



THE FUTURE WE WANT? **Work and Organisations in 2020**

A Report by the Advisory Board
of the UK's Work and Organisation Network

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Peter Totterdill

The UK Work Organisation Network was created in 1997 as a forum for diverse partners including employers' organisations, trade unions, professional bodies, NGOs, universities, and others with an interest in the workplace.

UK WON's aims are to explore ways of shaping the future of work and organisations to achieve optimum social and economic benefits, and to help close the gap between evidence-based good practice and common practice.

UK WON's activities include research, dialogue, dissemination, consultancy and policy advocacy. For further information see www.UK.WON.net and www.workplaceinnovation.eu.

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Executive Summary

The arguments in this report have arisen from a unique process of dialogue involving representatives of major employers' and trade union organisations, public agencies, professional organisations and universities, as well as researchers and activists from diverse backgrounds.

This paper makes the case for workplace innovation and participative working and the opportunities and limitless possibilities for creative and rewarding entrepreneurship that these afford. It argues that workplace innovation has a major impact on both the performance of the enterprise and on national economic competitiveness. It boosts productivity, quality and innovation, by making better use of workforce talent and has a profound effect on employees' learning and development, health, well-being, ageing and wider roles as citizens.

Set against a backdrop of changing economic priorities and demographic changes, where organisational hierarchies and jobs for life are being replaced by a knowledge based network economy bristling with innovative communication technologies, this report argues that the workplace constitutes a vital but neglected asset in facing the challenges of a volatile world economy and that there are missed opportunities amongst politicians and policymakers in maximising the role that workplaces and organisations can play.

The potential of the workplace, the focal point at which wealth creation and social wellbeing come together, is being ignored. There is clear agreement amongst those responsible for this report about the need to challenge such a major gap in the current policy environment, especially at a time when growth and employment rank so highly in the list of national priorities.

The Case for Workplace Transformation

The key to genuinely sustainable competitive advantage depends on the core capacity of the organisation to learn and to develop and utilise all its resources to the full. Participative ways of working increase company performance, quality of working life and employee commitment through improvements in staff competence, motivation and knowledge – sharing. Organisations that embrace participative work practices are better able to respond to rapid technological and other environmental changes, and withstand competitive pressures. Case study evidence clearly demonstrates that direct employee participation can have strong positive impacts on productivity, innovation and quality. 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 enhancing job satisfaction and mental health, and improving retention.

Keys Issues Include

The intrinsic value of work – an examination of the nature of work, the value placed on it by employers and employees and the sharp divisions relating to the experience and perception of work.

Work can Help Individuals and Policymakers alike to Achieve a Wide Range of Economic and Social Goals.

Sustainable workplaces – organisations that systemically introduce participative working practices such as enhanced employee autonomy and control, task discretion, peer support, and worker involvement in decision making, report higher levels of engagement resulting in sustainable performance improvement, higher levels of innovation and enhanced well-being.

Harmonising technological innovation and human potential – new and emerging technologies have vast potential to enhance productivity, support product and service innovation, and remove dull and monotonous work. Rather than associating technological advance with redundancy and job insecurity, we should recognize that new technologies also create new jobs and new opportunities. Employees, however, need help to adapt to changing skills requirements, through employer investment in learning and development, and through active labour market policies at national level.

Entrepreneurship open to all – If we are fully to value entrepreneurship at every level, it will be important to understand and influence the factors that determine whether or not people see themselves as potential entrepreneurs. These factors include education, their experience of work, the roles of intermediary bodies and banks, public policy and organisational culture.

Developing and utilising skills – We are operating in an era characterised by increasing diversity in both labour and consumer markets. Yet unequal pay and labour market discrimination continue to account for the underutilisation of workforce skill and potential, as well as restricting opportunities for significant sections of the population. A key task is to ensure that equality and diversity measures are not seen purely in terms of compliance with legal requirements: rather they provide a means of helping employers to draw fully on the widest range of available talent.

Challenges to Change

How the business and policy environment changes will be subject to a range of factors including the UK's competitiveness in the face of new and rising global economic powers; increasing overseas business ownership of UK based business assets; the volatility of the global business environment; competition for scarce resources; disruptive innovation and the emergence of temporarily dominant brands at the expense of investment in product improvement; the UK's ability to rebalance the economy and address the decline of R&D led manufacturing with the attendant loss of infrastructure and skills; the loss of public trust in business and markets and the increase in regulatory compliance

The paper also discusses the effect of a diminishing public sector, the potential of an ageing workforce, increasing labour market polarisation, migration and diversity in the labour market, declining opportunity and disaffection in the age of the social network, changing employment relations and the impact of rapidly changing information and communications technology.

Short-termism in the UK's financial markets is also a perennial barrier to sustainable workplace innovation. Takeovers and mergers, for instance, are often driven by short-term financial targets resulting in the loss of good workplace practice and the associated tacit knowledge and experience.

There is also a shortfall in guiding policies that acknowledge the positive impact that the workplace can have on the health and wealth of society.

Signals for 2020

Key issues concerning the way forward include:

Responsible Globalisation – globalisation is not simply an inexorable process over which we have no option but to adapt. There are choices around the type of globalisation we want.

New roles for public policy – the current economic crisis in the UK is diverting attention from the longer term structural shifts in the global economy which by 2020 will have had a significant effect on the UK's competitive position. The balance of attention in public policy needs to be redressed and new policy interventions are needed to support workplace innovation.

New roles for trade unions and employers' organisations – adversarial negotiations can sit comfortably alongside partnership. Trade unions and employers' organisations at national and local levels can play an important but largely unrecognised role as knowledgeable participants in stimulating, guiding and resourcing workplace change.

A new labour market perspective – inclusion and the recognition of diversity can be seen as much as an economic as a social necessity.

Listening to the voice of employees – making representative partnerships more effective by developing them alongside participative workplace practices to stimulate "employee voice" and generate greater workforce commitment to the organisation, lower levels of absence, turnover and conflict, and improved performance.

Realising the Promise of Employee Ownership

This report is concerned with employee engagement, involvement and participation in an economy where ownership and control are becoming increasingly anonymous and subject to volatile global trends. In this context it is unsurprising that employee ownership and financial participation are receiving greater attention from policymakers and in the media.

Conclusions

The UK has fallen far behind many neighbouring European economies in the adoption of ways of working based on high skill, high levels of individual and team autonomy and high quality of working life and this is having a cumulative effect on competitiveness and innovation.

There has been a sustained failure over several decades to disseminate evidence-based approaches to the organisation of work, and this can be held to account in part for comparative shortcomings in productivity and innovation.

However, there is a way towards a more coherent UK approach to renewing the employment agenda in the UK: an agenda that has often been somewhat fragmented and lacking in a strategic focus capable of guiding the efforts of different actors. At the heart of these values is a commitment to sustainable improvement in economic performance and social wellbeing, and an explicit rejection of short-termism.

A cross-cutting common value exemplified by the work of this group is a belief in the value of dialogue. Creating spaces in which diverse actors can come together to share ideas and knowledge is a precondition for successful and co-ordinated adaptation to the future.

The great majority of the issues and challenges identified in this report can be addressed. In many cases there are realistic remedies available, informed by practices that already exist in the UK or elsewhere in Europe. Some problems, such as building the management competence required to create engaged and diverse workforces, are largely about establishing a critical mass of drivers for change. Others, such as rebalancing the economy and the short-termism in UK financial markets require new and innovative solutions. Above all, closing the gap between effective good practice and common practice requires focused and sustained collaborative action involving government and a wide range of partners. Herein lies both the opportunity and the problem.

The aim is not to offer a blueprint or manifesto, but to provide an opportunity for dialogue and critical thinking that can take us beyond the current emphasis on crisis management, and focus on long term, sustainable economic growth and social wellbeing.

The report proposes the creation of a *Forum on the Workplace of the Future* with a strong focus on the contribution of participation, work organisation and job design in securing innovative, productive and healthy workplaces.

Introduction

“Because things are the way they are, things will not stay the way they are.” (Brecht)

Some 29 years have elapsed since the publication of Charles Handy’s *The Future of Work*, a text which unleashed a wave of new thinking on the workplace, employment relations and work-life balance (Handy, 1984). Handy emphasised the collapse of work in traditional industries, and was amongst the first to describe the emerging “knowledge economy”. He talked of the way in which manual skills were yielding to knowledge as the basis for new enterprise and work, and of the increasing volatility of career patterns and organisational structures. Jobs for life were dead, and organisational hierarchies were being replaced by networks and partnerships.

Many of Handy’s ideas have become the reference points around which subsequent writing and thinking about work and organisations have hinged. Some of these authors took upbeat positions, focusing on the new and seemingly limitless possibilities for creative and rewarding entrepreneurship and work in the network economy, with its innovative communication technologies. Others focus on the rise of insecurity, the casualisation of work and social divisions linked to growing economic inequality.

With hindsight however, it is clear that there has been no seamless transition to a new economy: rather that we live with a diverse matrix of co-existing economies which in various ways both depend on and compete with each other. For decision makers: in enterprise, public policy, social partner organisations and NGOs, this co-existence creates the possibility for strategic choices, and the potential to realise common social and economic values. The aim of this publication is to help in the articulation of those choices.

Handy was writing in the middle of the Thatcher era, a time characterised by an unprecedented collapse in manufacturing employment, when the economic future in many parts of the UK looked very uncertain indeed (Haskel, 1990). The then government's hope for the economy lay in the growth of services, notably the finance sector. This policy goal was supported by macro-economic policy choices, the deregulation of financial services, and the physical expansion of the City into centrally planned enclaves such as Canary Wharf. In 2012 the talk is of rebalancing the economy back towards manufacturing, and tighter regulation of the banking sector.

Nonetheless there are many ways in which the UK has moved on since the 1980s. During the 68 consecutive quarters of growth between 1992 and 2008, many employers made major advances in transforming employment relationships, recognising the importance of employee engagement, diversity, communication and flexibility. Yet across the economy as a whole this is still work in progress. Once again the UK is experiencing a period of economic turmoil and uncertainty. It is a timely moment to review many of our assumptions about the future, and to identify the choices which will be available to us, individually and collectively, over the next decade.

Making the Case for the Workplace

A key argument running throughout this report is that the workplace constitutes a vital but neglected asset in facing the challenges of a volatile world economy. There is a failure amongst politicians and policymakers to understand workplaces or the organisation of work: work and workplaces remained invisible in the 2010 General Election, and have barely surfaced in government thinking since then. Policy interventions to address major economic and social challenges have focused on the macro-system level, for example by reforming benefit systems and pensions to encourage greater labour market participation, and tax incentives for R&D. In consequence policy levers which might enhance the workplace, the focal point at which wealth creation and social wellbeing come together, are ignored. There is clear agreement amongst those responsible for this report about the need to challenge such a major gap in the current policy environment, especially at a time when growth and employment rank so highly in the list of national priorities.

As the MacLeod Review of Employee Engagement (MacLeod and Clarke, 2009) argues, how people are treated in the workplace, and how they experience working life, has a major effect on both the performance of the enterprise and on national economic competitiveness. Workplace factors exercise a major influence on whether employees can utilise their skills and develop them further, and therefore on the return which employers and the state realise from their investment in vocational training. There is considerable untapped potential in most workplaces for boosting productivity, quality and innovation, by making better use of the full and diverse range of workforce talent.

The workplace also has a profound effect on employees' learning and development, health, well-being, ageing and wider roles as citizens. Work organisation shapes the extent to which employees gain satisfaction and personal growth from their working lives; it influences their level of engagement, their ambition, their retention by the employer (especially in the case of older workers able to retire, or mothers and increasingly fathers considering whether to return to work after the birth of children), and not least their mental and physical health.

Drawing on the diverse knowledge and experience of UK WON's Advisory Board, this report will enable policymakers, employers, trade unions and other stakeholders to recognise the importance of the workplace in the economy and society. It will also identify opportunities for collaborative action, to ensure that UK workplaces are fit for purpose in meeting the economic and social challenges of the twenty-first century.

The Case for Workplace Transformation

Participative ways of organising work are often discussed, but little implemented, in the UK. Sometimes known as “High Performance Work Systems” participative work organisation is defined in terms of the cumulative processes, practices and policies put in place by employers to enable employees to perform to their full potential (Combs, 2006). The scope of participative working ranges from “representative participation” enabling employees to contribute to strategic decisions through works councils or partnership forums, to “direct participation” in which employees control many aspects of their own day-to-day work through self-organised teamworking and flexible working. The term “smart work” is also used to refer to the variety of ways in which employers can build autonomy, self-control and development into jobs, to pursue the interlinked agenda of productivity and employee welfare (McEwan, 2013).

The key to genuinely sustainable competitive advantage depends on the core capacity of the organisation to learn and to develop and utilise all its resources to the full (Barney, 1995; Pot, 2011; Priem and Butler, 2001; Totterdill, Dhondt and Milsome, 2002). Participative ways of working increase company performance, quality of working life and employee commitment through improvements in staff competence, motivation and knowledge-sharing (Appelbaum, Bailey, Berg and Kalleberg, 2000; MacLeod and Clarke, 2009; Wood, 1999). Such organisations are better able to attend to rapid technological and other environmental changes, and withstand competitive pressures (Osterman, 1994).

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, Bailey, Berg & Kalleberg, 2000). Reviews of European literature also demonstrate a positive relationship between participative forms of work organisation and performance (Brödner & Latniak, 2002). One of the most significant studies, the *Employee Participation and Organisational Change* (EPOC) survey of 6000 workplaces in Europe, confirms that direct employee participation can have strong positive impacts on productivity, innovation and quality. Of firms which implemented self-organised teams, 68 per cent enjoyed reductions in costs, 87 per cent reported reduced throughput times, 98 per cent improved products and services, and 85 per cent 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: such 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 & Ylöstalo, 1999), and Germany (Lay, Dreher and Kinkel, 1996). Critically these benefits are only fully realised when employers adopt participative ways of working systematically, building a range of mutually reinforcing practices that enable employee voice to be heard from the Boardroom to the frontline (Boxall and Purcell, 2003; Teague, 2005).

The benefits of workplace innovation for employees are also demonstrated by a substantial body of research (Delery and Doty, 1997). 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, Zimmerman, Rousseau, Gillies, Wagner & Draper, 1994), enhancing job satisfaction and mental health, and improving retention (Borrill, Carlette, Carter, Dawson, Garrod, Rees, Richards, Shapiro & West, 2001). Critically Ramstad (2009a) shows that improvements in quality of working life have a strong association with improvements in economic performance, and indeed may actually enable them.

However, the 2008 Employer Survey undertaken by the UK Commission for Employment and Skills found that less than a third of organisations have adopted elements of participative working, but it is likely that a much smaller number have done so systematically (UKCES, 2009). The UK is falling behind many of its neighbours in northern Europe and Scandinavia, and this is having a cumulative effect on competitiveness and innovation.

We will argue below that the major gap, between evidence-based good practice and common practice in UK workplaces, inhibits employee engagement and competitiveness at enterprise level, as well as the country's ability to address pressing economic and social issues. How long can this gap continue, and how wide must it get, before it is taken seriously?

1. Common Values Against Which to Judge the Future

1.1 Common ground?

The arguments in this report have arisen from a unique process of dialogue involving representatives of major employers' and trade union organisations, public agencies, professional organisations and universities, as well as researchers and activists from diverse backgrounds. There are many issues and perspectives which divide the participants in this dialogue, but there is also a striking degree of common ground, and a clear sense of shared endeavour in the search for a successful and sustainable social and economic future. While some partners disagree on emphasis and points of detail, we propose the following terrain as the starting point for examining the future of work and organisations.

The Intrinsic Value of Work

People spend close to a third of their lives at work. It is how many of us connect with the wider society, where we establish our friendship networks, and sometimes even where we meet our partners. At best, the workplace can be a source of social solidarity.

Yet sharp divisions relating to the experience and perception of work are apparent within the UK. Many younger workers experience work as rewarding and affirming, and have high expectations of their current and future employers. They expect to work for employers with a sense of social purpose, and with high ethical standards (Knell, 2001). In contrast it is clear that a significant number have low aspirations relating to the workplace, and expect work to be disengaging and insecure. Similarly although many older people are working well beyond retirement age, and find that the challenge of the workplace sustains mental and physical agility, the number of older employees hoping for early retirement remains high, even though diminished pension expectations may force them to stay on at work for longer.

Work can help individuals and policymakers alike to achieve a wide range of economic and social goals. We need to recognise work as an activity which can fully engage us as people and as citizens. It must therefore be an absolute priority to ensure that we build the conditions that generate and sustain employment for the 2.5 million people who are seeking work in the UK today.

But, as David Coats has argued, "work is good for us but it is only really good for us if it is good work" (Coats, 2008). In short, we need to be clear about championing the intrinsic value of work, but we also need to encourage employers and employees to think about 'how' we work. Quality of work also warrants a much higher profile amongst policymakers

and other opinion formers concerned with health and inclusion, even though this may be seen as a difficult argument to sustain at a time when more than a million young people are out of work, and when there is a clear need to avoid repeating the "lost generation" of the 1980s (UKCES, 2012). "Rebalancing" also requires a roadmap towards a higher skill, higher value economy, not least in a time of recession.

