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Reflections on Employee Relations

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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.

This paper publishes the text of the fifteenth Warwick-Acas Lowry Lecture, given to an invited audience at the University of Warwick's Shard campus in London on 11th April 2016. The annual lecture is jointly organised by IRRU and the Advisory Conciliation and Arbitration Service (Acas) in honour of Sir Pat Lowry. A former chair of Acas, Sir Pat was for many years an Honorary Professor at the University of Warwick, a long-standing member of the Business School's Advisory Board, and a source of valued counsel to IRRU in its work. His outstanding contribution to the practice of industrial relations commenced when he joined the EEF in 1938. He went on to become the Federation's Director of Industrial Relations. He left in 1970 to join British Leyland as Director of Industrial Relations. In 1981, Sir Pat was appointed as Chair of Acas. He stepped down six years later with Acas' reputation for impartial and constructive advice enhanced, in the face of an often turbulent industrial relations landscape.

This year lecture was given by John Cridland, recently retired from the role of Director-General of the Confederation of British Industry (CBI), an organisation he had joined in 1982. The one-third of a century tenure in the British employer association allows John Cridland to re-examine the trajectory of employee relations in the UK and to identify its current challenges. While celebrating the overcoming of some of the toughest industrial relations problems that were present in the early 1980s, he insightfully argues that the solution of an industrial relations problem has also been a missed opportunity to improve workplace practice. That hitherto neglected aspect – Cridland speaks of employee relations as the 'Cinderella of our national economic debate' – has a particularly serious implication for employers and for the national accounts, notably productivity stagnation. Productivity is indeed becoming an increasingly central issue for employment relations research and Acas itself brought it to the centre of its activity with the report on 'Building Productivity in the UK' of 2015. With the policy debate largely focussed on macro consideration, the lecture makes a case for a micro-approach that looks at the workplace as the site where productivity is created, and where solutions are more subtle and sensitive than in abstract economic theory. This proposition is rich of policy, practice and research implications. We are pleased to present the text of the lecture in the form of this Warwick Paper in Industrial Relations, in the hope that its enhanced circulation will inspire further debate.

Guglielmo Meardi

Reflections on Employee Relations

I am honoured to have been asked to give this lecture in memory of Sir Pat Lowry.

Pat devoted his professional life to seeking to improve Britain's industrial relations, first at the Engineering Employers Federation; then at British Leyland and finally at Acas.

He did so at a time when the disastrous state of our industrial relations was a national disease, literally bringing the country to its knees and undermining our economic performance.

I began my own professional career in 1982 in the final throes of that saga – the run-up to the 1984 Miners' Strike – and thankfully have worked through a period in which industrial relations has been, largely, a secondary issue.

However, I am old enough to be shaped by that era, as surely as I was shaped by the Cold War. I remember doing my homework as a youngster by candlelight during strike action and my career at the CBI owes much to a factory visit I made as a member of the Cambridge University Student Industrial Society to the Massey Ferguson tractor factory in Coventry at the beginning of the 1980s. It was a time of poor industrial relations which I could sense on my tour of the factory.

That experience left me with a belief that there had to be a better way to run a factory and I decided on a career in Personnel. I remember an interview in a Cambridge hotel with the Industrial Relations Manager of a major US car company.

After I had outlined my, rather naive, philosophy for workplace harmony, the IR manager corrected me. My job, he said, was to find the b****** who was going to put a spanner in the works on the night shift and get him out before he did. Needless to say, I did not get the job but I did join the CBI.

From my earliest days then, I believed that relations in the workplace had much to do with our economic health and our national progress, a belief which I shared with Pat Lowry and which has never left me.

I also strongly believe that whilst both the economy and employee relations have changed out of all recognition over the last thirty five years, in many respects many of the issues are still the same today.

Instead of poor industrial relations, we talk about poor productivity. Sajid Javid, the Secretary of State for Business, refers to productivity as the "challenge of our time" in the Government's 2015 economic strategy document, 'Fixing the Foundations, Creating a more Prosperous Nation'.

I believe as does Acas, that workplace practice is central to improving productivity and thereby enhancing economic growth.

However, there is a major difference between 2016 and 1982. Then workplace employee relations were a major political issue of the day; indeed of a generation. Industrial relations and economic performance were Siamese twins; nearly always talked about in the same sentence.

