

Closing the Gap: Workplace innovation and UK productivity

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Key messages

- Workplace innovation describes the introduction of new ways of working that listen to employees and release their creativity.
- Workplace innovation is an inherently social process. It draws on the skills and competences, knowledge and tacit understanding that employees have and use in their workplace interactions.
- Sometimes innovation involves creating opportunities for reflection or learning across the organisation so that change can take place. This can happen in sub groups which allow individuals to influence strategic decision-making.
- For many organisations, innovation is seen purely as a tool for technological change or development. This viewpoint misses out on the opportunities for people to influence their jobs and other aspects of organisational change and development.
- Beyond the individual workplace, there is an opportunity to rethink the bigger picture for UK workplaces. A greater interface between government, employers' organisations, trade unions, researchers and other stakeholders may be one way of achieving a shared agenda around innovation and change.

The invisible workplace

Participative and empowering workplace practices are an underused resource for UK public policy. As Ewart Keep argues in his Acas Employment Relations Comment: "the UK turned its back on traditional policy concerns about workplace relations a long time ago . . . the underlying assumption was that competitive pressures and managerial wisdom would lead to organisations using workers productively".

What happens inside the workplace tends to have negligible visibility when it comes to policy discussions about competitiveness, innovation or wider societal issues like health and ageing. The ways in which jobs are designed and work is organised is seen as a black box, and we see little attempt to influence decision-makers at enterprise level even though the quality of their choices impacts directly on the health and wealth of society.

It is time to raise the profile of the workplace in national policy discussions. This process has begun. Keith Sisson's Acas Policy Discussion Paper¹ makes a strong case especially amongst policymakers. Both he and Ewart Keep argue that we need to rediscover the importance of how people are managed and deployed in the workplace if we are to make inroads into the productivity problem.

This paper addresses the following questions:

- What is workplace innovation and why is it important?
- Why do we have a gap between evidence-based practice and common practice in workplaces?
- How do we go about sharing knowledge and experience between enterprises and building bridges between research and practice?
- What are the policy implications for stakeholders?

Defining workplace innovation

The term "workplace innovation" is increasingly used to describe the introduction of new ways of working that empower employees and release their creativity. It now occupies an important place in EU innovation and competitiveness agendas² - for instance with, the creation of the European Workplace Innovation Network (EUWIN)³. Frank Pot (2011) describes workplace innovation as "new and combined interventions in work organisation, human resource management and supportive technologies" which are strategically informed and highly participative in nature. Critically workplace innovation cannot be defined purely in terms of static practices adopted in the past:

"Successful workplace innovation depends not on following a linear process of change towards a defined end but on the ability to create innovative and self-sustaining processes of development by learning from diverse sources, by creating hybrid models and by experimentation." (Totterdill, 2010).

Most importantly, workplace innovation is an inherently social process, building skills and competence through creative collaboration. It is fuelled by open dialogue, knowledge sharing, experimentation and learning with diverse stakeholders including managers, employees, trade unions, and customers having a voice in the creation of new models of collaboration and new social relationships. Workplace innovation builds bridges between the strategic knowledge of the leadership, and the professional and tacit knowledge of frontline employees.

According to the Hi-Res study, a meta-analysis of 120 case studies across ten European countries, workplace innovation is always characterised by:

". . . a clear focus on those factors in the work environment which determine the extent to which employees can develop and use their competencies and creative potential to the fullest extent, thereby enhancing the company's capacity for innovation and competitiveness while enhancing quality of working life." (Totterdill et al 2002).

What does innovation at work involve?
It may include empowering job design,

KEY STATS

- workplace innovation has a substantial effect on efficiency, with performance premiums ranging between 15 and 30 percent (Appelbaum et al, 2000)
- Extensive Swedish surveys found that "decentralising work organisation and human resource development are positively associated with productivity and growth" (ITPS, 2001)
- There is a very clear link between flexible, participative forms of work organisation and performance: these organisations were more productive (NUTEK, 1996)
- there is a clear relationship between involving employees in day-to-day decision-making and in participative working practices on the one hand and performing better in terms of business outcomes and workforce health on the other (2013 European Company Survey of 30,000 establishments).

self-organised teamworking, structured opportunities for reflection, learning and improvement, high employee involvement, the encouragement of entrepreneurial behaviour at all levels of the organisation, and employee representation in strategic decision-making. These workplace practices enhance the ability of employers to secure a full return on their investments in training and technology as a result of improvements in performance, innovation and quality of working life. It is this potential for convergence (rather than a trade-off) between improved performance and enhanced quality of working life that lies at the heart of workplace innovation (Ramstad, 2009; Dhondt et al 2011).