Sustainable Workplaces Through Convergence between High Performance and High Quality of Work

There is a growing body of evidence to suggest that high performance and high quality of working life are not traded off against each other, rather that they reinforce each other (Ramstad, 2007). As we demonstrated in the Introduction, organisations that systemically introduce participative working practices: such as enhanced employee autonomy and control, task discretion, peer support, and worker involvement in decision making, report higher levels of engagement resulting in sustainable performance improvement, higher levels of innovation and enhanced well-being. These benefits are only realised where they are specifically tailored

to the needs of the individual employer and its workforce; there are very real dangers in imposing off-the-shelf solutions in different working contexts.

Yet we also know that the majority of workplaces do not deploy such evidence-based practices systematically. The UK consistently falls far behind European neighbours and competitors including Germany, the Netherlands and the Nordic countries in the adoption of such methods (UKCES, 2008; European Foundation, 1997), resulting in missed opportunities to improve performance against several economic and social indicators.

This is not entirely the fault of managers. Countries with a high incidence of “win-win” high performance work systems are those in which employers’ organisations, trade unions, policymakers, business support organisations, educators and other actors seek to forge common values through open dialogue. This shapes the wider business and employment context including corporate governance, employee rights, skills formation, labour market integration and employer-union partnership.

Harmonising Technological Innovation and Human Potential

New and emerging technologies have vast potential to enhance productivity, support product and service innovation, and remove dull and monotonous work. The potential for direct two-way communication between employees and employers is vastly extended by online surveys, employee blogs, podcasts and social networking sites. Employees can enjoy greater access to information and transparency about company performance. For many employees, new technologies allow work to be done almost anywhere and at any time. This creates enormous scope for flexibility and responsiveness, as well as for pressure and stress on the individual.

Technological innovation has also been associated with the loss of skills and know-how, as well as with large-scale redundancy and job insecurity. Existing information technologies are already capable of automating a significant proportion of service functions, and technology – led restructuring will affect large numbers of skilled workers in the next few years. New technologies also create new jobs and new opportunities, but employees need help to adapt to changing skills requirements, through employer investment in learning and development, and through active labour market policies at national level.

The need to balance technological innovation and human potential is therefore greater than ever. For example, there is extensive evidence to demonstrate that the design and application of new technologies in workplaces achieves best results when combined with high levels of employee involvement and the harnessing of their tacit knowledge (Brynjolfsson, 2000). Likewise the automation of routine backroom functions offers many organisations the “high road” alternative of moving staff to enhanced customer service functions, rather than simple cost reduction through job losses. The ultimate challenge is to ensure that firms pursue the most productive activities that will generate long-term, sustainable growth.

An Economy in Which Entrepreneurship is Open to All

In a global economy in which innovation and versatility are at a premium, entrepreneurship has a vital role to play. Enterprising behaviour takes many forms, including the creation of the classic small business, freelancing in the network economy or leading product, service or process innovations as an employee. Increasing numbers of people are finding that work outside of traditional employment offers new opportunities for creativity and reward, not least older workers affected by redundancy or early retirement. Similarly many employers have identified the value of “intrapreneurs”, willing to work in the spaces between formal organisational structures to create and test new ideas (Exton, 2010).

If we are fully to value entrepreneurship at every level, it will be important to understand and influence the factors that determine whether or not people see themselves as potential entrepreneurs. These factors include education, their experience of work, the roles of intermediary bodies and banks, public policy and organisational culture.

A Labour Market that Enables Individuals to Develop and Utilise their Skills to the Full

Labour market inclusion has been a policy goal of successive UK governments for several decades, though with mixed results. Certainly the leadership of UK organisations remains predominately white, male and able bodied. This is despite a labour market that is already diverse and set to become more so. The UK has, until recently, been relatively successful in job creation, reflecting a flexible labour market which offers a diversity of contractual arrangements between employers and employees.

One of the resulting challenges is that a comparatively high percentage of the workforce appears locked into low skill, and often casualised, employment even in periods of sustained growth. In recession, low skill, temporary employment provides a vital source of income for students, young people entering the labour market, people with caring responsibilities who require flexible working, older people supplementing pensions. However such jobs are much less likely to provide intrinsic rewards, health and fulfilment, nor do they typically offer opportunities for learning, personal development and advancement.

Labour market discrimination continues to account for the underutilisation of workforce skill and potential, as well as restricting opportunities for significant sections of the population. A key task is to ensure that equality and diversity measures are not seen purely in terms of compliance with legal requirements: rather they provide a means of helping employers to draw fully on the widest range of available talent.

1.2 Common values and the way ahead

The common values outlined above are important because they point the way towards a more coherent UK approach to renewing the employment agenda in the UK: an agenda that has often been somewhat fragmented and lacking in a strategic focus capable of guiding the efforts of different actors. At the heart of these values is a commitment to sustainable improvement in economic performance and social wellbeing, and an explicit rejection of short-termism.

A cross-cutting common value exemplified by the work of this group is a belief in the value of dialogue. Creating spaces in which diverse actors can come together to share ideas and knowledge is a precondition for successful and co-ordinated adaptation to the future.

2. What Types of Change?

2.1 What will change the business and policy environment?

2012 was a year of considerable economic uncertainty and this is unlikely to change much in 2013. Double dip recession became a reality, while even optimists find it hard to avoid talk of a decade of austerity and low growth. Crisis in the Eurozone has already shown that forecasts and projections have become even less reliable, and the worst may yet be to come. News broadcasts are filled with accounts of hour-by hour fluctuations in markets. Technocrats have replaced elected politicians in parts of Europe. In the UK political opposition was seen on the steps of St Paul's as politicians of all parties focused their aspirations on deficit reduction.

Meanwhile the rest of the world moves on. On Boxing Day 2011 the Centre for Economic and Business Research announced that Brazil had overtaken the UK as the world's sixth largest economy, and that further demotions were not far behind (CEBR, 2011). Our domestic preoccupation with crisis management masks longer-terms shifts in the global economy, and makes effective choices much harder.

There is a tendency for future-oriented commentators to exaggerate the transformative effects of globalisation, technology or social change on the world in general, and the workplace in particular. Short of catastrophe or spectacular innovation, the UK in 2020 will still be recognisable to the citizens of 2013 just as many aspects of life have not changed substantially over the last decade. But significant changes will occur, both in the nature of day-to-day life, and in the deeper structural forces that shape the wider business environment. The way in which we respond to those changes will have much longer term consequences, both for economic competitiveness and for social cohesion.

2.1.1 Europe: one player amongst many

The rise of the BRIC (Brazil, Russia, India, China) countries as global economic powers is well – documented, and the impact on European manufacturing, particularly as a result of China's expanding economy, has been dramatic. Much of the growth in imports into the EU from China has been the result of by outsourcing by European firms, providing them with new opportunities to compete in price sensitive markets; for European consumers, the cost of many manufactured goods has come down in real terms.

The comfortable assumption in policy circles appears to have been that the competitive advantage of countries such as China and India will remain in the mass production of low value goods and, as imagined in the EU's doomed Lisbon Strategy, that Europe will compete by becoming the world's leading "knowledge economy". However the prospects for excluding the BRIC countries and others from becoming serious competitors in the knowledge economy seem slim, given their large scale investment in research, development and higher education. According to the Chinese Ministry of Education, the number of Universities in the country grew from two thousand in 2002 to four thousand just three years later. Close to 19 million students were enrolled in 2010, a six-fold jump in one decade, and this excludes the considerable number studying abroad (Ministry of Education, 2012).

The effects of direct investment into the UK from countries such as China, India and Russia pose some very interesting questions for the future. Foreign Direct Investment has created and saved many jobs, but concerns remain about the export of knowledge and local accountability. It remains to be seen whether the new owners will, in time, import their own management philosophies and practices into their UK assets, and how this will affect employment relations more widely.

2.1.2 A volatile global economy

Employers and employees alike are facing unprecedented challenges, including a level of volatility in the global business environment, which requires constant vigilance, versatility and innovation. The shift away from mass-produced goods to an emphasis on more customised and higher-quality goods and services is now conventional wisdom. But old styles of managing and organising work cannot deliver the adaptability required by these new conditions. In this increasingly fierce global environment it has long been clear that "low road" strategies of cost leadership, speed and standardisation cannot build sustainable competitive advantage.

One interesting manifestation of this new reality is the increasing evidence from the USA (Boston Consulting Group, 2011), and a number of European countries, that some higher – value manufacturing is being repatriated. Local sourcing often allows greater responsiveness to fast-changing markets, greater customisation, and the enhanced flow of knowledge and creativity between product development, design and production.

Disruptive innovation will also emerge as an increasingly significant factor in the volatility of the business environment, as global competition shifts away from cost. Unlike sustaining innovation which keeps products at the forefront of the market by continuous incremental improvement, disruptive innovation typically works by offering consumers what they do not yet know they want: a new way of meeting an established need that may emerge from a completely different sector. Thus Nokia's cumulative investment in perfecting the quality and functionality of its handsets did not prevent a sharp decline in market share in the face of competitors who have adopted Android software, developed by Google, which allows users to download open sourced applications devised by myriad innovators. Consumers now take design, quality and reliability as a given: it no longer offers competitive advantage. The effect of increasing disruptive innovation is that household names are likely to become more transient and that new, temporarily dominant, brands will emerge overnight.

2.1.3 A rebalanced economy?

Rebalancing the economy is a high priority for the UK government, which aims "to achieve strong, sustainable and balanced growth that is more evenly shared across the country and between industries". The UK has experienced a long term balance of payments deficit, linked to the declining scale and competitiveness of its exports, especially in manufacturing. Manufacturing now accounts for a small and diminishing proportion of economic activity, amounting to only 11 per cent of output and 8 per cent of jobs, lower than in all other

EU countries (B.I.S., 2010). This has been a key contributing factor in the development of a significant spatial imbalance in prosperity and growth between the South East of England and much of the rest of the UK.

There is widespread support for rebalancing, yet the government has still to define what a balanced economy might look like in sectoral or spatial terms (UKCES, 2011). Dynamic growth clusters exist in sectors such as pharmaceuticals and high value engineering, but these look like islands in the UK economic sea. The question of whether the UK as a whole has retained sufficient critical mass of manufacturing to achieve a significant rebalancing remains open. It is hard to find international examples of countries that have successfully rebuilt R&D-led manufacturing sectors, after four or more decades of sustained de-industrialisation with an attendant loss of infrastructure, shared services and skills. Experience from, for example, the post-war reconstruction of Germany, Italy or Japan suggests that successful reindustrialisation is linked to types of very proactive government policy not currently on the UK's political agenda. Significantly the more recent "rebalancing" of economies such as Finland, the industrial regions of Germany and South Korea have involved a strong commitment to micro-economic policies focused on innovation, including the modernisation of work organisation.

2.1.4 Resource wars

A further consequence of the rapidly growing economic and political strength of the BRIC countries lies in increasingly fierce competition for increasingly scarce resources. Just before the current recession, there was considerable alarm about the rapid growth of global commodity prices. As the world grows more populous (there will be eight billion people by 2025, up from 6.6 billion in 2010) it is also growing more prosperous. The average person is consuming more food, water, metal and power. Growing numbers of China's 1.3 billion and India's 1.1 billion people are ascending to middle class lifestyles, adopting the high-protein diets, petroleum-fuelled transport and electronic gadgets that developed nations enjoy. In 2005, China had 15 cars for every 1,000 people, close to the 13 cars per 1,000 that Japan had in 1963. In 2009 Japan had 447 passenger cars per 1,000 residents. If China ever reaches that point, it would have 572 million cars, only just short of the number of cars in the entire world today. China's global efforts, most notably in Africa, to secure strategic resources, are likely to have long term geopolitical and environmental consequences, as well as reinforcing its economic power (Lahart, Barta and Batson, 2008).

Many commodity prices have already recovered from the recessionary blip, and the trend will continue to affect both strategic and day-to-day items, including food. The answer lies partly in innovation and diversification, designed to reduce dependency on unsustainable resources, and this will increasingly become an unavoidable priority for business leaders.

2.1.5 A climate of increasing scrutiny

Globalisation does not just present organisations with the challenge of adaptation to disruptive and continual change: it also invites scrutiny from an increasingly sceptical public. The CBI points out that:

"Public trust in business and markets, already in decline, is now at a low ebb. The profit motive is distrusted, and the onus is now on businesses to demonstrate their ethical credentials."

Indeed survey results show that 79% of respondents do not trust business leaders to put the interests of their employees and shareholders ahead of their own personal interests, and only half believe that businesses act ethically. In its discussion of these findings the CBI suggests that "greater government intervention and supervision in the long-run is now almost certain" (CBI, 2009). Continuing banking scandals have also created a gap in public confidence that will take a long time to overcome.

From carbon emissions and executive pay to child labour in outsourced operations abroad, business is under increasing public and regulatory pressure. Consumers are increasing public pressure on employers to adopt ethical sourcing policies, and to restrict the substitution of UK labour, through outsourcing to lower cost countries where workers are less protected. Trade unions are also beginning to campaign on a range of environmental and social justice issues that far transcends the traditional scope of industrial relations.

In relation to climate change for example, the implications for business lie not just in the direct impact on operations, but because of inevitable increases in regulation and of changing public expectations. To meet international treaty obligations and public concern, policymakers will be required to place increasing restrictions on carbon emissions and other environmental impacts; consumers as well will place increasing value on companies with valid “green” credentials.

As with other forms of regulation, the most effective responses in terms of competitiveness and performance are likely to be those which involve genuine creative thinking and innovation, rather than mere compliance with regulatory demands. The Institute of Business Ethics argues that companies with a systemic ethical code governing the key dimensions of organisational culture and practice reap real benefits in the recruitment of talent, winning customers and avoiding reputational crises (IBE, 2012).

2.1.6 The transformation of the public sector – and of public sector workers

At the time of writing, the Office of Budget Responsibility forecasts the loss of 900,000 public sector jobs by 2018 (OBR, 2012). As the CIPD argues, reductions in government spending will also lead to significant further job losses across the labour market (Philpott, 2011b). The government claims that redundant public sector workers will be absorbed by the growth in private sector activity, assuming the existence of a well functioning labour market. Although private sector job creation has been faster than expected despite the double dip recession (OBR, 2012), these assumptions remain the subject of fierce debate amongst economists, labour market experts and HR professionals.

The public sector itself is changing fundamentally, with new thinking emerging about the nature of public services from a wide range of political and professional perspectives. There is an assumption that direct public sector provision of services will decline, opening up new opportunities for private sector and not-for-profit suppliers and charities. Social entrepreneurship is one aspect of public service provision that will certainly grow, in part because it has an established record of achievement in meeting social needs that uniform state provision has found difficult to reach, and in part because it is powerfully driven by the enthusiasm and creativity of its champions.

However there are a number of unanswered questions about the nature of governance arrangements involving multiple partners, including service integration, continuity of knowledge and employment in a competitive tendering environment, and the overall impact on user involvement, service quality and cost effectiveness. Outcomes relating to each of these factors will make a specific impact on the wider environment in which business operates.

2.1.7 The health, well-being and unrealised potential of an ageing workforce

The demographic structure is changing. The proportion of older people has never been greater, and life expectancy is longer than ever before. At the same time a birth rate which has declined over several decades means that young workers with the right skills are becoming a scarce resource in many parts of Europe. The proportion of people aged 65 and over in the UK population is projected to increase from 16% in 2008 to 23% by 2033. While in 2008 there were 3.2 people of working age for every person of state pensionable age, this ratio is projected to fall to 2.8 by 2033 (Parry and Harris, 2011). Although numbers of workers over 60 is at its highest ever level, rationalisation and downsizing has worsened employment prospects for many older people. While there is increasing evidence that lifelong learning can enhance and prolong the productive contribution of older employees, they are often perceived as unable to learn the use of new technologies sufficiently quickly, or to adopt new business philosophies, methods or practices (Parry and Harris, 2011).

Shortfalls in pension provision make current retirement ages unsustainable, and this is recognised in the Government’s decision to abolish the default retirement age (DRA). However there is little consideration given by policymakers, or by many employers, to the workplace implications of an ageing workforce. Jobs may need to be redesigned, to enable employers and clients to secure greater benefit from the accumulated knowledge and experience of older workers, while removing physically arduous tasks. Belgium and Finland lead the way in public programmes to support such job redesign, while Britain lags behind. The well-established (but less often acted upon) causal relationship between work organisation and employee health will certainly grow in significance with the older workforce that will be with us in 2020.

The availability of care for elderly relatives may also prove to be a significant factor in determining the ability of middle-aged and older workers to stay in employment. Arguably “eldercare” will replace childcare as the major work-life issue by 2020 (Parry and Harris, 2011; Podro, 2011).

Nonetheless many people continue to aspire to early retirement and may need incentives to remain in work later; employers need to consider ways of improving quality of working life, enhancing access to opportunities for learning and development, and recognising that the nature of an employee’s role and contribution will change with greater maturity.

Concerns are often expressed that the retention of older workers will reduce employment opportunities for younger people. Youth unemployment is now a major policy concern across much of Europe, and there may be tensions between the rights of older and younger workers to employment. From a macro-economic perspective, the greater spending power of older people in work should lead to job creation elsewhere in the economy, though the likely sectoral or geographical distribution of this new employment is not clear.

There is also some evidence that many younger people are less engaged with work. According to the CIPD’s 2006 survey, employees aged under 35 are the least engaged and take more sick leave than older workers. Younger workers may have less tolerance of boring, repetitive or badly designed work than their predecessors, and quality of working life will be an important factor in their recruitment, engagement and retention (Knell, 2000).