Now the opposite is true. The national economic debate is largely about globalisation, digitalisation and international finance. The workforce rarely gets a look in even though economists frame the economic challenge in terms of productivity, and when workplace practice is mentioned it is largely a debate about skills policy, not about employee relations.

As a country, and indeed as Acas, we are victims of our own success. The 'British Disease' of poor industrial relations has largely been cured. So we don't need to worry about it. We are, of course, still looking for the Holy Grail of a sustainable growth model but now we look elsewhere.

Because it is no longer a demonstrable problem the workplace is largely overlooked. I oversimplify for effect but it seems to me that employee relations have become the 'Cinderella' of our national economic debate.

Now you might be thinking; "industrial relations disease cured; problem solved".

Let's move onto the other public policy issues that are now more relevant to future economic growth. Exports? Investment? Digitalisation? Skills?

However, it can never be as simple as that.

In my judgement the industrial relations problem solved has resulted in an employee relations opportunity being overlooked.

We will not fund an optimal, sustainable growth model without encouraging best practice in employee relations and, in the remainder of this lecture, I want to justify that assertion, reframe the current productivity debate and set a new path in our search for the Holy Grail of sustainable economic growth in a way which Pat Lowry, I believe, would have shared and championed.

The economic crisis of 2007/8 shook the western world. Most of the economic truths of the previous decade lay broken at our feet. As we came out of a deep recession we searched for a new growth model, a move away from overdependence on debt-driven consumption towards a more balanced model with business investment and trade contributing to economic growth.

We have made some steady progress down this road but it has been both slower and more muted than many hoped and than some needed. In this country we have had a jobs rich recovery but with more limited growth in earnings. Consequently, the political debate in the run up to last year's General Election was very much a debate about living standards. There has been an economic recovery but too many of our fellow citizens couldn't touch or feel it.

So what was missing from our new growth model? Economists decided it was productivity growth that was missing. The economist Paul Johnson of the Institute of Fiscal Studies said in 2015:

"On average, private sector employee productivity is no more per hour worked than it was six years ago..... We have lost all of the gains we made in the last fifteen years prior to the crisis."

Economists have been puzzled as to why this has happened and there has been a great deal of debate about the 'productivity puzzle.' This has resulted in the view that something must be done to tackle the productivity challenge and the Government's economic plan is built on a series of macro interventions to boost productivity growth.

There is much in this new orthodoxy which I agree with, but some where my own views differ.

Firstly, I think we start with a flawed diagnosis. I do not believe that there is a puzzle about the muted nature of productivity growth. I believe it is largely explainable by cyclical and sectoral factors.

Secondly, whilst I accept that we need to improve national productivity performance, I think we are in danger of pulling the wrong levers in the wrong order.

Thirdly, I think that we are too focused on macro levers and not sufficiently concerned with micro levers, which brings me to workplace practice and employee relations.

So first the diagnosis.

The Government says that in every OECD member state where average wages are above UK levels, productivity is also higher and that UK productivity - which grew in the decade before the financial crash – has stalled sharply in the wake of the crisis. This is true and is the so called productivity puzzle; puzzling because economists would have expected productivity to grow.

However, I don't believe that what has happened is puzzling at all. If we are to tackle the productivity challenge then we must understand what has held productivity back. We must tailor policy carefully to relate it to the realities of the labour market.

In fact there are key reasons – cyclical, sectoral and structural – which explain why productivity growth has disappointed.

The first is cyclical. Demand growth throughout this period has been muted, whilst employment growth has exceeded expectation. We have had a job-rich recovery, but with muted demand. How realistic was it to expect productivity growth?

Dig deeper and you find that sectors which have seen the strongest recovery in demand - like transport equipment – have also seen the strongest increase in productivity, whereas sectors like machinery, which have seen lower demand, have also seen lower productivity.

The same pattern can be seen in most service sector industries, with administrative and support services at the top end and finance towards the bottom. Generally across services, high employment growth has been weighing on productivity growth.

Secondly, there are more sector-specific trends.

Two key sectors which were critical to UK productivity growth before the crash have had constraints since the crisis – financial services and North Sea Oil and Gas; regulatory constraints in banking and the maturity of the North Sea and the falling oil price in the oil and gas sectors. So both sectors have stopped being productivity drives for the UK.