Why workplace innovation matters

Extensive survey and case study evidence demonstrates that workplace innovation improves performance and innovation. A review of some sixty US articles shows

that workplace innovation has a substantial effect on efficiency, with performance premiums ranging between 15 and 30 percent (Appelbaum et al, 2000). Reviews of European literature also demonstrate a positive relationship between participative forms of work organisation and performance.

An iconic study of 6000 workplaces in Europe, the Employee Participation and Organisational Change (EPOC), found that of firms which implemented semi-autonomous groups 68% enjoyed reductions in costs, 87% reported reduced throughput times, 98% improved products and services, and 85% increased sales (European Foundation for the Improvement of Living and Working Conditions, 1997).

Extensive Swedish surveys found that “decentralising work organisation and human resource development are positively associated with productivity and growth” (ITPS, 2001). There is a very clear link between flexible, participative forms of work organisation and performance: these organisations were more productive (+20-60%), showed a much lower rate of personnel turnover (-21%), and a lower rate of absence due to illness (-24%) compared with traditionally organised operational units (NUTEK, 1996). Comparable findings can be found in studies from Finland (Antila and Ylöstalo, 1999) and Germany (Lay et al, 1996).

The benefits of workplace innovation for employees are also demonstrated by a substantial body of research (Delery and Doty, 1996). Participative work practices such as self-organised teamwork enhance employee motivation and quality of working life, playing a particularly important role in reducing employee stress (Shortell, et al, 1994), enhancing job satisfaction and mental health, and improving retention (Borrill et al, 2001). Critically Ramstad (2009) shows that improvements in quality of working life have a strong association with improvements in economic performance, and indeed may actually enable them.

Bringing the evidence up to date, the 2013 European Company Survey⁴ of 30,000 establishments demonstrates a clear relationship between involving employees in day-to-day decision-making and in

participative working practices, on the one hand, and performing better in terms of business outcomes and workforce health on the other.

The problem

However the UK is facing a difficult paradox. Despite the evidence of organisational benefits, successive surveys show limited spread of such practices. Results from the 2012 Skills and Employment Survey, the European Company Survey (2013) and European Working Conditions Survey (2010) show that job autonomy has not risen in the past decade while there has been an increase in job demands. Well under 30 per cent of UK workers are involved in decisions about how work is organised and the number has been declining steadily since 2001. One recent survey (LLAKES, 2012) estimates the use of self-managing teams, a basic building block of good work organisation, at only 10%. The UK compares unfavourably with several other Northern European countries against many comparable indicators. Unlike these countries, the UK also lacks a coherent policy framework to stimulate the adoption of better ways of working.

The limited spread of workplace innovation practices can be understood in terms of several mutually reinforcing factors including:

- a tendency to see innovation purely in terms of technology;
- low levels of awareness of innovative practice amongst managers, social partners and business support organisations;
- poor access to robust methods and resources capable of supporting organisational learning and innovation;
- barriers to the market for knowledge-based business services and the absence of publicly provided forms of support;
- the failure of vocational education and training to provide knowledge and skills relevant to new forms of work organisation.

At workplace level resistance is well understood as a constraining factor. To empower workers, managers may wrongly perceive that they have to lose it, potentially challenging their self-identity and status within the organisation.

Sharing knowledge of workplace innovation

The practical challenge is to build the conditions at European, national and local levels which stimulate, resource and sustain workplace innovation on a large scale. There are several principles at stake. Action-researchers stress that the models of workplace practice that have come and gone over the years (TQM, Business Process Re-engineering, EFQM . . .) are not always well-grounded in research, focus on partial perspectives and can act as a roadblock rather than a motor for real change in organisations. Experience from outside the organisation can provide a valuable resource for stimulating real innovation, but only if it reflects the specific context of each workplace – a process that involves multiple stakeholders. In other words there are no blueprints, just a requirement for those stimulating change to draw on diverse sources of knowledge and experience, to experiment, and to learn from trial and error.