2.1.8 An uncertain relationship between people and work

It will be clear from the preceding discussion that the challenges of the next decade or so will not only prove disruptive for policymakers and managers, but that they will have a profound effect on individuals at all stages of life.

Bringing all these trends together, it is already possible to tell two very different stories about contemporary working life.

On the one hand, work provides a major source of identity and fulfilment for many people. The widespread success of the 100 Best Places to Work league in the UK reflects increasing concern amongst employers for the quality of employees’ working lives, as well as a growing recognition that employee engagement is a valuable asset. Working hours are down, and on the whole jobs are becoming less repetitive and more engaging.

On the other hand work is also intensifying; stress and “presenteeism” are becoming more and more significant problems for employees with consequent increases in litigation and grievances. Work now pervades every aspect of life; BlackBerries and iPhones become addictive, offering little opportunity for escape even at weekends or on holiday.

Of course both scenarios are correct, though different factors affect some employees more than others depending on organisation, sector and status. Evidence that the systemic adoption of participative forms of management and working practices leads to sustained improvements in organisational performance and quality of working life have been ignored by most public and private sector employers. While the costs to employers lie in lost opportunities for productivity, innovation and improvement, the costs for individual employees are found in terms of health, well-being and intrinsic job satisfaction, factors which influence absence, grievance and disengagement. Perhaps the most disturbing dimension lies in the decline in levels of autonomy that employees have previously enjoyed at work, reflecting the pressures of technology, externally driven targets and the erosion of participative working methods. Above all, this is likely to have a corrosive effect on employee engagement, and on organisational versatility and creativity in the longer term (Truss, Soane, Edwards, Croll and Burnett, 2006).

2.1.9 A changing labour market

Increasing polarisation within the labour market poses perhaps the most profound challenge, as well as constituting a major cause of social and economic inequality. Over recent years, job growth has been apparent, both in knowledge-based occupations and in relatively unskilled employment. However, the flattening of organisational hierarchies, and an increasing ability to automate semi-skilled and skilled jobs, makes individual progression within organisations and sectors increasingly difficult: the so-called “hour glass economy”

in which significant numbers of the workforce find themselves underemployed or trapped in casual and insecure jobs with few means of escape. In the UK rising graduate unemployment and underemployment makes clear that even a degree does not in itself offer a secure route into the upper chamber of the labour market hour glass. Continuing vocational education and training for more mature workers can be hard to access, unless an employer is willing to invest in such provision for the individual. In contrast, citizens of countries such as Germany (Prais and Wagner, 1985; Lane, 1988) and the Scandinavian states benefit from long established dual systems in which university and vocational education paths leading to comparable qualifications enjoy relative “parity of esteem” (to quote from the UK’s 1944

Education Act which tried and failed to introduce such a system). Such systems may provide a ladder to help individuals ameliorate the effects of labour market polarisation, though they cannot remove its wider economic causes.

Persistent Areas of Labour Market Failure

The UK’s labour market does not enable everyone to use and develop their potential to the full. Analysis reveals several interlocking dimensions, many having persisted for decades:

- Growing numbers of 16-19 year olds are entering the labour market with few qualifications and few opportunities for subsequent learning and development; 25.9 per cent of 16-year olds and 26.6 per cent of 18-year olds who left school with only a GCSE qualification were unemployed at the end of 2011 (ONS, 2012).
- Unemployment for young people aged 16 to 24 stood at 1.04 million in October to December 2011, the highest number since 1986/87.
- Youth unemployment amongst black people has increased at almost twice the rate for white 16 to 24 year-olds since the start of the recession in 2008, and young black men are the worst affected (ONS, 2012).
- An increase from 22% in 1992 to 36% in 2006 of employees with higher qualification levels than those required for their job, including growing levels of graduate underemployment; this has a “bumping” effect as graduates take jobs that can be done by school leavers (Brinkley, 2009).
- The growth in female employment reached a plateau after a rise from 56 to 69 percent between 1971 and 2010 (Brewer and Wren-Lewis, 2011).
- There is continued evidence of labour market discrimination against characteristics protected under current legislation (the Equality Act 2010 defines these as race, gender, disability, sexual orientation, religion/belief, transgender, marriage/civil partnership, pregnancy/maternity and age).

The consequences for young people are particularly disturbing. One in five 11–13 year olds say they are worried about what they see on the news about the recession, a figure that rises to 28% among the 17 to 19 year age group (The Childrens’ Society, 2009). Twelve per cent of 16–25 year olds feel that life is “meaningless” with 27% feeling “often” or “always” down or depressed. Unemployed young people were twice as likely to commit suicide as people who were employed; parasuicidal episodes are up to 25 times more likely for unemployed young men than for those with jobs (Dorling, 2009). As far back as 2007 a report for the Prince’s Trust by the Centre for Economic Performance estimated that the productivity loss to the economy as a result of youth unemployment was £10 million every day. There was also a substantial cost to the exchequer of youth unemployment of about £20 million per week in Job-Seeker’s Allowance (The Prince’s Trust, 2007).

It is widely acknowledged that the UK cannot afford such a loss of talent and potential, and there remains a pressing need to enhance labour market integration, through action both in the workplace and at wider societal level.

Migration and Diversity In the Labour Market

A knowledge economy depends not just on home-grown talent, but on its ability to attract and retain individuals, in what for many has already become a global labour market. It would be surprising if, during the next decade, China and India did not increase their attractiveness to experts and entrepreneurs as places to live and work; clearly the USA has always acted as an international magnet for experts and entrepreneurs and, in the case of Silicon Valley for example, such migration has outstripped indigenous talent in recent waves of entrepreneurship. Some argue that this reflects the long-term poverty of public education in California. More than half of the Silicon Valley start-up companies established between 1995 and 2005 had a founder who was a foreign national, though this growth is now increasingly undermined by US immigration restrictions (Wadwha, Saxenian and Siciliano, 2012).

The need for businesses to compete in the global war for talent will gain increasing prominence, not least because of the challenges facing higher education in the UK; this enhances the significance of quality of working life in becoming an employer of choice. Likewise cities and regions have long realised that attractive places to live are a major asset in the attraction of inward investment; the same is also true for businesses seeking to attract mobile talent. Employers' organisations and others have expressed concern that current UK government restrictions on migration from outside the EU may hinder ability to recruit specialist skills and expertise.

The wider, longer term effects of migration remain unclear. Skilled workers migrating within Europe, or entering the UK from elsewhere certainly relieve specific skills shortages, and may mitigate the effects of a falling birth rate to some extent. It is also clear that to rely on migration as a means of maintaining the existing ratio of economically active to non-active inhabitants would entail a massive increase in the UK's population by mid-century, with problematic social and environmental consequences. However the alternative to migration as a means of sustaining an ageing population in economic terms will involve historically unprecedented increases in productivity.

Continuing enlargement of the EU increases the diversity of knowledge, experience and skills on which a sustainable economy and society can be built. However migration also increases the range and depth of the challenges: of integration, co-ordination and innovation that workplaces must meet. Certainly the workforce is likely to be more ethnically diverse and more feminised by 2020, heightening the significance of diversity strategies.

2.1.10 Declining opportunity and disaffection in the age of the social network

Increasing inequality has been a notable feature of UK society in recent years, predating the current crisis though exacerbated by it. The annual average income of the top 10% in 2008 was almost £55,000, almost 12 times higher than that of the bottom 10%, who had an average income of £4,700. This is up from a ratio of 8 to 1 in 1985. The share of national income enjoyed by the top 1% of income earners increased from 7.1% in 1970 to 14.3% in 2005. Just prior to the global recession, the top 0.1% of top earners accounted for some 5% of total pre-tax income. At the same time, the top marginal income tax rate saw a marked decline: dropping from 60% in the 1980s to 40% in the 2000s, before its recent increase to 50% (OECD, 2011). Arguably (and this is contested) the most unequal countries do worse on almost every quality of life indicator. They suffer from higher levels of violence, mental illness, obesity and teenage pregnancy, and lower levels of trust, child well-being and happiness (Wilkinson and Pickett, 2010).

Over the last four decades or so more than three quarters of income growth arising from work in low to middle income households came from women. Women's contribution to total household income more than doubled from just 11 per cent in 1968 to 24 per cent in 2008 (Brewer and Wren-Lewis, 2011). Much of this growth is accounted for by higher wages but a large share also comes from big increases in female employment which, as we have seen has levelled off and may continue to do so in the current period of slow growth. Meanwhile the contribution of men's work to household income has been declining. Combined with the weakening relationship between economic growth and average pay rises, this raises concerns that the UK may follow the US in seeing a long-term relative decline in the living standards of ordinary families (Bailey et al., 2010). It appears as though economic crisis is having a significant impact on the wellbeing of families but that economic growth is increasingly less able to redress the balance.

Taken together, continuous economic restructuring, public sector job losses, job insecurity, wage freezes, outsourcing, casualisation, a more segmented labour market, the large scale threat to jobs from emerging technologies, failing pensions, and the increase in stress – related problems at work, offer a somewhat gruelling future for many UK citizens. Such upheavals are not entirely new; the physical, social and economic infrastructure of many parts of the UK for example still bears the scars of the massive wave of deindustrialisation that swept through mining and steelmaking communities during the 1980s. While the physical scars can still be glimpsed from motorways and high speed trains, the residual social and economic consequences are largely hidden from the mainstream view in the self contained mining communities of South Wales or Yorkshire, or even the peripheral housing estates of the major industrial cities. The next wave is likely to be more widely dispersed, impacting on the middle class and becoming much more visible.

It is possible that those at the sharp end of such upheaval may be much more vocal, not least if there were to be a sustained period of jobless growth following the massive public sector job losses taking place at the beginning of the decade. The political transformation of successive countries in the southern Mediterranean demonstrates the power of social media in organising spontaneous and largely leaderless protests capable of toppling governments. While the precise causes of the 2011 riots in the UK are contested they also demonstrate the combined effects of social fragmentation and the mobilising power of social media. As Acas points out in its review of *The Future of Employment Relations* (Podro, 2011), the same social media could be equally effective in stimulating widespread grievance and disputes against organisations relating to their employment practices, outsourcing policies, executive pay or other aspects of working life. The negotiated resolution of such disputes becomes particularly difficult given the absence of clear leadership structures.

2.2 What will change the structure of our organisations?

The previous section has attempted a broad overview of some of the macro-level forces that are likely to change the environment within which individual organisations operate, and which shape their development. How do these forces translate to the workplace?

2.2.1 Collectivism, individualism and changing employment relations

Declining union membership, the loss of collective bargaining in many sectors and the difficulties of organising employees in agency work or outsourced production lead to the suggestion of a permanent swing in employment relations from collectivism to individualism. In 2010 only 17 per cent of private sector employees had their terms and conditions negotiated through collective bargaining, a drop of seven percent since 2000. Once again there are two sides to this picture: while many employers and employees have recognised the benefits of tailored reward packages and working conditions, other groups of workers have lost substantial ground.

Less than a quarter of people currently in employment are trade union members, and the density of membership in the private sector is down to 14 per cent, a decline of seven percentage points since 1995. Union membership density in the public sector remains just above half (56 per cent) but here, too, there has been a five per cent decline in 15 years. In short, unions are no longer the single channel of communication and representation for most working people (Purcell and Hall, 2012).

The overall picture includes a wide spectrum of ways in which employers communicate and employees are represented. Direct employee participation sometimes complements and sometimes substitutes for representative forms of participation. However there is a dramatic variation in the extent and quality of participation between workplaces.

The risk that the decline of formal representational structures may lead to other, less manageable, forms of employee disengagement and dissent should not be ignored.

Individualised reactions to perceptions of unfairness, where no collective remedy exists, may include sickness absence, use of grievance procedures and litigation, and even sabotage. Social networking sites also offer the potential to spread discontent rapidly throughout the workforce, and in ways which are largely invisible to management; some commentators suggest that this phenomenon could even give rise to an increase in unofficial strikes which, given the absence of a formal structure, HR and management may find hard to resolve (Podro, 2011).

Employers' organisations must also redefine their offer to members, as businesses in an increasingly diverse economy question the need for a collective voice. New types of representation are also required, to support growing numbers of independent knowledge workers in the "network economy".

2.2.2 The fragmentation of the employment relationship

Svenskt Näringsliv, the Confederation of Swedish Enterprise, uses the following table to explain in simple terms how the employment relationship is changing:

	Then	Now
Work	Anonymous and	Personal and unique
Capital	Personal and unique	More and more anonymous and replaceable

In the (unspecified but not-too-far-distant) past, work for many employees had become routinised and segmented, to the extent that individual workers on production lines, or in offices, could readily be replaced with a minimum of training and no real loss of knowledge or potential. On the other hand, most employees knew their employer, whether a family business or a long-established corporate or public agency. Organisations were relatively stable and, even when work was essentially monotonous and repressive, often commanded loyalty amongst workforces. More recently however, successful private and public organisations alike have come to rely on the tacit knowledge and creativity of their employees to reinvent products and services on an almost continuous basis to keep up with market demands. The unique contributions that workers make, individually and collectively, has begun to count. Yet, *Svenskt Näringsliv* argues, organisations themselves have become more elusive. What is a company that is owned by a hedge fund, or by institutions whose commitment is only as long as the next quarterly returns? Likewise how does a public organisation build an identity and maintain a public service ethos within its workforce, when it is subject to regular merger or rebranding?

This, of course, poses a dilemma. The weakening of the traditional employment relationship, combined with the prospects of a "lost decade" in wage growth, weakens workers' loyalty to their employers, precisely when engagement becomes more critical in helping organisations to survive in volatile times. How do employers command the loyalty of their workers in such circumstances?

Outsourcing and the expanding use of agency workers add an even more difficult dimension to this equation. It has become common to analyse organisational processes as a series of constituent parts that can be outsourced to different companies, often located across the world, retaining only the "core". Likewise agency workers offer employers numerical flexibility, and the ability to hire and fire in ways that would not be possible within conventional employment contracts. Employees of companies which take on outsourcing contract for clients, and agency workers, find that they are therefore working within targets, standards and cultural settings established outside the boundaries of their employing organisation and therefore less susceptible to dialogue, negotiation or bargaining (Podro, 2011).

The new Regulations transposing the EU Directive on Agency Working came into effect in October 2011. These regulations, which require equal treatment between agency workers and comparable contracted employees, may restrict the use of agency workers in the UK.

Restructuring, takeovers and mergers, downsizing and the geographical mobility of enterprises have significantly undermined expectations of job security, as well as undermining trust and loyalty to individual employers. An increasingly precarious relationship weakens the employee's commitment to quality, improvement and "going the extra mile".

Workers are now well advised to be proactive in ensuring their own employability, through active participation in lifelong learning (both inside and outside the workplace) and in building a wide range of work experience. Jobs which offer opportunities to build 'career capital' through learning, high levels of discretion, diversity

of experience and personal network building are increasingly prized, and this is clearly related to the design of work organisation.

2.2.3 The universality of ICTs – and the persistence of sociability at work

ICTs transform the nature of jobs and of workplaces themselves, enabling tasks to be distributed and managed worldwide. Employees collaborating on a regular basis may scarcely know each other, and some multinational organisations with teams dispersed across the globe are working hard to devise new means of securing “emotional sustainability” in relationships between individuals. ICTs certainly create vast opportunities for the wider distribution of knowledge and decision-making (although also for its opposite), creating possibilities for the wider engagement of employees in decision making.

The use of ICTs has become commonplace in even the smallest businesses, imposing new skill requirements on employees working in a wide range of functional areas. Critically businesses are realising that knowledge of ICTs is required, not just by the specialist workers who use such technologies directly, but by managers and associated employees who need to understand their potential in ensuring efficient business processes. After some two decades of widespread use, protocols for using and managing emails effectively are still relatively uncommon; meanwhile the emerging generation of employees regards email as old technology.

The growth of home-based working made possible by ICTs can offer flexibility and other benefits to individuals seeking to balance work and family life, and to companies wishing to retain skilled employees. It also requires enhanced levels of ICT competence and self-management capability, as well as posing stress risks and the danger of isolation from workplace colleagues.

Since routine work for many employees can be done from home or on the move, this has begun to raise questions about why employers continue invest huge capital sums in renting or buying property. Even decision making, problem solving and information exchange are increasingly relocated from meeting rooms to in-house social networking sites. Face-to-face contact is becoming even more important, in an environment where continuous reflection, dialogue, improvement and innovation lie at the heart of survival: creativity has always been more of a sociable act than a solitary one. The importance of the physical workplace in 2020 may lie more in its ability to support serendipitous contact, congeniality, emotional engagement and the sharing of tacit knowledge, than to support the delivery of routine tasks. This is already being reflected in contemporary office design.

ICTs support the drive for greater numerical and functional flexibility, with ambiguous consequences for employees. Existing information technologies are already capable of automating a significant proportion of service functions, with significant implications for employment in many sectors, and technology-led restructuring will affect large numbers of skilled workers in the next few years. Services are responsible for a major share of the EU’s productivity gap with the US, so the potential for job loss is considerable, though the automation of routine backroom functions offers companies the “high road” alternative of refocusing attention on customer service, rather than the low road of cost reduction through job losses. Either way, the growth of ICTs means that many workers will face significant changes in the medium term future.