Thirdly, we are living through significant changes to the business models post the crisis, which affect business productivity performance in different and sometimes unexpected ways.

In the retail sector, for example, established supermarkets face heavy price competition from 'discounters'.

To maintain a competitive edge, some retailers have been taking on more workers to provide a more personalised customer service. This improves the quality of the retail experience, but measured productivity has got worse.

Yet further up the food and drink supply chain, these same pressures have had different effects. To compete on price, food and drink manufacturers have made investments which have driven up productivity.

Investment, especially in IT, is and will drive up productivity, but it is not always the right response in consumer-facing businesses and it can reduce employment levels.

So our productivity performance is understandable and the explanations are subtle and quite sensitive. Old-fashioned macro measures of productivity don't always allow for this. For many manufacturers on a matched plant basis their productivity is as good as anywhere in the world. Moreover, for many consumer-facing businesses, the measure of output per person now doesn't make much sense, but gross value added is more about the quality of customer interaction.

So companies don't recognise the macro productivity gap which economists present to Government as a major source of concern.

As a result of all of this, there is a danger that a broad brush macro analysis leads to us drawing the wrong conclusions and proposing the wrong solutions.

Last year, policymakers concluded that the economy is being held back by low productivity in the service sector in particular and they concluded that a National Living Wage rising to

£9 per hour by 2020 was a necessary corrective. This judgement has resulted in politicians mandating wage rises rather than wages rising with organic productivity growth.

By 2020, the National Living Wage is likely to set pay for almost 4 million workers as against the 1.4 million affected by the National Minimum Wage today.

Businesses feel that they will now have to make changes to their business models, which could result in the creation of fewer job and progression opportunities.

According to the CBI's Employment Trends Survey, 40% of businesses anticipate an impact from this month's initial £7.20 figure, with half of those in the service sector raising prices; a quarter expecting to employ fewer workers, and with fewer than one in ten expecting to see business benefits.

So how can Government influence organic productivity growth? The same 2015 Budget tried to raise skill levels by introducing an Apprenticeship Levy on employers. This is effectively a half a percent pay roll tax on wage bills over £3 million, which many will not be able to recover in full, in order to boost the quantity of apprentices to 3 million. But it is not yet clear how this levy or associated measures will improve the quality of training.

The same CBI Employment Trends Survey found that only 9% of manufacturers believe that the levy is the right way to tackle skill shortages and that 72% consider it costly and bureaucratic.

So the impact of these big macro supply side interventions on business efficiency and employment levels is rather debateable. Only time will tell. Rather we should be careful what we wish for. Our job-rich recovery is a success which depends on entry-level jobs and progression routes on our high streets and in the leisure centre.

I believe that the bigger macro factor in increasing economic growth through enhanced productivity is the gap in our education system; the two in five young people each year who, after 11 years of full-time education, do not get the 5 good GCSEs including Maths and English that they need to be successful throughout their working life.

This is where I would intervene more impactfully. We are still struggling to achieve a balance between the academic and vocational needs of our young people. More rigorous GCSEs and A levels are being introduced, but the technical qualifications for those who don't want the

academic route, and the focus on character and resilience which help our young people to become rounded and grounded as well as rigorous; these aspects of our education system still seem pale and out of focus.

This is where I would do more.

So because we have not fully diagnosed what has happened in the workplace since 2008, we may not be pulling the right levers in the right order to help boost economic growth.

This brings me to my third area; a greater focus on micro levers and in particular on workplace practice and employee relations.

Who was it who said the following?

"Workplaces are the key to productivity. The long term success of high level solutions, such as better physical infrastructure of investment in skills, depends on workplaces being efficient, responsive and innovative. The way workplaces are organised, the part played by managers and leaders, and the involvement of employees and their representatives provide the means for things to change and improve."?

It could have so easily been Sir Pat Lowry in 1981 when he took over as Chair of Acas, couldn't it?

Actually, it was Brendan Barber, today's Chair of Acas in his foreword to the Acas report, 'Building Productivity in the UK' which was published last year – in 2015.

Returning to my opening hypotheses; what was obvious to everyone in 1981 when we faced a problem of relations in many workplaces is less obvious today when the problem has been largely tackled.