From his perspective as a Finnish policymaker, Tuomo Alasoini (2011) argues that public programmes and interventions can facilitate and resource this journey of learning and innovation. Public policy measures to support workplace innovation need to recognise the distinctive but interlinked contributions of three types of knowledge:

1. Knowledge of proven workplace designs and practices. Concepts such as “lean” may have claims to universal validity, but such knowledge may come from context-specific cases.
2. Knowledge of collaborative ways to construct or re-invent workplace design. This is understanding how evidence can be combined with “employee voice” and take account of factors specific to individual workplaces and organisations.
3. Knowledge of how to best to disseminate the know-how of workplace innovation. It may not sufficient to produce “star” cases in the hope that wider diffusion will follow. Agencies with capacity for dissemination such as chambers of commerce, social partners and universities need to be

active participants in programmes and initiatives, and transferable lessons can be fed through inter-organisational learning networks. There is increasing interest in the benefits of knowledge sharing in clusters of enterprises or sectors (such as via action learning).

‘Joint intelligence’

It is time to bridge the gap between the knowledge held by researchers and workplace decision-makers. The need is to create a ‘joint intelligence’ shared by all stakeholders. The creation of the EUWIN network by the European Commission at the end of 2012 has already provided such an opportunity with its task to promote the dissemination of workplace innovation throughout Europe by means of knowledge sharing and dialogue⁵. Its The Fifth Element⁶ concept is an example of bringing together research evidence and practical experience to support practitioners in guiding change as well as identifying new policy and research agendas. A summary can be found below.

TABLE 1: The Fifth Element *The First Element: Job Design and Work Organisation*

Employees can often help their customers and colleagues more effectively when they’re trusted to use their judgement. Likewise empowered, self-organised teams are a basic building block in which people share knowledge and problems, break down barriers and generate ideas for improvement, innovation and growth using insights that day-to-day work experiences bring.

The Second Element: Structures and Systems

Organisational walls and ceilings that allocate people to departments, divisions, grades and professions tend to create silos that put barriers in the way of doing a good job. Different groups within an organisation should intertwine in ways that help everyone understand other people’s jobs, professions, specialisms, priorities, problems and vision. Systems and procedures that govern decision-making, resource allocation and standard operating procedures must also be aligned with commitment to empowerment and trust. Truly innovative workplaces

demonstrate a consistent approach through corporate policy, from reward systems and performance appraisal to flexible working and budget devolution.

The Third Element: Learning, Reflection and Innovation

Research and technology-led activity accounts for only 25% of innovation; the remaining 75% of successful innovation is generated by changing managerial, organisational and work practices (Volberda et al., 2011). Such innovation is strongly associated with “active work situations”: workplaces and jobs in which workers have sufficient autonomy to control their work demands coupled to discretionary capacity for learning and problem-solving.

The Fourth Element: Workplace Partnership

Partnership between management, employees and trade unions can take many forms but always requires openness, transparency and two-way communication. Representative partnership structures (such as works councils and management-union partnership forums) on their own may have little direct impact on performance or quality of working life but they can exert a positive influence on the development of activities and practices that do so. Partnership arrangements alongside the previous three Elements leads to improved information sharing, enhanced trust and reduced resistance to change.

The Alchemy of The Fifth Element

The Fifth Element highlights the importance of the interdependence between the workplace practices described in each of the four Elements. Each bundle of practices described above does not exist in isolation but is influenced, for better or worse, by the extent to which the values and goals that underpin it are supported by those of the others.

See the EUWIN Knowledge Bank at <http://uk.ukwon.eu/the-fifth-element-new>.

Implications for stakeholders

Survey evidence demonstrates that only a minority of public or private employers in the UK have systematically adopted ways of working that can bring sustained benefits for organisations and their employees alike. There is clearly much more that needs to be done at EU and national levels, and bodies such as Acas has a critical role to play in closing

the gap. Evidence over four decades from several European countries shows that targeted intervention by governments and regional agencies can make a significant difference (Totterdill et al, 2009).

What is needed is a mature and informed debate about “what works”, not least regarding the ways in which public policy can generate win-win outcomes for enterprises and their employees. A 2010 Better Government report⁸ recommended that “before policy decisions are taken by Government, proposals should be thoroughly tested by objective analysis, by drawing on the experience of . . . people familiar with delivery, and by wider consultation”. The CIPD, for example, suggests that many decisions pay inadequate attention to the practical workplace implications and fail to deliver the intended results. Design and delivery of employment regulation need to be more closely integrated. As Mike Emmott of the CIPD argues, the need is to move the centre of gravity of Government policy and regulation on employment issues closer to the workplace.