In the last ten years, ICTs have enabled business “ecosystems” to emerge as an important form of economic organisation, potentially outstripping the large vertically integrated firms that dominated the era of mass production as sources of innovation. Importantly, firms are not the only entities to participate in the new ecosystems. Social media have dramatically lowered the cost of communication and collective action, and thus independent workers, universities and other stakeholders are emerging as actors in polycentric innovation networks; likewise users are increasingly playing active roles as co-designers and stewards of the products and services they consume. The heroic innovator, perhaps always something of a myth, is succumbing to the network innovator (McEwan, 2013).

2.3 Anchors for stability

2.3.1 Resisting change

Past predictions of future change have demonstrated a tendency to exaggerate the range, depth and speed of transformation. It needs to be recognised that some institutional, cultural, political and behavioural characteristics are well anchored against the tides of change, whether for good or ill.

At individual level, previous predictions of constant career change for the majority of employees have largely proven to be unfounded. The frequency of career changes has not increased markedly, perhaps in part because people still seek security, and many employers continue to value the retention of knowledge and experience.

For organisations, investment in current business infrastructure also slows the formation of new business models and organisational structures. The economic advantages of outsourcing, for example, may appear to be outweighed by the need to write off existing investments and by the uncertainty of building trust-based relationships with suppliers. Owners of independent and family businesses may also be driven more by lifestyle factors than by a relentless desire to compete, thereby inhibiting desirable changes in practice.

The recession itself will have acted as a significant brake on change, possibly with long lasting effects. “Stagflation” has re-entered the vocabulary and the possibility of sustained low growth and rising inflation will certainly inhibit many businesses from significant change or investment. Even for those companies seeking to invest, banks remain reluctant to lend despite the exhortations of government.

Short-termism in the UK’s financial markets is also a perennial barrier to sustainable workplace innovation. In one large UK engineering company known to UK WON, managers struggled to build employee engagement through long-term culture change, while the major shareholder, an investment company, was seeking a three year turnaround in performance prior to selling its stake. Senior managers were evaluated on whether they met monthly financial performance targets, rather than on building the long term competitive advantage of the enterprise, giving very mixed messages to the workforce. Such cases are not uncommon. Likewise takeovers and mergers driven by short-term financial targets often result in the loss of good workplace practice and the associated tacit knowledge and experience.

2.3.2 If it works, why isn’t everyone doing it?

As we pointed out in the Introduction, the UK has fallen far behind many neighbouring European economies in the adoption of ways of working based on high skill, high levels of individual and team autonomy and high quality of working life. There has been a sustained failure over several decades to disseminate evidence-based approaches to the organisation of work, and this can be held to account in part for comparative shortcomings in productivity and innovation. Where participative approaches exist in UK organisations, they may be less effective than in other northern European countries where the employment relations culture ensures that workers are actively involved in the redesign of work organisation, and where there is a higher premium on quality of working life. The top-down imposition of new forms of work organisation, by managers with limited understanding, is likely to be self defeating, with adverse impacts on productivity, performance and engagement.

The CIPD’s most recent employee engagement survey term (Truss, Soane, Edwards, Croll and Burnett, 2006) shows that we have a long way to go:

- A third of employees never receive feedback from their managers.
- Only half of all employees believe that they will be dealt with fairly if they have a problem at work.
- Two in five say that they are not informed about what is happening in their organisation, and just a third believe that their views will be taken seriously.
- Only a third of employees trust senior managers.
- Only a third of employees are engaged, in the sense that they display the attitudes and behaviours needed to deliver the organisation’s mission.

The Workplace Employment Relations Survey suggests that participative working practices have been in decline. The majority of information and consultation arrangements exist in unionised organisations (Kersley, Carmen, Forth, Bryson, Bewley, Dix, Oxenbridge, 2006). Likewise according to the European Working Conditions Survey, the proportion of UK respondents who thought they had a great deal of influence in relation to how hard they worked fell from 71% in 1992 to 53% in 2005, from 42% to 29% in relation to choice of tasks, from 57% to 43% for the way tasks were carried out, and from 70% to 51% for control of quality standards. In contrast, employee discretion rose in nine out of the 15 countries, and remained unchanged in two others (Parent-Thirion, Vermeylen, van Houten, Lyly-Yrjänäinen, Biletta, Cabrita, 2012).

It is not easy to characterise the state of workplace innovation in the UK. Unlike many other northern European countries there is no history of (potentially) unifying narratives of workplace change such as socio-technical systems in the Netherlands or partnership in Ireland. Pragmatism and voluntarism are the principle features of the UK landscape, which can look like contested terrain, as influences from the US, Asia, and Continental Europe compete with home-grown versions of organisational and management practice.

The UK Commission for Employment and Skills (UKCES) identifies management incompetence, lack of trust on the part of employees, ignorance (employers simply do not know “what works”), inertia (the costs of change are too high) and a lack of capacity (managers do not have the skills needed to make the practices work) as barriers to introduction of evidence-based participative work systems (UKCES, 2009). An earlier study by the European Commission (Business Decisions Limited, 2002) identifies “partial change” as an obstacle and a reason for failure. In similar vein Coats (2010) expresses this by arguing that employers are “more inclined to pick a la carte from the HRM menu (a team briefing here, a bit of performance related pay there), than apply these practices as bundles, even though the evidence suggested that higher performance depended on the bundling of practices. In other words, so-called strategic HR was (and remains) driven as much by management faddism as by a systematic attempt to manage the workforce more effectively.” The problem with “a la carte” change, as the European Commission’s study shows, is that organisations generate antibodies which attack the new cultures and practices, leading to inevitable innovation decay and the return to the status quo ante. For example such antibodies often take the form of line managers who may feel their authority and status undermined by participative work practices unless their roles are redefined and re-legitimised.

Employers who have adopted participative forms of work organisation also point to the difficulty in recruiting new employees with the broader range of competencies required to sustain them. New demands in the economy, and the (albeit slow and partial) emergence of new forms of job design and work organisation, have profound implications for vocational training and education. While technical skills are increasingly time limited, generic competencies such as communication, teamworking, problem solving and creativity are at a premium in the knowledge workplace as is the ability to learn itself. This poses challenges for the development of competence standards, and indeed for our definition of labour market needs.

A growing number of educationalists argue that continuous testing at all levels of the education system has had a negative impact on the capacity for critical or divergent thinking on which innovation and creativity depend. Likewise the more traditional separation of knowledge and skills between “academic” and “vocational” helps to ensure that the qualities which lead to innovation and entrepreneurship at work remain seriously undervalued – see for example the last government’s *Robinson Report* (Robinson, 1999). At the same time, recent data suggests that around a third of UK workers are not using their full range of skills, reflecting the restrictive nature of traditional forms of work organisation, and representing a significant waste of investment in education and training (UKCES, 2009; Podro, 2011).

In labour market policy there is a failure to recognise that participative and empowering forms of work organisation have wider social benefits by engaging and drawing people up the ladder, upskilling even low skill jobs by enabling workers to gain the self-actualising abilities that enhance the strength of their position within the wider labour market. This has implications for the economic and social inclusion of young, vulnerable and older workers alike.

2.3.3 The lack of a coherent policy narrative for the workplace

Whilst past examples of proactive government policies can be found, the workplace has remained largely invisible in more recent political discourse. Its contribution to growth, innovation, employment, health and social policy is simply regarded as an opaque black box by most politicians and policymakers. Work organisation is regarded as a private matter for employers, at best involving consultation and participation with employees or trade unions, but with minimal influence either from regulation or from active policy. It is as though UK politicians have failed to understand that work is where the majority of the population spend their most active hours for most of their lives, and that how work is organised is vitally important for individual human happiness and fulfilment, and has a direct impact on the health and wealth of society.

A number of northern European countries have developed exemplary programmes to support workplace innovation (Totterdill, 2009); typically they promote workplace changes that seek simultaneous gains in productivity and quality of working life, and have generated a growing body of evidence that such convergence is achievable. Such programmes are not about regulation, but about creating an environment rich in resources to support workplace innovation. Over four decades and despite changes of government these programmes have generated considerable evidence of how targeted intervention can produce tangible gains for business and employees alike, and their outcomes have enhanced collective understanding of “what works” in terms of effective and sustainable approaches to work organisation.

Yet these policy measures, and their considerable achievements, remain relatively unknown in the UK. At best, previous governments have flirted with proactive measures such as the Partnership Fund, DTI promotional initiatives focused on specific practices such as teamworking and quality circles, the Acas Work Research Unit, and the pilot initiatives led by the National Economic Development Council in the 1980s. In practice these initiatives were politically marginal, fragmented, short-lived and lacked conceptual clarity about the means of achieving large scale change across the economy. Evidence from elsewhere in Europe highlights the inadequacy of such voluntarism and points to the need for a sustained, multi – channel approach involving smart regulation, business support, the renewal of industrial relations, and better bridges between research and practice (Totterdill, 2009).

Recent work by the UK Commission on Employment and Skills illustrates the current policy weakness graphically. A series of studies commissioned in 2008 reach the conclusion that participative working methods (or “high performance working”) are positively associated with outcomes such as:

“... improved company profits, sales and profitability, as well as wider improvements for employees, in terms of higher job satisfaction, better skill use and development, commitment and motivation.” (UKCES, 2009).

UKCES goes on to argue that tackling the low take up of such methods is a “key consideration” for policymakers. However its analysis of the UK policy measures designed to address this low take up (UKCES, 2010) makes depressing reading. Despite heroic attempts to link disparate policy initiatives and measures to the topic, the authors are forced to conclude that the adoption of high performance working is “is currently an agenda without a clear home across the UK.”

Such a significant policy lacuna extends to the EU itself which, despite token recognition of the well-documented need to modernise work organisation across Europe, has demonstrated little policy leadership, either amongst member states or within its own portfolio of programmes.

In this context Engaging for Success, David MacLeod and Nita Clarke’s review of Employee Engagement (MacLeod and Clarke, 2009), is to be welcomed. Established by the previous Labour government and subsequently endorsed by the Coalition, the MacLeod Review focuses attention on the workplace by assembling a body of evidence linking employee engagement to quality of working life and organisational performance. MacLeod’s vision is to use this evidence to create a sea change in management and organisational practice through dialogue and knowledge sharing with UK businesses and public sector organisations. Considerable emphasis is placed on the importance of a national awareness campaign of the type that the former Department of Trade & Industry used to run on a regular basis during the 1980s and 90s relating to different areas of business practice. Yet evidence that such campaigns alone were effective in changing practice on a large scale is hard to find.

Linked to the need for greater awareness is the creation of a business environment abundant in resources to help support effective and sustainable employee engagement. MacLeod’s second recommendation concerns the need to align existing public policies and business support measures to encourage greater awareness and action. UK WON’s analysis of policies elsewhere in Europe (Totterdill, 2009) demonstrates the significance of coalition building, in which different actors at national and regional levels share a common perspective and values. However this is typically linked in such countries to an interdependent portfolio of research, dissemination and sometimes regulatory initiatives that provide the driver for alignment; such a portfolio is not even under consideration in the UK at present. Moreover the Review shows little evidence of learning from the four decades’ experience of “what works” elsewhere in Europe. MacLeod’s third recommendation argues for increased support for employee engagement, and arguably this is nearer the mark, though unlikely in the current policy climate.

In practice, following endorsement from the Coalition government, an Engaging for Success network has been created which brings together major employers and experts around issues associated with the dissemination of good practice. This perpetuates the UK's voluntarist tradition, based on gentle persuasion, which although not previously successful in closing the gap between evidence-based practice and common practice, may succeed in building a critical mass of opinion in ways that earlier campaigns were unable to do.

An optimistic view is that people in 2020 will look back to the publication of the MacLeod Review as the turning point when the UK as a whole began to take workplace practices more seriously. If this were to be the case, it would require concerted action by social partners, industry and professional bodies and the education sector, not to mention a much greater level of sophistication in the design of policy instruments by government.

Meanwhile the absence of a strong national framework has necessitated considerable inventiveness and creativity amongst network organisations such as the Involvement & Participation Association (IPA) and the *UK Work Organisation Network* (UK WON), sectoral initiatives such as *Improving Working Lives* in the National Health Service, and emerging initiatives such as the Acas/UK WON Innovative Workplaces programme and the HSE's *Worker Involvement Project*. Subsequent sections of this report will discuss ways of building on these existing resources. However our core argument is that much greater leadership is required from government, stimulating and influencing workplace innovation in ways which go beyond the failed voluntarism characteristic of policy in recent decades.

3 Choosing the Path

Despite the scale of emerging challenges in the period leading up to 2020 we have seen that there are strong forces which anchor organisations into the maintenance of current practices and ways of working. Such "path dependency" is reinforced at several levels:

- *Aspirations* of business leaders and decision-makers may be limited to firefighting and survival in a severe economic climate, reducing the inclination and resources available to address medium-term positioning and competitiveness;
- Early *knowledge* of emerging challenges and of the potential for new or adaptive strategies is likely to be limited amongst many practitioners;
- *Institutional* structures and public policies are typically reactive, and focused on current problem solving rather than anticipation.

The effects of path dependency are, of course, weakened capacity to seize emerging opportunities and higher casualty rates when disruptive changes do occur. A central question for decision makers in 2012 should be whether the current crisis in the UK is sufficient to cause a shift from path dependency to new strategic choices for the economy and society. "Crisis" in this context has to be understood at two levels. Firstly there is the fiscal crisis currently dominating the UK, the Eurozone and beyond with its attendant risk of further recession or, at best, a sustained period of slow growth. This preoccupies decision makers while weakening their capacity to deal with the second, slow burning crisis: being left behind in an increasingly fast changing, complex and competitive world which will not pause while the UK deals with its immediate problems.

This report began with a statement of values centred around inclusion, quality of life, innovation and entrepreneurship as the route to sustainable global competitiveness. It should now be clear that the existing pathway has fallen significantly short of addressing these values, even during the boom years, and that it will be incapable of delivering desirable outcomes for the UK in the challenging decade ahead. So what is the alternative?

Discussions such as this often contrast Nordic and US models of capitalism. The former is portrayed by its advocates as capable of achieving convergence between economic and social goals, competitive in world markets but with high levels of inclusion and welfare. Critics however point to high levels of taxation and regulation, which they claim suppress enterprise and individual initiative, qualities which best characterise the US model with its high levels of entrepreneurship and productivity. Critics however suggest that there is a missing link between the economy and social sustainability:

“The US has the most prestigious (and the most expensive) universities in the world, but it also has some of the highest levels of adult illiteracy of all OECD countries. Literacy levels in the inner city ghettos make mockery of the claim that the USA is a ‘knowledge – economy’ ” (Wickham, 2002).

While neo-liberals suggest that it is precisely this form of intervention which holds back Europe’s growth and prosperity compared with the US (where ‘social inclusion’ or ‘social cohesion’ are rarely heard in political discourse), it is important to uncover the real economic costs of exclusion, including the waste of human talent. The challenges discussed in the previous section require more than instrumental solutions: rather the search is for an approach which engages a wide range of actors in defining and articulating shared aspirations for 2020. At EU level the European Social Model is sometimes mentioned in this respect:

“The European Social Model is a vision of society that combines sustainable economic growth with ever-improving living and working conditions. This implies full employment, good quality jobs, equal opportunities, social protection for all, social inclusion, and involving citizens in the decisions that affect them. In the ETUC’s view, social dialogue, collective bargaining and workers’ protection are crucial factors in promoting innovation, productivity and competitiveness. This is what distinguishes Europe, where post-war social progress has matched economic growth, from the US model, where small numbers of individuals have benefited at the expense of the majority. Europe must continue to sustain this social model as an example for other countries around the world” (ETUC, 2005).

This was strongly echoed in the European Council’s Lisbon Declaration of March 2000:

“The (European) Union has today set itself a new strategic goal for the next decade: to become the most competitive and dynamic knowledge-based economy in the world, capable of sustainable economic growth with more and better jobs and greater social cohesion.”

What does this mean in practice? According to an essay written by James Wickham and published by the Irish Congress of Trade Unions (ICTU) Lisbon defined “the European version of American ‘apple pie’: not just growth, not just employment, but good jobs and even social cohesion as well. In an earlier age, one might have said guns and butter; today the cynical might say, having your cake and eating it. No hard choices, just everything you want” (Wickham, 2002). Of course subsequent history has shown that the cynics may have had a point. Europe did not emerge in 2010 as the most competitive and dynamic labour market in the world, and many of its gains in terms of job creation and labour market inclusion turned out to be cyclical rather than sustainable. Nonetheless *Europe 2020*, the Lisbon Strategy’s successor, does not back away from the conviction that economic performance and social cohesion can be mutually reinforcing, rather than at odds with each other. A working age population that has every opportunity and incentive to develop and use its skills and creativity to the full will make a greater contribution to growth and prosperity than one which is fragmented, and where significant numbers are constrained by relative disadvantage.

The question is how this convergence can be achieved in practice. Here the EU doesn’t offer much guidance, relying on a small number of measurable indicators, rather than what really lies at the heart of “sustainable economic growth with more and better jobs and greater social cohesion.” Rather we need to explore the interdependence of competitiveness, organisational performance, quality of working life and economic and social inclusion, clearly involving concerted action by a wide range of stakeholders.

It should be clear from the above argument that we are not claiming the existence of any one best way for the UK, be it Nordic, European or US in origin. As far back as 1996 Francesco Garibaldi and Fiorenza Belussi argued that it is important to avoid an academic comparison of different models in a vain attempt to discover magic formulae for success. Policy makers and management opinion formers alike should be discouraged from an obsession with emulating experiences from elsewhere:

“The key point is rather to shift from a ‘catch-up’ approach – which until now seems to have not been successful at all – to a strategy firmly orientated towards the creation of innovative and self-sustaining processes of

development” (Garibaldo and Belussi, 1996).