This notwithstanding, the opportunity for us to do more, to be better at work, remains. As a result, the workplace is the Cinderella of the debate about productivity and economic growth and, like Cinderella, it gets overlooked.

I can see why this is the case. Ways of improving the workings of the workplace are micro not macro, and they owe much more to leadership and the contribution of colleagues than to Government interventions or supply side reforms. Good workplaces are like good health and safety; they are matters of culture requiring lots of small things to be done well, pretty much all of the time!

So it is not easy to get close to being optimal and it doesn't lend itself to big picture solutions.

However, there is still plenty we can all do. Let's start with what employers think about today's labour market.

Asked what are the biggest threats to labour market competitiveness, in the CBI survey, 50% of employers said that it was the burden of employment regulation; 46% said low skill levels, 35% said working practices and 26% said underutilisation of skill. So behind those regulatory concerns lies a cocktail of workplace challenges. Asked for their top priorities for taking action; number one at 43% was better leadership and second equal at 35% was employee engagement, the other being containing labour costs.

Asked how they can improve employee engagement, top of the list at 46% was helping employees develop a personal interest in their work; second at 39% was effective line management and third at 30% was shared company values. Incidentally, pay is only fifth on the list at 20%.

None of this will surprise any of us in this room. The workplace Employment Relations or WERS Survey has been giving us the evidence of what works for many years.

The 2011 WERS – the latest available – painted a broadly encouraging picture of employee engagement with plenty of opportunity for improvement.

80% of workplaces have all staff meetings and 60% team briefings but only 14% have problem solving groups. This is reflected in the responses from employees themselves. 52% rate management as good or better at seeking their views but only 35% believe they are allowed as a result to influence decisions.

We still have some way to go. An ORC survey of employees across 20 countries in 2014 suggests that the UK has the third lowest levels of engagement, 10% behind the global average.

The greatest value of the WERS survey is that we can compare and contrast one five year study against previous periods. So taking WERS in 2011, those businesses which reported good employment relations and high trust relationships in the previous survey in 2004 were less likely in 2011 to report themselves weakened by the economic downturn in between.

So let's remind ourselves what employers are looking for in high trust workplaces. David McLeod and Nita Clarke's work with their Employee Engagement Task Force identified four key factors:

- Employees need to find meaning and purpose in their work
- Line managers are crucial
- Employees need a voice
- There must be integrity; meaning an organisation must live its values

WERS found that 90% of those satisfied with their involvement felt loyal to their organisation, compared to just 50% of those who didn't share the organisation's values. 80% of those who shared the values of the organisation carried out tasks beyond those required compared to only 50% of those who didn't.

So what's good for employees is also good for employers. This is the workplace culture which facilitates innovation, improves customer service and benefits the bottom line.

More than anything else, it is leadership which sets the tone for company culture. Leaders and managers have the opportunity and the responsibility to lead from the front, to lead by example and to live an open and inclusive culture.

This is not an easy job, certainly to do it positively day in day out, and when times are tough, and no two leaders are the same in how they do this in the culture of each individual organisation.

An opportunity exists. Bloom and Van Reenan found that 25% of the UK productivity gap with the US was down to poor workforce management, be it poor job design, weak communication channels, or lack of managerial skills.

Which brings me full circle. Pat Lowry had to deal with weak management as well as irresponsible Trades Unions when he was seeking a new model for business success in the 1970s and 80s. Then workplace relations were a national problem.

Today the British Disease has been cured, but the search for the Holy Grail of sustainable economic growth never ends. Today 'productivity' not 'industrial relations' dominates the national economic debate.

I have always believed in evidence based policy making. To do this well, we have to be forensic in our diagnosis of the problem and targeted in our choice of policy levers.

In this lecture, I have suggested that, whilst enhanced productivity is undoubtedly part of the sustainable growth model which we are seeking, our productivity challenge is both more subtle and sensitive than sometimes described. I have suggested in this lecture that both the macro and micro policy solutions need careful analysis.

There is no panacea here. However, I am sure that schools on the one hand the workplace on the other are where progress should be made. In that workplace, the Cinderella of employee relations needs more attention, as Cinderella always does.

Just as all of this kept Pat Lowry fully engaged during his illustrious career, so it will, I know, keep Acas, Warwick University and the rest of us here today busy for a good few more years yet to come.

Thank you.