joint Civil Service Unions/ Cabinet Office (2004) report following the ‘Whitehall studies’ into the link between low job control and increased risk of ill-health recognized, there is considerable scope for improving work organization. Second, like large companies, the wide ranging procurement activities in which public services are involved also mean that the capacity of public services to influence the businesses they contract with in their supply chains is considerable. In 2012/13, the public sector spent a total of £230 billion on procurement of goods and services (including capital assets), which accounted for 34% of total managed expenditure (House of Commons Library, 2014). Such influence could be exerted both directly and indirectly. In the first instance, the EU Public Sector and Utilities Directives would appear to offer important opportunities to introduce key social, employment and environmental initiatives (or criteria) into public sector contracts. In the second, there is considerable scope for public services to raise the levels of service quality required as a means of encouraging their suppliers to up-skill.

In this case, too, as a new guide from Acas emphasizes (www.acas.org.uk/TUPE) there is an opportunity to enable suppliers to reach higher management standards by making the right information and advice available. In particular, would-be contractors need sufficient information about potential employees and actual liabilities if their bids are to be translated into viable management of the service. Subcontractors can find that

the margins for profit on outsourced work are so narrow that little resource is available for either upskilling or improving wage rates. Although some parts of the public sector are committed to paying living wage rates, this commitment does not always transfer to contractors meaning that there is a tendency to bid at NMW rates in order to win the contract. A clear indication that bids should include labour costs based on the living or London living wage would certainly give bidders greater certainty – it might even encourage some of them to consider more upskilling.

If the government of the day were bold, they would also legislate for greater transparency of HR policies and practices. Following the recommendations of the 2003 Accounting for People Task Force report, it would help considerably if companies had to publish information about their policies and practices across a range of HR issues including their procedures for informing and consulting with employees, their policies on improving work organization and the quality of working life, and the steps they take to ensure best practice throughout their supply chains. Acas could be asked to bring the information together in the form of 'good' or 'best company' practices across the whole gamut of HR policies and practice. Crucially, this would provide an opportunity for organisations and their employees to benchmark themselves against best practice, thereby helping to ensure the continuously improving standards that are needed if policy makers are to achieve the objective of re-balancing the economy.

Arguably, these are things that government could do at any time. So why act now? First, in the context of the economic recovery and with reduced economic constraint, employers may be more likely to be receptive to arguments in favour of good employment practice. Another reason is likely developments in National Minimum Wage (NMW). As well as wide

ranging suggestions for changing the role of the Low Pay Commission from the Resolution Foundation (2014), something of a measure of consensus has emerged among the main political parties about the need to upgrade the current level of the National Minimum Wage – indeed, both the Chancellor of the Exchequer and the Leader of the Opposition have talked in terms of above inflation increases for the foreseeable future (see also, Buckle 2014). As well as the social justice case, two considerations have weighed heavily to drive this degree of consensus. One is the need to stimulate demand – employees, it mustn't be forgotten, are also consumers. The second consideration is the implications of 'in-work' poverty for public expenditure. In 2010 around 16 per cent of the population in the UK was deemed to be below the risk-of-poverty threshold, i.e. 60 per cent of the national median. Significantly, however, these figures take into account social security payments. If these are excluded, the UK had the second highest proportion at risk (31 per cent) after Lithuania (Eurostat, 2012).

Organisations representing SMEs have expressed alarm at the prospect of above inflation increases in the NMW. In some sectors, the grounds for concern carry weight – the care sector, where it's generally recognised the funding regime needs root and branch reform, is an obvious example (see, for example, Philpott's argument in Joseph Rowntree Foundation, 2014). But if improving productivity is not the complete answer in every case, it is most certainly a major component of it. Once employers get used to managing with the crutch that low pay gives them, it's difficult for them to envisage doing things any other way.

Final comment

Economists have spent decades looking at the UK productivity problem seemingly from every angle. Perhaps, however, they have missed the most obvious and



most tangible dimension – the workplace. Employment relations, however harmonious, cannot solve the productivity problem entirely, but Acas experience can teach us a great deal about what drives productivity when it comes to individual employees and teams and the importance of unlocking potential via good training, communication and involvement, wellbeing, job design and, of course, pay. There are pockets of good practice and workplace innovation, but they are too few and far between. The campaign needs more support, from government, businesses, employers' organisations, trade associations and other interested stakeholders and, starting at the bottom, from managers and employers. This is where a strategy focusing on the workplace as advocated here comes in.

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