Rather the task is to build “local theories” which build on national and regional histories, institutions and practices. As Garibaldo and Belussi point out “the most competitive countries and regions will be those which are able to create a virtuous circle based on their own cultural identity” while at the same time learning from generalisable knowledge and experience more widely.

The argument at the heart of this report is that what happens in the workplace is unavoidably part of the equation linking a competitive knowledge economy and social inclusion. Workplaces do not exist in a vacuum but similarly macro-level policy outcomes relating to competitiveness, innovation, learning, health, ageing and inclusion are shaped by the nature of work and people’s working lives. A knowledge economy that does not engage the creativity and competencies of employees to the full is inconceivable, not least because most value-creating innovations originate not from R&D but from interactions and knowledge sharing within ordinary workplaces.

Where are the signals from existing knowledge and experience at both macro and micro levels that might inform a “local theory” for the UK?

4 Signals for 2020

We have identified several “weak signals” from emerging practices that can be of value in shaping strategic decisions for the UK’s economic and social future. These can be clustered under three main headings, each addressing a focal point for intervention:

- Section 4.1 addresses the core strategic values that should drive the UK’s engagement with a globalised economy.
- Section 4.2 examines the potential agenda for collaboration including the respective roles of government, employers’ organisations and unions.
- Section 4.3 addresses the workplace.

The aim is not to offer a blueprint or manifesto, but to provide an opportunity for dialogue and critical thinking that can take us beyond the current emphasis on crisis management, and focus on long term, sustainable economic growth and social wellbeing.

4.1 From CSR to responsible globalisation

The impact of globalisation on competitiveness, welfare and inclusion has been taken up by the Danish Confederation of Trade Unions (LO) in its advocacy of “responsible globalisation” (LO, 2006). The LO points to the risks of a globalisation process led by short-term corporate cost-reduction strategies, which would undermine the competitiveness of EU countries such as Denmark while creating exploitative forms of labour in the developing world. However, they argue, the appropriate response is not to oppose globalisation: rather it should be grasped as an opportunity for mutual development and international cohesion. This requires the creation of a sustained and multilateral strategy, in which social and environmental considerations play a central role, and in which the actions of governments and corporations are open to scrutiny. At domestic level it also requires a much more explicit focus on an innovation-based economy, and on enhancing the quality of work and the employability of workers at all levels. Denmark, as the LO points out, has made considerable progress in these areas. However the same is not necessarily true of the rest of Europe. On the other hand the UK has a significant challenge to meet in addressing the focus of institutional investors on short-term returns, at the expense of both longer term competitiveness and social and environmental consequences.

The key message here is that globalisation is not simply an inexorable process over which we have no option but to adapt. There are choices around the type of globalisation we want. As the Institute of Business Ethics (IBE, 2012) points out, the pressure to consider the social and environmental consequences of global actions

increasingly comes from customers, employees and investors, not just from lobby groups.

Strengthening business ethics would also have positive benefits in the UK. The MacLeod Review (MacLeod and Clarke, 2009) identifies “Integrity” as a major driver of engagement, but only when businesses need to back up corporate statements concerning, for example, environmental and social responsibility with practical actions. Such actions may include, but need to go far beyond, symbolic initiatives such as employee volunteering schemes. Rather it is important to demonstrate that ethical principles are deeply embedded in an organisation’s DNA, shaping every area of business practice.

4.2 A collaborative agenda based on shared values

4.2.1 New roles for public policy

Managing the current budget deficit is at the top of the agenda for each of the major UK political parties. As this report has argued, there is a danger that the current crisis diverts attention from the longer term structural shifts in the global economy which by 2020 will have had a significant effect on the UK’s competitive position. Social cohesion is also in danger of becoming an increasingly distant goal.

Government intervention and regulation in the economy and labour market are much too important to be treated as an ideological battleground. We need a much more mature and informed debate about the ways in which public policy can generate win-win outcomes.

The UK, along with the rest of the EU, is committed to a path of development characterised as “the knowledge economy”. This is often understood in terms of a high commitment to innovation and the production of R&D intensive goods and services. However the innovation on which sustainable UK competitiveness is based is only derived in part from R&D activities. According to the European Economic and Social Committee (EESC, 2011) innovation can be defined as:

“... applied competence-based competitive advantage, which can emerge from scientific research, technology, business models, service solutions, design, brands or methods of organising work and production, and improving the working environment. Typically, an innovation is generated through a combination of different competencies, and it promotes the advancement of businesses, society and well-being.”

In short many value-generating innovations do not originate in laboratories, but rather through the creativity, knowledge sharing and interaction that happens in normal workplaces, previously referred to in this report as “productive reflection”. Even the application of research results and technological innovations require organisational competence based on human capital, and these are often the weak link in the chain. The Committee goes on to argue that the balance of attention in public policy needs to be redressed; investments made in the context of innovation policy should be targeted at organisational and employee-driven innovations in the workplace and not just at R&D. Significantly in Finland (the world’s second most innovative economy) successive governments have adopted a highly proactive and broad-based innovation strategy, embracing the spectrum from R&D to workplace innovation within a unified institutional context (see below).

Hard/indirect regulation Legislation which focuses indirectly on workplace innovation through changes in some other policy area (e.g. education system, product market and labour market).		Hard/direct regulation Legislation which focuses directly on workplace innovation (e.g. consultation and participation, reduction of repetitive work, new work practices).
Soft/indirect regulation General policy frameworks and recommendations.	Soft/intermediate regulation (Action) research, information on “good/best practices”, and training and education of managers and employees.	Soft/direct regulation Advisory and consulting services, benchmarking tools, and grants and subsidies to companies.
SOURCE: Adapted from an idea by Tuomo Alasoini (TEKES, Finland) developed for a UK WON Workshop hosted by DG Employment, Social Affairs and Equal Opportunities, Brussels, June 2010.		

There are many different ways in which public policymakers can intervene to support workplace innovation:

Evidence from elsewhere in Europe points to the benefits of a multidimensional approach based on mutually reinforcing policies. The UK can demonstrate some relevant policy examples in each of the above boxes, but their impact is weakened by the lack of both an overall argument and proactive forms of intervention. UK WON's study on *Workplace Innovation Programmes in European Countries* (Totterdill, 2009) demonstrated that in a minority of EU member states, targeted public programmes developed and implemented in collaboration with social partners were successfully addressing the obstacles to the wider dissemination of participative forms of work organisation. Such programmes typically include:

- Accumulating, analysing and distributing knowledge of leading-edge practice and evidence-based approaches to change;
- The establishment of closer links between researchers and practitioners;
- Action research to promote workplace innovation;
- The development of new learning resources to support workplace change;
- The provision of knowledge-based business support;
- The creation of inter-company learning networks.

Across Europe the policy response has been uneven. In France, Germany and some of the Nordic countries the provision of support for workplace innovation has been a constant though evolving feature of the policy landscape for up to four decades. In the UK however, such support has been either occasional or non-existent.

Finland: an Exemplary Model of Intervention

In recent years, Finland has carried out working life programmes with the overall aim of promoting sustainable productivity growth (Totterdill, Exton, Exton and Sherrin, 2009). The concept of 'sustainable productivity growth' refers here to productivity growth that is achieved through solutions which simultaneously improve the quality of working life, e.g. employees' opportunities for learning and influence at work and job satisfaction. The main challenges in designing a future strategy for sustainable growth in Finland include speeding up the annual growth of productivity, disseminating productive ways of working across a broader front of sectors and companies, enabling the development of new engines for productivity growth for the future, and finding new ways to improve the quality of working life in an environment characterised by a rapid pace of change.

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. Over 3,000 private and public workplaces have participated in the projects involving some 2,000,000 employees. TYKES is grounded in close co-operation between the government, the labour market organisations, universities and other research and development institutes.

From 2008 the promotion of workplace innovation has been increasingly integrated within a "broad-based innovation policy" bringing together all aspects of product, service and process development within a single institutional framework. The new policy is based on a systematic approach which aims to unleash the potentials of innovative individuals and communities, in ways which are demand and user-led and which are global in orientation.

Sustainable productivity improvements in a dynamic global economy demand that Finnish companies should not only boost their innovation capability but also rethink the way innovations are produced. Innovations increasingly emerge from interaction between multiple actors, are occurring in ever shorter cycles, and are increasingly based on the 'open innovation' model. Innovation-based activity is increasingly integrated with normal work processes by employees at all levels, and should be linked to comprehensive organisational learning. Finnish policymakers, employers and trade unions argue strongly from experience that countries with experience of stimulating these types of convergence through proactive intervention will have a competitive edge over others.

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, 2007). “Performance” in that study encompassed productivity, quality of goods and services, quality of operations, flexible customer service and smooth running of operations. “Quality of working life” comprised co-operation between management and staff, team-like working processes, social relations in workplaces, mental wellbeing and development of vocational skills. Most organisations that improved quality of working life improved performance simultaneously. Finnish colleagues argue that policy interventions are essential for the design of such approaches to work organisation to ensure that workers can use their talent to the full, develop new skills and competencies, and realise their creative potential.

Key characteristics and findings from the TYKES programme can be found in the following table:

Learning from Tykes

- **Productivity and Quality of Working Life (QWL):** A mutually supportive relationship exists between high productivity and a high QWL at workplace level; both can be enhanced with similar development methods.
- **System-level approach:** Innovation at enterprise level is focused at the system level comprising interdependent work, organisational and HRM systems rather than individual practices.
- **Local learning processes:** Workplace innovations usually call for a great deal of local re-invention. Promoting sustainable productivity growth requires local learning rather than the transfer of ready-made ‘good/best practices’ from one workplace context to another.
- **Labour-management co-operation:** Co-operation between management and employees is important in order to utilise a broad range of expertise in the planning and implementation of new solutions, and to create shared understanding and acceptance of the outcomes.
- **Research-supported development:** Interplay between research and development in projects lays more favourable conditions for innovative workplace-level solutions and the creation of new generalised knowledge than research or development alone.
- **Closer university-business links:** The most favourable conditions for workplace innovations derive from close interaction and cooperation between researchers and practitioners.
- **Inclusiveness:** For the maintenance of the Finnish welfare state, it is important to foster innovative development in all sectors of the economy and in all kinds of workplaces.

SOURCE: Adapted from an idea by Tuomo Alasoini (TEKES, Finland) developed for a UK WON Workshop hosted by DG Employment, Social Affairs and Equal Opportunities, Brussels, June 2010.

Our aim here is not to suggest that the UK copies the Finnish approach or that of any other country. At the same time, experiences from Finland show clearly that the workplace is potentially susceptible to interventions by broad coalitions of agencies which lead to tangible economic and social benefits.

A New Mode of Policymaking?

While we have made the case for new policy interventions to support workplace innovation, it is also important to consider whether the very process of policy design and delivery is adequate to meet the challenges of the next decade.

The Coalition government’s “Big Society” vision has generated considerable scepticism fuelled by the suspicion of many that it is simply a mask for cuts and an ideologically-driven rolling back of the state.

However it has also fuelled useful debate about ways in which social and economic change can be brought about, through the co-production and delivery of policies and services by diverse partners.

With a somewhat greater degree of intellectual coherence, these issues are taken up within the concept of “social innovation” currently gaining ground in the rest of Europe and in EU policy. Social innovation is concerned with the creation of strategies, institutions and interventions that address economic and social policy issues, many of which have proven intractable to state intervention in the past, through active collaboration and the sharing of resources between different stakeholders.

It is worth attempting to characterise traditional modes of public policy in order to test the need for new approaches to meet twenty-first century needs. The classic mode of public policy can be characterised as *bureaucratic* and typified state actions in the 19th and early 20th centuries. Bureaucratic procedures were designed to ensure consistent and transparent decision rules in resource allocation, and were adequate in addressing well-understood and relatively stable policy arenas. In the post-war era increasing awareness of the complexity of policy issues such as multiple deprivation, industrial restructuring or the delivery of integrated healthcare was matched by the development of new and more technocratic models of public management. From the 1960s onwards this was reflected in the increasing dominance of programmatic policy interventions, often problem-driven with a defined timescale and governed by measurable performance targets. Governments of all political colours enthusiastically adopted programmatic interventions in healthcare, urban renewal and a host of other policy arenas, a trend which reached its climax in the dominance of centrally-driven targets that infused every area of public life since the mid-1990s.

Clearly neither bureaucratic nor programmatic modes of public policy sit well with meeting the increasingly complex economic and social challenges described in this report. Complex economic and social challenges need to be addressed by equally complex coalitions of stakeholders prepared to pool knowledge and experience by working collaboratively. To build and animate such coalitions, radically different ways of working and radically different competencies are required from civil service departments and public agencies. But how do we move from traditional bureaucracy and regulation, to what might be characterised as “policy entrepreneurship”, a mode of policy production which creates new coalitions, stimulates creative dialogue and harnesses collaborative actions in which diverse organisations and individuals work towards common ends?

In Norway, business support and regional development programmes had previously followed the traditional pattern where individual companies receive subsidised forms of consultancy, advice and training. Such forms of business support often rely on the delivery of standardised products or services to companies and often generate inadequate evidence of sustained performance improvement or wider economic impact. From the 1990s programmes such as Employment Development 2000 (ED2000), Value Creation 2010 (VC2010) and its successors have adopted a very different approach in which networking based on shared learning and innovation between enterprises was emphasised. Typically “development facilitators” are employed both to instigate network relationships between enterprises and other organisations with no previous history of contact, and to create opportunities for shared learning and experience. For example a network established in the Sunnhordland region sought to provide SMEs with reflective opportunities to work together in identifying opportunities for process innovation through knowledge sharing and peer review. Elsewhere a cluster of electronics companies was established to share workforce skills and provide continuity of employment within the network for staff affected by downturns in their own company. While a great deal of trial and error was involved, the emerging picture during the early years of this century is one in which networks involving enterprises, social partners and research institutions have been established in several Norwegian regions, each with a focus on different aspects of workplace innovation. To varying degrees these networks have grown and developed autonomously, in some cases becoming significant regional development actors in their own right (Totterdill, Exton, Exton and Sherrin, 2009).

Innovative Workplaces: a pilot approach to collaboration

In the UK, the *Innovative Workplaces* programme piloted with Regional Development Agency funding in the East Midlands, but now being rolled out across the UK by Acas and UK WON, offers an innovative model of policy entrepreneurship designed to support workplace innovation. Its aim is to improve performance through greater employee involvement, the development of sound HR practices and the redesign of work organisation though each company has considerable discretion in choosing the changes it will pursue. A diverse group of ten public and private organisations was selected in the pilot, through an open call followed by a process of dialogue and the gradual exclusion of those least able to benefit from the programme. Drawing on experience from collaborative programmes such as VC2010 in Norway, the programme design places considerable emphasis on collaborative learning, knowledge sharing and peer review.

There are three main elements to the support which participating organisations receive. Firstly an initial short course provides a reflective space in which participants can evaluate practices in their own companies relating to work organisation and employee involvement, and can formulate an action plan for the implementation of change. At the final session of the course the plan is presented to the other project participants for peer review and evaluation. Secondly the participants take part in regular Network meetings which take place over a full day. The morning session is devoted to a thematic discussion of common problems, the afternoon to action-learning sets in which each organisation presents progress, achievements, obstacles and dilemmas for peer review and discussion. Two “Gatekeepers” from each organisation participate in both the inaugural course and the Network meetings: notionally one is a senior manager whose role is to lend authority to the change project and the second has responsibility for its day-to-day implementation. However Gatekeepers are challenged throughout the project to demonstrate the extent and effectiveness of their attempts to involve a much wider cross-section of employees and managers in analysis, diagnosis, planning and implementation. The third element of support is delivered by Acas Facilitators who maintain regular contact with each organisation, offering support, guidance and signposting to specialist resources.

The pilot project commenced in June 2009 and after its completion in 2010 received very positive results from an independent evaluation (Harris, 2011). The aim is to create a model of intervention that is being further developed and disseminated across the UK regions without further subsidy.

Building the trust-based relationships that lead to such forms of collaborative advantage cannot easily be achieved by target-driven programme managers. Different skill sets, not to mention different incentives, are urgently required. There are examples in the UK where “policy entrepreneurs” have set the public agenda from below, by their ability to work between formal organisational structures and to create new patterns of dialogue and new perspectives. But these individuals have typically had to work against the institutional and policy grain, often with limited chances of success. The task for the coming decade is not just to redefine the content of public policy but also its *modus operandi*.

4.2.2 New roles for trade unions and employers’ organisations

As in the present, there will be no “one size fits all” model of employment relations in the future. Providing a focal point for opposition and an adversarial approach to bargaining will continue to provide a means by which unions defend the interests of their members. Yet there is an increasing body of evidence to show that adversarial negotiations can sit comfortably alongside partnership. In the NHS, for example, the existence of a Social Partnership Forum (SPF, 2012) that brings together unions, employers and government does not replace the adversarial negotiation that may take place elsewhere but sits alongside it. It is accepted that trade unions and Government hold conflicting interests in relation to some issues. Unions, employers and government appear to have become adept at moving between “boxing” and “dancing” without allowing confrontational negotiations in one sphere to undermine consensual dialogue in the partnership arena. Difference of views between trade unions and Government over pay and pensions as well as profound disagreements over issues such as the opening of the NHS to “any qualified provider” have not undermined the commitment to partnership, even though they may have fuelled scepticism within parts of the union movement (Exton and Totterdill, 2012b).