European example: Finland

In recent years, Finland has carried out working life programmes with the combined aim of promoting sustainable productivity growth and employee well-being.

The Workplace Development Programme (TYKES) programme within the Finnish Technology and Innovation Agency (TEKES) has funded nearly 1,200 development projects in virtually all sectors of the economy. TYKES and its recent successor LIDERII (Business, Productivity and Joy at Work Programme)⁷ are grounded in close co-operation between Government, labour market organisations, universities and other research and development institutes.

Convincing evidence from TYKES shows that quality of working life and organisational performance can converge. Evaluation of 312 TYKES projects found that improvements in quality of working life and performance correlated well with each other (Ramstad, 2009). Most organisations that improved quality of working life improved performance simultaneously.

But Government policy alone is not a panacea. Evidence from elsewhere in Europe points to the benefits of close collaboration between employers' organisations, trade unions, business support organisations, chambers of commerce and universities. Countries such as Finland, France, Germany and Norway typically favour measures which:

- accumulate, analyse and distribute knowledge of leading-edge practice and evidence-based approaches to change
- establish closer links between researchers and practitioners
- use action research to promote workplace innovation
- develop new learning resources to support workplace change
- provide knowledge-based business support
- create inter-company learning networks

The most successful interventions involve the creation of active coalitions with employers' organisations, trade unions and researchers. In Ireland, for example, social partners and government undertook a series of collaborative initiatives in which workplace partnership was central to the modernisation of work organisation. Involving employee representatives in both design and implementation of workplace innovation can help to ensure 'ownership' of the process and alleviate some of the problems of inertia and innovation decay seen elsewhere.

In summary the challenge is to develop a low-cost system to stimulate, resource and sustain the scaling up of workplace innovation. A greater emphasis on workplace innovation in management education would help prepare the ground but a serious intent to reduce the long tail identified in recent surveys needs to be supported by more direct measures. One example of such a measure can be found in the Innovative Workplaces programme piloted by Acas and UK WON in the East Midlands (see footnote⁹ and Table 2 below):

TABLE2: Innovative Workplaces - a pilot approach to collaborative innovation

The Acas/UK WON Innovative Workplaces programme piloted in the East Midlands offers aimed to improve performance through greater employee involvement, the development of sound HR practices and the redesign of work organisation.

A diverse group of ten public and private organisations were selected in the pilot. Drawing on experience from programmes such as VC2010 in Norway, the design placed considerable emphasis on collaborative learning, knowledge sharing and peer review.

Participating organisations were supported via:

- a course delivered by UK WON which provided a reflective space in which participants could evaluate practices in their own companies and formulate an action plan for the implementation of change. The plan was presented to the other project participants for peer review and evaluation.
- regular Network meetings led by UK WON which combined a thematic discussion of common problems and action-learning sets in which each organisation presented progress, achievements, obstacles and dilemmas for peer review and discussion.
- Acas facilitators offered hands-on workplace support, guidance and sign-posting to specialist resources.

The pilot project commenced in June 2009 and after its completion in 2010 received very positive results from an independent evaluation, including a high return on public investment (Harris et al, 2011).

There is an urgent need for new thinking about how public policy can help to shape more productive and healthier workplaces. We need to rethink the interface between

government, employers' organisations, trade unions, researchers and other stakeholders, focusing on the potential for convergence between economic and social goals through smarter and more sustainable ways of working.

Public intervention should be redefined in a new and more thoughtful way, one grounded in evidence of what actually works in practice. A key lesson from workplace innovation programmes in Finland, France, Germany and elsewhere is that taking the workplace seriously can pay dividends for businesses and employees alike.

End notes

1. The UK Productivity Puzzle – is employment relations the missing piece?
2. http://ec.europa.eu/enterprise/policies/innovation/policy/workplace-innovation/index_en.htm
3. <http://uk.ukwon.eu/euwin-resources-new>
4. 2013 European Company Survey
5. <http://uk.ukwon.eu/euwin-resources-new>
6. <http://uk.ukwon.eu/euwin-knowledge-bank-menu-new>
7. <http://www.tekes.fi/en/programmes-and-services/tekes-programmes/liideri/>
8. <http://www.publications.parliament.uk/pa/ld200910/ldselect/ldconst/30/30we02.htm>
9. www.acas.org.uk/index.aspx?articleid=3683

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