Trade unions and employers' organisations at national and local levels can play an important but largely unrecognised role as knowledgeable participants in stimulating, guiding and resourcing workplace change. Trade union representatives and full time officers typically deal with a large portfolio of casework which, while usually concerned with individual cases, cumulatively provides real insight into underlying issues within the organisation. Union reps accumulate considerable tacit knowledge of how an organisation works in practice, a resource often not readily available to managers responsible for making strategic decisions. They are often the principal source of organisational memory since their tenure can be considerably longer than that of managers.

At the same time recruiting local reps is difficult enough for many unions and the demands of partnership can add to this significantly in terms of numbers and competencies. The need is to create a culture in which lay member involvement becomes more attractive and is resourced by greater training and support.

Union learning reps are instrumental in raising interest in training and development, especially amongst lowest skilled workers. They provide effective evidence that, in the right conditions, unions can transcend their traditional industrial relations role and act as effective facilitators of win-win outcomes. Their insight into the needs of their members can play a valuable role in designing and implementing flexible working initiatives. Likewise, when supported within a partnership context, union reps' local knowledge and experience combined with their ability to engage frontline employees can offer a valuable resource for informing and driving change, leading to mutually advantageous solutions. For example, management in a large engineering company attempted to introduce lean production methods from the top down, failing to engage the understanding and commitment of shopfloor workers. As part of the Acas/UK WON project cited above, a union rep and a local manager were supported to draw on the knowledge and ideas of employees, redesigning the support needed to help stewards adapt, from a largely reactive role to one in which they can be recognised as knowledge-rich drivers of win-win innovation and change.

This brings into question the union role in encouraging direct participation in ways that do not compromise collectivism and representation. How can unions best represent their members in issues previously thought to be outside their accepted sphere of competence, such as strategy, creativity and active intervention in organisational design and practice? Often the need is to use the experience and insight of union representatives to confront entrenched interests and the barriers imposed by accretions of practices and expectations that have grown up over decades. Union-management collaboration on the shopfloor offers a new arena of participation which makes up for the lack of two-way dialogue characteristic of many line management hierarchies. This type of productive reflection can draw on different voices, for instance combining formal trade union knowledge of the rules with frontline employees' competences and know-how. Yet the emergence of such a role for union representatives is unlikely to happen by accident, and requires full recognition and support from both employers and from union structures.

Evidence from elsewhere in Europe suggests that employer organisations can also act effectively as knowledgeable participants in innovation and improvement. Employers' organisations in the UK already play a significant role both nationally and locally as knowledge brokers through the organisation of training, consultancy, conferences and networking. The Engineering Employers' Federation, for example, offers direct support for the evaluation and improvement of work organisation (EEF, 2012). Capacity and funding however limit the immediate ability of most employers' organisations to do more. Facilitated knowledge sharing and learning networks between organisations remain quite rare in the UK, a clear contrast with many European national and regional economies in which collaborative structures and networks between organisations are created with the active participation of employers' organisations. There is clear potential to build on UK employer organisations' reputation for impartiality, by expanding their portfolio of expert services over time.

Bi-partisan and tripartite initiatives have considerable potential in helping to build new roles for employers' organisations and trade unions. For example:

1. **Flanders Synergy** in Belgium was formally established in June 2009 by a coalition of regional employers' organisations, unions, policy makers, R&D institutions, higher education and companies. Its aim is to promote innovation in work organisation, focusing on efficiency, flexibility, quality, innovation and

sustainability. Simultaneously the approach aims to improve quality of work, by upgrading the job content, keeping employees longer and healthier at work. This broad body of support is translated in a portfolio of activities which includes research, the creation of new insights, models and tools, inter-company learning networks, training and expert support in planning and implementing innovative approaches to work organisation (Flanders Synergy, 2012).

2. In Ireland the former [New Work Organisation](#) programme represented a relatively knowledgeable participants in workplace change (Savage, 1999). Representatives from the employers' organisation (IBEC) and the trade union confederation (ICTU) worked closely alongside each other in the hands-on facilitation of workplace innovation in nine enterprises, under the leadership of the tripartite Irish Productivity Centre (IPC). Notably the evaluators could detect little difference in the approach, values or methods deployed by facilitators from either the union or employers sides, all having participated in a common training and development programme led by the IPC.

In short, employers' organisations and trade unions have a sustainable role to play in the knowledge economy. New thinking and more evidence is needed on how this role can be fulfilled in practice, including the types of capacity building required at national and local levels.

4.2.3 New forms of collectivism?

It would be wrong to see the challenges faced by employers' organisations and trade unions as an indication that collective action is entirely out of favour.

In other parts of Europe there has been a long tradition of co-operation between companies, often focused on the provision of collective services, joint problem solving and collaborative innovation. The "industrial districts" of northern Italy were often cited as paradigmatic examples of inter-firm co-operation especially where, as in the case of Emilia Romagna, this was reinforced by active regional economic development policies leading to the creation of sophisticated sectoral infrastructure (Totterdill, 1989). Silicon Valley or even "Cambridge Fen" may be cited as contemporary examples, though it should be clearly recognised that the geographical agglomeration of firms in the same sector is not the same as sectoral solidarity, interdependence or systemic collaboration.

At different times this has been emulated in the UK context as a conscious instrument of policy. A key historical example is that of the textiles and clothing industry which, in the 1980s and early 1990s was the focus of very proactive economic development policies. With strong support from a Conservative central government, local authorities in textiles and clothing areas through the country were creating Fashion Centres which offered advanced collective services governed by management structures representing both employers and trade unions (Totterdill, 1989). In the Ashfield District of Nottinghamshire, a survey of local garment manufacturers commissioned by the local authority stimulated the creation of a local employers' consortium, which eventually involved some 2000 companies across the East Midlands in shared service provision. Similar actions were being undertaken in at least 20 local authorities within textiles and clothing areas. While these actions failed to prevent the decline of the industry there is little doubt that they both enhanced sectoral solidarity and preserved employment in many companies for a longer period than would otherwise have been the case. Less tangibly, Lord Sainsbury's review of "clusters" in the late 1990s argued the case for promoting geographical agglomeration of firms in the same sector as an instrument of government policy, though the precise mechanisms were somewhat vague in comparison with experience elsewhere in Europe (Lord Sainsbury of Turville, 2007).

Such collective initiatives were a response to the rapid deindustrialisation of the 1980s, but significantly it is much harder to find comparable responses in the current crisis. In part this reflects the diminished role of local institutions such as councils, unions, chambers of commerce and universities in planned economic development interventions. The abolition of the Regional Development Agencies and the emergence of Local Enterprise Partnerships (LEPs) leave substantial questions about whether the UK now has the capacity to build or sustain such collective action at local and regional levels. UK WON's own experience, as well as that of other network organisations, confirms that there is an enormous thirst for knowledge exchange and collaboration between companies but that provision is sporadic. Arguably this challenges the existing national employers' organisations to transcend their traditional roles in order to meet this need.

For employees, the emergence of new forms of collectivism is equally sporadic. The potential of social networking media to facilitate employee action has been noted above but, as Acas (Podro, 2011) points out, resulting actions are essentially leaderless and perhaps unlikely to lead to sustained improvements in the position of workers as a whole. The challenge for trade unions is to harness the power of such media, in ways which make other “offers” to workers as well as conventional membership.

It is also worth noting the more spontaneous forms of collectivism emerging, particularly over the past couple of decades, amongst knowledge workers. Parts of the media sector in London, for example, are based in fluid alliances between independent workers who come together to bid for and deliver a particular contract, with a heavy reliance on pre-existing trust-based relationships (Whyatt, 1999). Such networks of affinity and mutual advantage are largely unrecognised in formal terms, but may become an increasingly powerful force in the economy by 2020.

4.2.4 A new labour market perspective

Realising talent: an inclusive labour market

We have argued that a successful, knowledge-based economy is one which uses and develops the skills, knowledge and creativity of the entire workforce to the fullest possible extent, both in the workplace and in the wider labour market. We have also seen that, at both levels, there is a significant waste of human potential. While previous sections have outlined the conditions under which workplaces can engage their employees’ potential more effectively, it is clearly important to consider the wider picture. As we have suggested, organisations do not exist in a vacuum.

In this context, inclusion and the recognition of diversity can be seen as much as an economic as a social necessity. Failing to recognise the potential contribution of each section of the labour market by ignoring the barriers to their full participation, can no longer be afforded in an economy dependent on engaging and developing the full range of workforce talent at every level. The pressing need, but arguably one that has been ignored for generations, is to create a labour market policy based on a conceptual model of economic development through personal growth and development across the whole workforce: on the one hand more women and BEM (Black and Ethnic Minority) Directors at Board level and the diverse pipeline required to achieve that; at the other end of the labour market a more effective skills ladder which can, for example, enable migrant agency workers in unskilled jobs to reach their full potential.

As some politicians have recognised, there is a need to reform labour market policy and the benefits system in ways which are much more focused on enhancing employability, as well as providing a basic safety net. For decades the policy focus has been on getting the lowest skilled young people and unemployed workers into jobs, arguably any jobs regardless of quality or prospects. While the UK has succeeded in achieving higher levels of workforce participation and lower levels of unemployment than many other EU countries this has been achieved at the expense of what some labour market experts call a “low skills equilibrium”: in other words a situation in which a disproportionately high proportion of the working age population are trapped in low skill and insecure jobs with no upward progression route either internally or externally. This might be described as the obverse of the knowledge economy.

Labour market policy needs to recognise that participative and empowering forms of work organisation do not just lead to improved economic performance and job creation; they also draw people up the ladder, upskilling even low skill jobs by enabling workers to gain the teamworking, problem solving, communication and creative abilities that enhance both employability and the economic and social inclusion of young, vulnerable and older workers.

Building Resilience and Managing Transition

Low skill jobs often become the destination for skilled workers facing redundancy in the absence of opportunities for retraining or upskilling, again leading to the underutilisation of talent and potential. As change and the need for adaptability become ever more embedded in working lives, the need for versatility and resilience in the face of uncertainty become even greater.

Day-to-day experiences of working life and the way in which work is organised are critical factors in determining the level of versatility and capacity for change within workforces.

Case Study: Hempel A/S Denmark

An example from Denmark suggests an interesting comparison with the position of workers facing redundancy in the UK. Hempel is an international marine surface coatings business founded in Denmark 1915. The Danish site is at Lundtofte, 20 km north of Copenhagen and housed the main head office, R&D and the paint production plant and warehouse. The latter employed 120 blue collar and 30 white collar workers, mostly unionised.

Hempel successfully positioned itself at the upper end of the market where quality and the development of new products and applications is inevitably reflected in price. Nonetheless there is a constant focus on cost reduction and in 2003 the Board was presented with a strategy plan which involved replacing three production plants in Europe with a new facility in Malaysia.

Following the production of an extensive study by external consultants, two employee representatives elected into the board (in adherence with Danish law) studied the report in detail. They drew attention to two aspects which they felt could be questioned. Firstly there was the question of whether a plant in Malaysia would be able to ensure a speedy and timely delivery to ship-yards, wind-power stations and offshore in Europe since reliability and short delivery time was needed for Hempel to maintain its position as market leader. The employee representatives did not consider that logistical costs, transport time and the potential risk of political instability were adequately addressed in the report. Secondly they identified a huge unexploited potential for a reduction in the production costs at the Danish factory. The conclusion was that the production continued at the factory in Lundtofte on the condition that it undergo an efficiency overhaul targeting a 25% reduction in price. A substantial part of the target was half met by introducing self-managed teams within the production plant. This resulted in greater flexibility in production and less waste. Greater responsibility given to individual employees made some middle managers superfluous. In 2004 it was concluded that the operation had been a success and that production would continue in Denmark.

However in 2008, group management considered that it was necessary to revisit the idea of relocating the production plant, in part because of increasing price competition in the market and the fact that the present production plant was close to a residential area which made it impossible to extend the plant or build new facilities. This time the relocation was to Poland, where the wage level is one quarter that of Denmark.

The economic case for relocation was compelling but the impact on workers was ameliorated by several factors. Firstly the employee representatives and unions were closely involved in each stage of the decision process and in the subsequent transition. Despite a brief, initial period of conflict the policy of openness and transparency made the strength of the economic case clear to everybody.

It was important to the company that staff should stay on until the moment of transition in order to maintain production levels. This involved the payment of a "stay on bonus" but critically staff were also offered considerable help, including training, in helping them to find a new job. For many, the experience of working in self-managed teams added considerably to their employability. The Danish plant achieved a full production schedule right up until the day production began in Poland. Some employees even volunteered to visit Poland to transfer their accumulated tacit knowledge to the new workforce.

However the role of national policy was important in reducing staff fear of the transition, in part because of the legislative commitment to extensive employee involvement and consultation but also because of the individual support measures in place. Danish workers are entitled to little redundancy pay but do receive up to 80% of their wages in benefits for the first two years of unemployment providing they undertake appropriate training and development. Not only does the national AMU system of continuing vocational education allow easy access to employee training to support the restructuring of production and reorganisation of work but, in the planned two year phase out of production and beyond, the system was used to improve individual skills to enhance employability and enable many more productive years in the labour force. Source: (UK WON, 2008a).

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Retaining and Engaging Older Workers

Government policy seeks to retain older workers in employment for a longer period, as a means of addressing the pensions crisis and reducing welfare payments. Likewise employers in many different sectors have begun to recognise the value of retaining and even recruiting older workers for their skills, knowledge and experience. Some also argue that older workers often have an enhanced aptitude for customer care. However the intention to retire is not just dependent on individual financial circumstances but is linked to diverse factors including health, physical tasks at work, levels of work-related stress, the availability of flexible working arrangements, continuing access to training and development, and intrinsic job satisfaction. Yet there is little consideration given to the way in which the intrinsic quality of their work motivates individuals either to remain economically active or to retire. Participative forms of work organisation combined with job redesign to suit the specific needs of older workers would therefore make a considerable impact on the employment of older workers.

Governments in Belgium and Finland actively support employers in redesigning jobs to make them more attractive to older workers; no such schemes exist in the UK though the Department of Work and Pensions maintains an active interest in the issue (Walsh, 2012). Forms of work organisation characterised by high intrinsic job quality will also play a role in achieving other economic and social policy objectives, such as the reduction of long-term sickness and increased labour market participation of young workers and women returners. There is also evidence to suggest that workers with experience of delegated decision making and self-organised teamworking enjoy a stronger position in the labour market following redundancy than their peers with comparable technical skills from workplaces with more traditional forms of work organisation.

4.3 Listening to employee voice as though we meant it

4.3.1 Beyond the current dualism

Current practice and policy relating to employee involvement and participation is grounded in a dualism between rights-based representative participation and discretionary task-based participation. This is inadequate.

On the one hand there have been significant EU legislative developments in relation to employee rights, the protection of employees’ dignity, and opportunities for personal development at work. Directive 2002/14/EC passed by the European Parliament and Council established a general framework for informing and consulting employees in the EU. Many of the “old” EU 15 countries have long had in place mechanisms providing for employee information and consultation at the workplace. These include statutory works councils (for example in Germany and France) and collective agreements backed by legislation which provide the primary means of

regulating information and consultation in countries like Denmark and Belgium. The UK is the odd one out, as it lacks a general, permanent and statutory system of information and consultation or employee representation. On the other hand the adoption of approaches to work organisation based on high levels of participation is entirely driven by managerial discretion. As we have shown, such approaches are not widespread in the UK despite a growing evidence base.

A review of research evidence (Totterdill, Cressey, Exton, 2013) suggests that representative participation alone has no significant positive effect on employee attitudes and behaviour and, if implemented on its own, can have a negative impact on performance. Representative partnership may refer in this context to formal partnership arrangement between management and trade unions, but where unions are not present (and sometimes where they are) it may also refer to directly elected works councils.

One possible explanation for this is that representative participation in isolation will fail to overcome low levels of management trust in the workforce. Employees themselves may also become cynical about formal partnership structures and agreements that appear remote and have little visible impact on their own working lives.

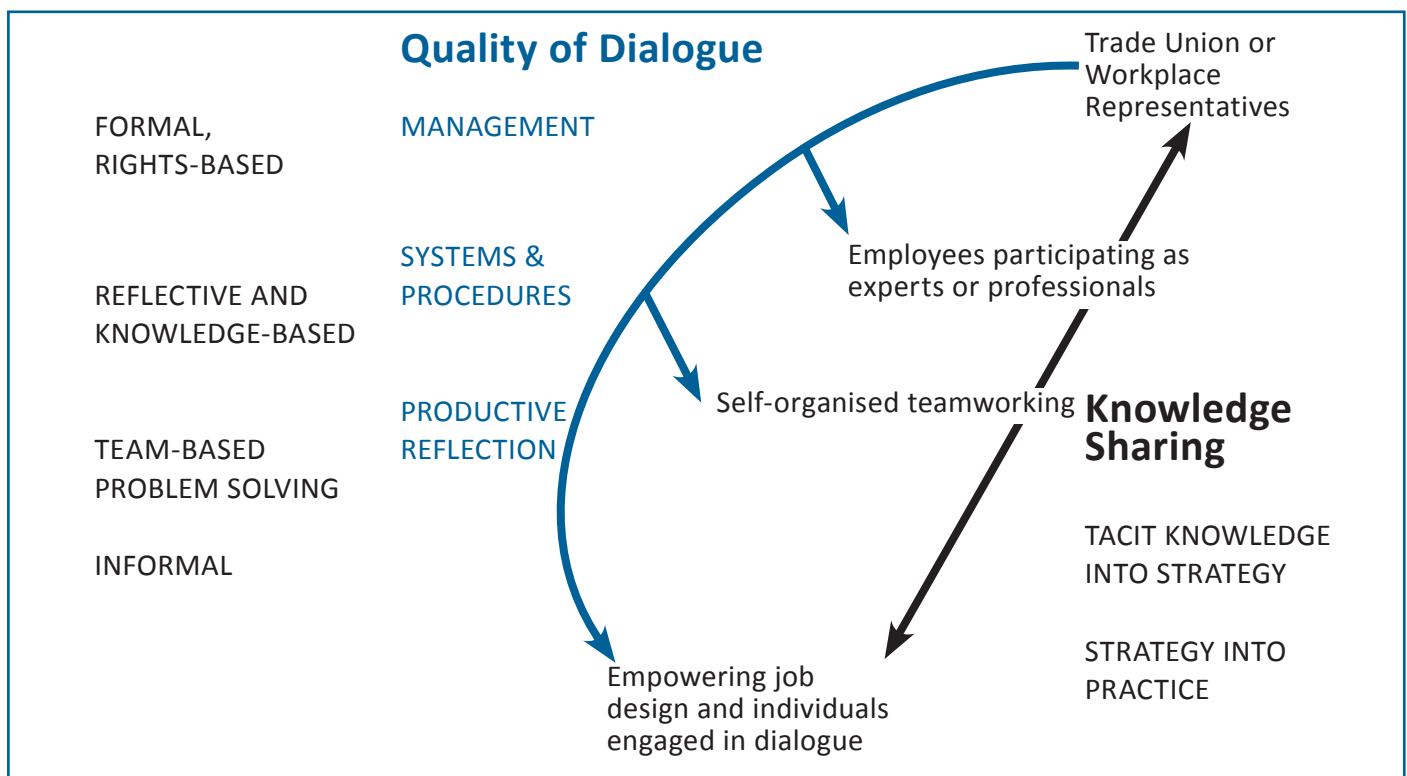
However an important body of research has begun to show not that representative partnership has a direct impact on performance, but rather that it exerts a positive influence on the development of activities and practices that may do so. Direct employee participation and self-organised teamworking can have strong positive impacts on productivity, innovation, quality of products or services, and quality of working life. When representative partnership arrangements exist alongside participative workplace practices they result in mutual benefits through improved information sharing and greater levels of trust between employers, unions and employees. This combination of representative and direct practices stimulates “employee voice”, the importance of which can be found in terms of greater workforce commitment to the organisation, lower levels of absence, turnover and conflict, and improved performance. Organisations with mutually reinforcing employment practices achieve superior performance as their collective impact is greater than the sum of individual measures. An overarching approach to partnership and participation can harness an organisation’s resources, including the skills, knowledge and creativity of employees, more effectively than leadership models which currently dominate change management literature (Totterdill, Cressey, Exton, 2013).

Where such an overarching approach does exist, there is clear evidence of “win-win” outcomes. According to the Hi-Res study, an analysis of 120 cases of workplace innovation across ten European countries, such organisations demonstrate:

“. . . a clear concentration 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, Dhondt and Milsome, 2002).

At the heart of such cases lies the systemic incorporation of opportunities for “productive reflection” throughout the organisation. This can be represented as a series of mutually reinforcing practices based on dialogue about knowledge sharing through both formal and informal channels (Boud, Cressey and Docherty, 2006). The concept of productive reflection means the ability to reflect on and anticipate the impacts of change collaboratively.

Productive reflection thus moves the debate on participation from a rights based agenda to one that centres upon joint problem solving and the production of knowledge and ideas. The figure below demonstrates how productive reflection becomes embedded, when workplace social dialogue acts as a bridge for knowledge sharing between different levels of the organisation:



Source: Totterdill, Cressey, Exton, 2013.

In this context representative participation (whether through unionised partnership forums or directly elected works councils) acts as the guarantor and enabler of employee voice, including direct participation at the frontline. Dialogue about knowledge sharing through both formal and informal channels becomes “the new collective bargaining” in which employees offer their tacit knowledge and creativity in return for knowledge of and influence in strategic decision making (see for example the Tegral case below). But here the outcomes of bargaining can be win-win rather than zero sum, offering (in the words of the Hi-Res study cited above) the prospect of workplaces in 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.”

4.3.2 Case Study Evidence

Where are the weak signals from the workplace that indicate the possible emergence of a new formulation of employment relations based on productive reflection and bargaining around the two way distribution of knowledge?

Representative and Direct Participation: Synergy and Reinforcement

We have discussed knowledge distribution in terms of a bargaining process in which the establishment of mutual trust can allow for the forging and negotiation of win-win outcomes. A graphic illustration of how this can work in practice is illustrated by the case of *Tegral Metal Forming Limited*, a steel cladding and roofing company based in County Kildare, Ireland (O’Dowd, 2009). Previous industrial relations had taken a traditional path in which every change in employment or working practice was subject to separate agreement, leading to inflexibility and complexity.

In 1996 management and unions entered into a partnership agreement as a result of the company’s participation in the ESF-funded *New Work Organisation in Ireland* (NWO) programme (Savage, 1999; Sharpe and Totterdill, 1999). A partnership forum was established with the participation of management and unions (including full time union officials) with the aim of ensuring greater employee involvement in company decisions. This enabled the complex legacy of previous agreements to be replaced by a “gainsharing” arrangement based on “win-win” principles. The partnership climate reduced the time spent by management and unions on industrial relations issues, and also enabled the introduction of annualised hours and the elimination of overtime.

Partnership also transcended the industrial relations sphere at Tegral. A series of partnership-based task teams were established to identify operational improvements, including one on the handling of scrap which immediately led to significant waste reduction savings. It was clear from interviews with frontline employees by the independent evaluators of the NWO programme (Sharpe and Totterdill, 1999) that they had known of the potential for such savings for a considerable time. It was only the establishment of partnership culture and practices that encouraged them to bring this to the attention of management.

In a second stage of development, the partnership forum instigated self-organised teamworking throughout the company, as a means of extending partnership culture to the frontline. Employees received training in team-based practice, and a layer of supervisory management was removed in order to build team autonomy, closer engagement with customers and control over day-to-day working life. Such participatory forms of work organisation are highly trust-based and, in the case of Tegral, stemmed directly from partnership culture and the practice of gainsharing.

Partnership co-existed with adversarial industrial relations at Tegral rather than replacing them, especially in its early days. Two parallel forums existed within the company, one focused on partnership, while the other retained its traditional focus on bargaining. Management and union representatives alike became adept at moving between adversarial “boxing” and partnership “dancing” (Huzzard, 2005).

A highly developed example of the nurturing relationship between representative participation and participative teamworking comes from a surprising source. *Kaiser Permanente* (KP) is the biggest non-profit health care organisation in the US. KP has received a great deal of attention amongst European health services for its high standards and cost effectiveness, particularly in the integration of primary and acute services. Less widely reported is the high level of trade union and employee involvement that underpins these achievements, driving the introduction of multidisciplinary teamworking and other service innovations (UK WON, 2011).

KP’s *Labor Management Partnership* (LMP) involving managers, workers and physicians is the largest and most comprehensive agreement of its kind. The LMP was formed in 1997 after years of labour turmoil within Kaiser Permanente combined with growing competitive pressures in the sector. Two years earlier, 26 local unions representing KP workers had joined together in the *Coalition of Kaiser Permanente Unions* to co-ordinate bargaining strategy more effectively. Kaiser Permanente and the Union Coalition created the LMP as a means of transforming their relationship and the organisation as a whole. Today it covers more than 92,000 union employees, including some 20,000 managers and 16,000 physicians across nine states and Washington D.C.

Partnership in KP goes far beyond traditional industrial relations. On a day-to-day basis partnership means that workers, managers and physicians engage in joint decision making and a problem-solving process based on common interests. KP’s Value Compass, originally formulated by the LMP to set the direction for improving organisational performance by focusing on subscribing members of the public and patients. The Value Compass is now driving the Corporate Agenda, based on the concept of the balanced score card to maximise performance and so create value:

Kaiser Permanente

“Value is with the workers”

The Value Compass



Workplace social dialogue at KP takes place at three interdependent levels: the *strategic and policy level* provides a platform for whole systems change and continuous improvement, the *meso level* is the locus for union representation and management in the day-to-day operation of the business and the *microsystems level* comprises *Unit Based Teams* (UBTs) as the basic building block.

Unit Based Teams were introduced in 2005, following extensive discussion in the LMP, and provide the platform for performance improvement across Kaiser Permanente. More than 90,000 employees now work in 34,000 unit-based teams. A team includes all the participants in a natural work unit or department, including supervisors, union stewards and staff members, physicians, dentists and managers. The team supports the regional business strategy and goals for performance, service quality, efficiency and growth. Because teams increase consistency and standardisation of treatment, they also improve care. A dramatic reduction in sepsis has been attributed to the introduction of UBTs, as has the success of the design and implementation of the integrated IT electronic patient record system.

At UBT level there is an expectation that everyone will contribute to building the vision for the future direction of the business. Unit Based Teams tap the creativity, skills and experience of their members in a process that consistently engages frontline workers in improving performance. The LMP ensures the quality of dialogue and participation at team level through a system of *Inclusion Control and Openness*. Unions credit the arrangement not only with improving patient care and satisfaction, but in making Kaiser Permanente a better place to work.

The significance of KP for this study is that it demonstrates the way in which workplace social dialogue can permeate the whole organisation, even in a context where partnership is somewhat antithetical to the national system of industrial relations. Representative partnership, in the form of the LMP, acts as both the stimulant and guardian of direct participation at the frontline with demonstrable benefits for organisational performance, staff and patients.

Beyond Formal Structures

Tegral and Kaiser Permanente each illustrate the potential role of formal structures from partnership forums to improvement groups in instigating, resourcing and sustaining direct employee participation. However it is also important to recognise the importance of informal processes at both strategic and task levels. The following example from the vehicle components sector in Flanders illustrates the interaction of the formal and informal. *Tower Automotive* underwent dramatic transformation since a period of severe crisis in 2008/9 (Exton and Totterdill, 2011). Edwin Van Vlierberghe joined Tower in 2009, the eighth plant leader in 8 years. His priority was to break with precedent and become visible on the shopfloor, creating opportunities for employee dialogue. Edwin invited the plant's trade unions to discuss the financial situation, sharing information openly to enable them to reach their own conclusions about the need for redundancies. He worked with employees and unions to find creative solutions to the crisis, including functional flexibility and temporary outplacements to neighbouring companies until demand returned.

Edwin's management of the crisis earned considerable respect amongst employees and unions, and opened new, trust-based approaches to communication and dialogue. He has gradually transformed organisational culture, retraining line managers from a top-down approach to one in which their role is to empower and engage employees. Closing the gap between management and frontline workers' perceptions and experience is a key component in this culture change. Managers are encouraged and resourced to "think as an operator"; frontline employees are asked to reflect on the types of management behaviours that would enable them to work more effectively. Where necessary he has not hesitated to remove those managers unable to make the transition. Edwin's willingness to drive this transformation, and his consistency of approach, clearly lies at the heart of its success.

Edwin's underlying goal has been to create an organisation in which quality, improvement and innovation are everyone's concern, improving company performance through job enrichment. According to Edwin, frontline employees are as much responsible for driving improvement as they are for performing their functional tasks. Critically Towers' approach recognises that spaces for productive reflection and dialogue have to be built into the everyday working life of each employee, and that these cannot be confined to occasional participation in formal structures.

One UK company has made strides in this direction with a remarkable absence of formal structures and procedures. The *Lindum Group* is a fascinating case involving transformation from a traditional construction company to a diverse and entrepreneurial organisation (Exton and Totterdill, 2012a). In the early nineties Lindum was not a high performing company. According to one long serving manager the dominant management style “was about control really . . . it was hands on from the top management-wise”. However these top managers “couldn’t see everything and couldn’t control everything . . . things went wrong because the staff didn’t really have the authority or the empowerment to do anything about it.”

When David took over from his father as Chair in the early 1990s, he was determined to do things differently, and to create an environment where employees can thrive and be creative. Lindum has consistently appeared in the *Sunday Times 100 Best Companies to Work for* list over several years. Senior management attributes this to a dramatic culture shift achieved by changing the leadership approach to empower employees. This shift included a transformation of the leadership structure, an increase in stakeholder involvement through employee share ownership and an equal profit-related bonus for all employees. Lindum has grown by enabling and resourcing its employees’ talents and creativity.

Lindum is remarkably free of formal rules, protocols or procedures: the emphasis is on “what works”. One of David’s early tasks was to remove the separate operating companies and bring them under one Executive Board, in order to reduce complexity and bureaucracy. Under the old structure the fourteen different boards had given frontline employees little opportunity to come forward with their own ideas. Although the Executive Board is a tightly bound team, the different trading divisions pursue their own direction with limited central co-ordination. Meetings throughout the company also tend to be relatively informal, ad hoc and inclusive.

On the other hand, informal dialogue and consultation is widespread. One rule which the company does try to enforce is that “the best argument should win no matter who makes it”, whether addressing factors that shape the strategy and culture of the organisation as a whole, or those that shape the ways in which employees engage with colleagues and work tasks. According to Warren Glover, Lindum’s General Manager, “this is more than words; this means managers can’t just insist on pushing through an idea without being able to justify it, and all employees have a voice.”

Lindum recognises that innovative organisations are those which provide opportunities for employees at all levels to exercise imagination and creativity, and to use the full range of their knowledge and “know how”. Employees are actively encouraged and resourced to identify potential service and process innovations. For example the manager responsible for maintaining the company’s construction plant realised that there was a potential market if existing resources could be expanded to service heavy goods trucks and emergency vehicles. He was given training and support to develop a business plan and subsequently established a new trading division within Lindum.

The company is prepared to take risks and to look on failure as a learning and development opportunity. Individuals or teams are not “punished” in such circumstances because this would only serve to reduce creativity and the impetus to innovate. Warren Glover is clear about the benefits of such a culture: “that’s over 440 pairs of eyes looking out for new market opportunities, new parcels of land or cost saving ideas”. The business has diversified into several new markets based on employee generated ideas and initiatives and now has 12 trading divisions including construction, joint venture commercial property, house building, plant, joinery and maintenance within East Anglia and the East Midlands.

4.3.3 Reflections on the cases

Tegral and Kaiser Permanente demonstrate that representative workplace social dialogue can stimulate and shape the development of participative work practices, where there is shared understanding of the need to drive management-union partnership beyond the confines of traditional industrial relations.

The Tower case places much greater emphasis on informal processes. Formal structures were in place at Tower including a works council and team-based production systems, but Edwin realised that dialogue and culture change at the informal level were required to build the reflexivity and creative solutions required at both task-based

and strategic levels, if breakthroughs were to be achieved. His starting point was therefore to create spaces for informal dialogue with trade union and employee representatives as a means of transforming formal practices.

Lindum presents a very different case: formality is largely absent yet dialogue is rich, pervasive and intended to be inclusive within the informal sphere, an evolving bridge between the strategic concerns of senior management and the tacit knowledge of employees.

Each case demonstrates how diverse forms of participation combine in mutually reinforcing ways through knowledge sharing and the co-production of innovation and improvement. Taken together, the cases also show that both union and non-union employee voices have a role to play in driving improvement and innovation; the key task is to achieve the right balance for each organisation.

Government, employers' organisations, unions and other stakeholders each have lessons to learn from such experiences at workplace level. Above all, although there is no one best way to achieve engagement there is a collective responsibility to build an environment abundant in the resources needed to stimulate workplace innovation.

4.3.4 Beyond leadership: the entrepreneurial worker

Practitioners in 2020 may well look back to the first decade of the twenty first century and wonder what all the fuss over "leadership" was about. Leadership has fuelled a publishing boom with shelves in the management sections of bookshops groaning under the weight of biographies, autobiographies, hagiographies, self-help guides and DIY manuals. Each of these volumes tells us that there are people out there with charisma, vision and the ability to inspire, though it is not clear that they acquired these characteristics by reading books. The problem is that charisma and vision are hard to distil into an easily assimilated formula.

Studies of change and innovation in complex organisations such as the NHS tell us that effective and sustainable transformation happens not when heroic leaders single-handedly drive the process but when large numbers of people are empowered to act in entrepreneurial ways in pursuit of shared goals (Buchanan, 2006). As far back as 2005 Sir Nigel Crisp, then Chief Executive of the NHS, argued for "entrepreneurial leaders" capable of bringing "vision, leadership and passion" and who "generate new and alternative solutions that extend the boundaries of healthcare (and) challenge factors that are growth-limiting and refuse to accept the status quo" (Sir Nigel Crisp, 2005). The problem is that nobody really took the time to find out why entrepreneurial behaviour was so difficult to unleash in organisations such as the NHS.

There are lessons that can be learnt from progressive private sector companies such as BT and Ericsson. A joint CBI/UK WON project on resilience (UK WON, 2008b) examined the role of BT's "Pride Builders" and Ericsson Radio System's "Inspiratörers", ordinary employees given the additional task of asking difficult questions and identifying creative solutions by bringing people together. Successful innovation and change are often driven by such people, but their role needs to be recognised and championed throughout the organisation. Unlike many examples that can be found within the NHS, they should be acknowledged, rather than punished for looking critically at established practices and challenging the status quo.

BT developed a transformation programme for change across all sectors, affecting everybody. Working in partnership with line managers and trade union representatives, "Pride Builders" drove a flexible approach to change with a strategic direction towards a people centred strategy. Through the Pride Builders initiative BT succeeded in stimulating productive reflection, leading to streamlined systems, reduced waste, improved production time, improved customer satisfaction, new products and new ways of working.

Returning to the example of the NHS, recent UK WON research provides a valuable insight into how innovation and improvement is stimulated through entrepreneurial behaviour. Exton (2010) examines the Improving Working Lives (IWL) programme and finds significant variation in outcomes between eleven different NHS Trusts. Each Trust was required to reach identical standards in improving HR practice over a set period. Achievement of the standards was validated by external peer-review, and the outcomes contributed significantly to overall performance ratings.

In each organisation implementation was driven by a “Lead” from line management, and three of these individuals form the focus of the study. Sally’s approach is categorised as “conformity”: programme objectives were successfully met through focussed effort on compliance (“ticking boxes”). However there was little engagement with staff or unions and the initiative did not lead to real or sustained change. Jess, in contrast, had to work outside the formal organisational structures and chains of command. While meeting targets, Jess achieved real improvements in frontline practice. Lacking Board or senior management support however her entrepreneurial approach ran into resistance from middle management. She was removed from post, and gains were not sustained once accreditation was achieved. Jess’s “resisted or dissonant entrepreneurship” within her Trust shows that opposition to change will be met in an organisational context not conducive to entrepreneurial behaviour. Sonya emerged as equally entrepreneurial in her approach and commitment to securing real workplace innovation. Unlike Jess, she enjoyed full senior management support, and the active engagement of Directors and staff side representatives. Building on widespread staff involvement, she was able to secure sustained changes in HR policy implementation and working practices; the organisation even changed its objectives to reflect the new priorities. IWL’s transformational potential was only brought out by Sonya’s emerging identity as a self-motivated entrepreneur, supported by a Trust culture conducive to enterprise and creativity.

However of the eleven NHS Trusts in the study, all but Sonya’s reflected either Sally’s or Jess’ experiences. When visited 18 months after the end of the IWL initiative, most of the Trusts failed to demonstrate any sustained change despite more than four years’ effort.

While this evidence highlights the importance of entrepreneurial behaviour in the transformation of organisations, Sally and Jess demonstrate in different ways that managerial culture and working practices can inhibit the full engagement of staff, and the use of their knowledge and experience in service improvement and innovation. In contrast we have seen how Edwin Van Vlierberghe is creating a culture at Tower Automotive in which employees at every level come to work to improve the business, as well as to perform their functional tasks. Trade union experience from across Europe suggests that policies to encourage entrepreneurial behaviour work better when unions are involved. Union support helps to guarantee the active involvement and commitment of all employees in entrepreneurial thinking and practice and “not only the members of the R&D department” (Eurocadres, 2009).

Leadership is often at its best when it creates opportunities for others to lead and to become organisational entrepreneurs who, like Sonya, use local knowledge to work in the spaces between formal structures and procedures.

4.3.5 Realising the promise of employee ownership

This report has been concerned with employee engagement, involvement and participation in an economy where ownership and control are becoming increasingly anonymous and subject to volatile global trends. In this context it is unsurprising that employee ownership and financial participation are receiving greater attention from policymakers and in the media.

According to the Employee Ownership Association, companies which are employee owned or which have large and significant employee ownership stakes now account for over £25 billion in total annual turnover. They argue that:

“The employee owned business sector in the UK is growing because co-owned companies tend to be successful, competitive, good to work for, and sustainable. The way business is owned largely determines its behaviour, its horizons, its values, its longevity and its performance” (EOA, 2012).

It is a commonplace suggestion that employee ownership is strongly connected with employee participation, though of course there is no necessary causal relationship between the two. Indeed John Lewis was known for its paternalistic and controlling management style until it began to implement a series of measures designed to empower frontline staff. It would be wrong to adopt a rosy view of employee ownership which ignores the often difficult journey that such organisations make to achieve a truly participative culture.

Successive Governments have advocated employee ownership because they recognise its potential contribution

to the economy. In particular the “John Lewis model” has been promoted by the current and previous governments as part of the future of public service provision, promoting a vision of social enterprise in which frontline staff are empowered and engaged in improving services rather than remaining as “disillusioned, weary puppet of government targets” (Cameron, 2010). The goal announced by Francis Maude in 2010 was for up to one million of the UK’s six million public sector workers to be transferred into John Lewis style mutuals to deliver public services (Bach, 2011). However the prospects for real transformation of service delivery are far from assured by this vision. Previous NHS restructurings have resulted in the re-emergence not only of the same senior managers but also of the same management cultures in new organisational settings. Indeed UK WON is aware of one Trust whose managers made well-advanced plans to set up a social enterprise without any consultation with the staff involved. Union sources also report decisions to go ahead with the creation of a social enterprise even where staff have emphatically rejected the idea in ballots (TUC, 2011). Unions also argue that the benefits of an engaged and empowered workforce are equally achievable within public sector organisations (Bach, 2011).

Beyond the public sector there is a broad consensus that employee ownership and financial participation should be promoted both as a means of diversifying the UK’s economic structure and because there appear to be tangible benefits in terms of long-term strategic performance, innovation and quality of working life when combined with active staff empowerment. Ownership is not a substitute for employee involvement and participation but, as the Lindum case cited above demonstrates, it is a powerful complement in achieving sustainable engagement. Taking employee ownership seriously implies recognition that such organisations will also need support to build and embed participative cultures and practices. This is a challenge for policymakers, employers’ organisations, unions and researchers alike.

5 Towards 2020

5.1 Realising a shared vision

The great majority of the issues and challenges identified in this report can be addressed. In many cases there are realistic remedies available, informed by practices that already exist in the UK or elsewhere in Europe. Some problems, such as building the management competence required to create engaged and diverse workforces, are largely about establishing a critical mass of drivers for change. Others, such as rebalancing the economy and the short-termism in UK financial markets require new and innovative solutions. Above all, closing the gap between effective good practice and common practice requires focused and sustained collaborative action involving government and a wide range of partners. Herein lies both the opportunity and the problem.

One of the most important insights gained during the preparation of this report has been the ease with which it is possible to identify common ground between employers, trade unions, public bodies, practitioners of different varieties and academic researchers. In section 1 we identified our shared core values in terms of the intrinsic value of work, the need for convergence between high performance and high quality of work, harmonising technological innovation and human potential, building an economy in which entrepreneurship is open to all, and establishing a labour market that enables each individual to develop and utilise her or his skills to the full. Although there was little difficulty in establishing values shared by our diverse group of partners, they are far from bland apple pie platitudes. Indeed, if they were to be taken seriously, it would result in radical change in many dimensions of the UK economy and society, leading to enhanced and sustainable growth.

A public declaration of shared values and aspirations is in itself significant. However it must result in a sustained mechanism for collaboration if it is to be of more than passing interest. In comparison with many other European countries, forums for long-term dialogue and collaboration between the major stakeholders in the future of work and organisations have not been a prominent feature of public policy in the UK during the last three decades. This has now become a priority, given the overwhelming need to stimulate sustainable growth within the UK economy.

The concluding section of the report contains a proposal developed jointly by UK WON Advisory Board members for the creation of a body to undertake an independent review of factors shaping the workplace including regulation, the wider policy framework and industrial relations, and to identify opportunities for collaborative action.

5.2 Unions and employers can extend the scope of employee voice

The increasingly volatile global environment summarised in the early part of this report strengthens the case for a strong union voice, partly to defend employees who are less and less secure in their workplaces, but partly as knowledgeable participants in a knowledge economy. Sustainable success in an economy based innovation and versatility requires channels through which different forms of knowledge can be brought together through dialogue as a stimulus to reflection, creativity and adaptability. As the simple model from the Swedish Employers' Confederation shows, engaging the tacit knowledge, experience and ingenuity of frontline workers is essential for business performance and improvement but it needs to be won from employees, at a time when both trust and the traditional employment relationship have been weakened.

We have argued that at workplace level representative participation can act as the guarantor and enabler of employee voice, including direct participation at the frontline. As the Tegral, Kaiser Permanente and Tower cases suggest, dialogue about knowledge sharing through both formal and informal channels may increasingly become “the new collective bargaining”, in which employees offer their tacit knowledge and creativity in return for knowledge of and influence in strategic decision making. However while traditional industrial relations often inevitably led to zero-sum outcomes, knowledge bargaining focuses on the potential for win – win solutions. Unions, with their proximity to frontline workers, can act both as conduits and as facilitators of employee voice.

This does not mean that adversarial industrial relations will disappear. Both the Tegral and Kaiser Permanente examples cited above show that management and union representatives can become adept at moving between boxing and dancing.

Of course this poses challenges as well as opportunities for unions. While a role as guardians of intrinsic job quality and quality of working life may enhance their appeal to prospective members, most unions are some way away from being able to realise the potential of knowledge-based partnership on the ground. Stewards and regional officers will need to see their roles very differently. There may be a need to grow “Union Innovation Reps” to follow the example of Union Learning Representatives.

Capacity and competence also need to grow by learning from elsewhere in Europe and by appropriate investment in training and development. Arguably this may not happen unless government or the EU recognises that they also have an interest in supporting the emergence of unions as knowledgeable participants in the knowledge economy.

5.3 Smarter policymaking is needed for smarter workplaces

We have argued that government policy in recent decades has been fallen short in part because of the near-invisibility of the workplace, and the consequent inability to deal effectively with a diverse list of economic and social challenges, and in part because of the UK's flawed discourse on regulation.

The politicisation of debates over regulation reduces the opportunity for a consensual approach to workplace issues based on evidence of what works in practice. Recent headlines, suggesting that members of the Coalition Government are split over whether employment regulation favours workers or employers, may perpetrate an unhelpful dichotomy. Regulation can be part of a multi-channel approach to disseminating evidence – based practice, helping to realise the potential for win-win outcomes for employers and employees. Experience from other parts of Europe shows that regulation can be developmental, focusing on stimulating innovation rather than on policing and compliance. As CIPD economist John Philpott has shown, the idea that regulation is always bad and deregulation therefore good is as simplistic as the opposite idea that regulation is always the best way to promote job creation or boost workplace productivity (Philpott, 2011a).

However it is also important to consider the nature of regulation, and the underlying assumptions about how it will improve practice on the ground. Regulation controls many aspects of the workplace by seeking compliance with rules and standards affecting, for example, employment and health. Compliance is enforced by inspection, audit and, at times, by litigation. Yet overall there appears to be little understanding amongst public policymakers that compliance alone is insufficient to achieve the good workplace, let alone the benefits of convergence between high quality of working life and high performance.

Evidence from the evaluation of the 35 hour week legislation in France identified two types of response from managers at workplace level:

Effective regulation? Evidence from the 35 hour week in France

1. Compliance

I implement the regulations because there are penalties for not doing so but I will try to find ways of minimising their impact because the change has imposed real costs on the business.

2. Concordance

As a business we took the opportunity offered by the implementation of these regulations to engage with our staff on well-being and working life. From this we identified several opportunities for smarter working, leading to win-win outcomes for employees and the company.

Source: Henri Rouilleault, Director of the National Agency for the Improvement of Working Conditions (ANACT). Presentation to a UK WON Workshop, Nottingham: June 2003.

While there are important learning points here for workplace managers, lessons for policymakers point to the need for smart regulation that incentivises dialogue, reflection, understanding and improvement rather than ticking boxes.

Where does workplace regulation in the UK sit in the compliance-concordance spectrum? Before addressing this directly it is worth examining a striking example of regulation in practice. Throughout the nineties and the first decade of the current century, NHS Trusts were subjected to a centralised regulatory regime based on hundreds of individual targets comprising tens of thousands of indicators. One of the most significant lessons from this period is that performance measurement does not automatically lead to high standards or improvement. Rather it can distort management effort, by ensuring compliance with performance monitoring and audit requirements at the expense of real, patient-focused innovation. Delivering on targets distorts priorities because practitioners manage to target what can be measured rather than what might be more important (Wanless, 2004). Targets encourage risk-averse behaviour since managers live in a blame culture and cannot be seen to fail. They also induce a silo mentality because targets, even where they endeavour to be cross-cutting, are performance-managed according to vertically hierarchical accountability. In short, regulation can too easily lead to quality assurance without quality improvement.

The need in healthcare, as in other fields, is to achieve an appropriate relationship between regulation and local innovation processes through which the delivery of targets is achieved as the by-product of wider and sustained improvements in service quality and governance involving the whole workforce (Totterdill et al., 2010). Rosemary Exton's work on entrepreneurial behaviour in NHS settings cited above suggests that regulation is truly effective when it supports creative reflection, experimentation and shared learning (Exton, 2010). This needs a smarter approach to both the design and implementation of regulation.

To move beyond a compliance-based model of regulation, there is a need to build a shared vision of the good workplace. In addition to the MacLeod Review's Engaging for Success movement there are elements of this in the Acas Model Workplace (Acas, 2012) which encourages employers to take a more proactive approach to building positive industrial relations. Likewise the Health and Safety Executive emphasises the importance of a healthy working culture. In Ireland, the Forum on the Workplace of the Future brought together employers, unions, policymakers, professional bodies and researchers to build a common vision of work and its relationship to wider economic and social goals.

Ten key dimensions were identified consensually. The future workplace would be:

- ‘Agile’ (readiness for constant change and innovation);
- Customer-centred;
- Knowledge-intensive;
- Responsive to employee needs (quality of work and learning opportunities);
- Networked (external collaboration and formal and informal networking);
- Highly productive (‘bundles’ of high-performance practices);
- Involved and participatory (culture of involvement)
- Continually learning;
- Proactive and diverse (promoting diversity).

These dimensions were to form the core of a National Workplace Strategy that would influence business support, employment relations, trade union practice, education and training (Eurofound, 2005), though the impact of Ireland’s financial crisis has prevented further progress to date.

The Finnish and Norwegian experiences cited in the previous section are also relevant in understanding how to balance regulation with workplace innovation. Regulation in these countries promotes high levels of employee participation and well-being. However it is the collaborative partnerships between policymakers, employers, unions and universities which support workplace innovation and enable employers to achieve levels of concordance rather than mere compliance.

Addressing the wider environment in which the workplace sits is also a priority. Current discussions around social innovation and social enterprise acknowledge increasing recognition that governments alone may be unable to tackle deep seated problems such as labour market disadvantage and exclusion. At the same time we lack a wider vision of an enabling labour market in a knowledge economy. Labour market policy and the workplace need to be reunited.

There is no doubt amongst the diverse partners who contributed to this report that the time for a root and branch review of how public policy addresses the workplace is long overdue. Much can be learnt and there is much that can be achieved.

6 A Proposal

6.1 Moving forward

We have shown that there is an urgent need to review the overall public policy framework, and how it shapes the workplace through intention, omission and unintended consequences. We have identified a clear need to define regulation in a new and more thoughtful way, one which is distanced from political rhetoric and grounded in evidence of what actually works in practice. Dialogue, reflection, knowledge sharing, learning and sustainable improvement in the workplace will lie at the heart of this definition, as will win-win outcomes that enhance both business performance and quality of working life.

In the longer term there is a need to raise the profile of the workplace further as a resource for economic growth and social cohesion. We need to rethink the interface between BIS, employers’ organisations and trade unions, focusing on the potential for convergence between economic and social goals, through smarter and more sustainable ways of working. The production of this report is a small but rare example of collaboration between the employer, union, HR, research and public policy communities in the UK. A measure of its success will lie in the extent to which such collaboration grows and begins to deliver joint actions to shape the future workplace.

6.2 A Workplace Forum

We propose the creation of a Forum on the Workplace of the Future with a strong focus on the contribution of participation, work organisation and job design in securing innovative, productive and healthy workplaces. The Forum will have the following brief:

- (1) To identify shared objectives for the future of work and workplaces in ways that translate into actionable measures for public policymakers, employers, unions and other stakeholders.
- (2) To improve the quality of employment regulation and link it more securely to the “good practice” agenda by raising the standard of work organisation, people management, inclusion and employee participation, thereby improving the return on human capital in UK workplaces.

In order to meet its objectives, the Forum will enlarge and sustain the process of dialogue on the future of work and organisations that started with the production of this report, establishing a clear statement of shared values and consensual goals. It will harness research evidence, diverse voices and the rich but separate strands of experience that need to come together if we are to understand how to create workplaces that are fit for the future.

The Forum will seek to influence BIS in helping to shape proposals for new or modified approaches to employment regulation, contributing a wider range of knowledge, experience and creativity as well as a more robust framework for scrutiny of costs and benefits. However the Forum needs to be, and needs to be seen to be, independent of government. Its chair must have credibility with a wide range of constituencies, but nevertheless the Forum might be best seen as a “backroom”, consensus-seeking body rather than one aiming to get results by promoting strong policy lines or engaging in public lobbying. Membership could include an independent chair, employers, employers’ organisations, trade union officials, academics and specialists in areas such as work organisation, innovation, inclusion and diversity, employment law, health and human resource management.

We envisage that the Forum will have a specific lifespan but that a key part of its output will be to deliver agreement on a longer term mechanism to ensure the visibility of the workplace in public discourse.

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