Why workplaces matter

THE ROLE OF WORKPLACE PRACTICES IN ECONOMIC TRANSFORMATION

Department of Labour
TE TARI MAHI

Acknowledgement

Prepared for the Department of Labour
Dr. Rose Ryan
Athena Research Ltd

ISBN 978-0-478-28179-8
September 2007

Department of Labour
PO Box 3705
Wellington
New Zealand

www.dol.govt.nz

To download the document in PDF format, please visit:
http://www.dol.govt.nz/workplaceproductivity/resources/research/

TABLE OF CONTENT

INTRODUCTION

Raising productivity and growth is high on the New Zealand Government's growth agenda and has been so for some time. Across the economy as a whole, while growth has been strong, this has largely been driven by increases in labour input, while productivity performance has been described as "lacklustre" (OECD, 2007a). Average annual growth in labour productivity in the measured sector was 3.2% over the 1988–2006 period, compared with 1.7% for capital productivity (Statistics New Zealand, 2007).

A variety of policy prescriptions have been put in place to increase both the level and the rate of growth of productivity. Initial attempts in the 1980s and 90s focussed on increasing competition and reducing trade barriers. As a result, labour productivity grew through the late 1980s, but this was due to restructuring and employment losses, rather than as a result of output growth.

Since 2000, greater policy investment has been directed towards greater innovation, adoption of new technology, and investment in physical and human capital as stimulants of productivity growth. Attention to these factors is in line with international research and evidence on their importance, in the context of appropriate macroeconomic policies.

Nevertheless, research has drawn attention to the fact that these factors alone cannot explain differences in the level of productivity and rate of growth across countries, and within countries, of different firms and industries.

As a result researchers are asking questions about what other factors can influence firm, and at an aggregate level, national, performance. The argument is based on the view that productivity rates are influenced not so much by gross amount of investment in either human or physical capital, but by the way in which this investment is made use of within firms – different ways of working, how firms are organised, and how they use technology (Economic and Social Research Council, 2005). Even the OECD has noted the need for developed economies to gain a better understanding of the ways in which labour market and other policies might condition employee effort, and their willingness to align their workplace behaviour in ways which assist to achieve employer objectives (OECD, 2007b).

A substantial amount of management and industrial relations research has been carried out over the past decade on these questions. They have focussed on how specific workplace practices, often collectively known as "high performing work systems", impact on firm performance. Although there have been many debates in the literature about the extent of diffusion, whether impact varies by industry and firm size, and whether success is dependent on the competitive strategy being adopted by the firm, a consideration of the evidence as a whole suggests that workplaces that are producing products or delivering services based on a high value, high quality approach are more successful and achieve better outcomes when they adopt the sort of workplace practices associated with high performance work systems. The same may not be the case, however, in firms where production or service delivery strategies remain based in high volume, cost minimisation business models.

This purpose of this paper is to try to summarise this material in a way that is relevant in a New Zealand context, by addressing the question "Why do workplaces matter?". It is set out in four sections. The first section backgrounds the way in which policies adopted by successive governments have addressed the need to increase productivity growth. It concludes by suggesting that there are three reasons as to why these policies have had limited success in lifting labour productivity.

The body of the paper addresses these three issues, arguing that current investments in science and innovation and skills development will deliver a greater return if they are accompanied by changes in workplace practices. It goes on to examine the so-called "high performance workplace systems" model and summarises some of the key debates about its impact on firm performance[1]. Lastly, a brief consideration is given to the third reason why workplaces matter – the need for New Zealand to increase the quality of labour supply by making best use of the skills of the existing workforce, and to attract international labour in order to address skills shortages. The paper concludes by putting forward the reasons why improving workplace practices is a matter for public policy, and presents a case for further investment in workplace development.

The primary focus of the paper is the implications of workplace practices for workplace and economic performance. While there is a considerable literature on the impact of workplace practices for employees, it is not the intent of this paper to cover those issues.

[1] The use of the term "high performance workplace systems" is used largely as a matter of semantic convenience. As is discussed later in this paper however, the hypothesised linkage between the practices associated with high performance systems, can not be conclusively demonstrated. As a result a number of writers have objected to the use of the term, suggesting that its usage tends to assume what should properly be a matter for empirical enquiry. Some authors have suggested use of the terms "high commitment management" or "high involvement management" instead, while others have noted that the model simply reflects high quality employment relations practices.

BACKGROUND

New Zealand's productivity performance is high on the government's agenda. A slow down in productivity growth was experienced in all Western countries from the 1970s, but in New Zealand the slow down was both more marked and went on for longer (Dalziel and Lattimore, 2004). Initial attempts to improve productivity in the 1980s and 90s focussed on a deregulatory strategy designed to increase competition and reduce trade barriers.

A different approach was taken from 2000 onwards. A greater focus was placed on industry and regional development, reflecting a shift in government policy away from market-driven solutions to a more active role for the government in facilitating growth. To supplement industry and sector initiatives, the government appointed a Science and innovation Advisory Council (SIAC), reporting directly to the Prime Minister. SIAC presented a *Proposed Innovation Framework for New Zealand* in 2001, which proposed:

- Creating wealth from high value ideas and knowledge commercialised through a vibrant and well integrated innovation system;
- Growing a talent pool through improving the education system, supporting life-long learning, creating innovative communities and attracting overseas talent; and
- Promoting innovative and entrepreneurial attitudes and behaviours, including an emphasis on networking and collaboration.

The government's response *Growing an Innovative New Zealand*, formed the foundation for its Growth and Innovation Framework (GIF), based on the need for a balanced set of policies to drive economic development. These included good fiscal management, sound monetary policy, a competitive, open economy, social cohesion, a healthy, well-educated population and a solid research and development framework.

The GIF was based on innovation as the key driver of higher growth rates and proposed a number of measures to advance that aim. These included developing a more highly skilled population, through increasing investment in early childhood education, industry training (particularly Modern Apprenticeships) and numeracy and literacy programmes. A comprehensive reform of the tertiary education system was implemented, and a new focus was put onto developing and retaining people with "exceptional" skills and making it easier for overseas "talent" to live and work in New Zealand.

The GIF had its focus largely on macro-policy solutions, and in respect of the labour market, supply-side measures. At the same time, however, the government recognised the importance of workplaces as a source of potential growth. In early 2004, it established the Workplace Productivity Working Group to consider ways in which New Zealand workplaces could be assisted to perform better, and in particular ways in which they could "move up the value chain" to contribute to a higher value, higher skill, higher wage economy. The report of the working group, released at the end of 2004, identified seven drivers of workplace productivity[2], and made a range of recommendations about the actions that could be taken by business owners and managers, unions and employees, and government agencies to improve workplace performance.

The report was something of a watershed in terms of policy development in New Zealand as it represented one of the first official acknowledgements that good workplace and employment relations practices were a positive contributor to economic development, rather than a constraint on the ability of firms to grow. In doing so, the government demonstrated a preparedness to consider the possibility of putting in place policy interventions designed to deal with practices being put in place within the "black box" of the firm, in contrast to its traditionally "hands-off" approach to this.

The Government's thinking has evolved since the development of the GIF, and in 2006, Cabinet agreed on the goal of "Economic Transformation" as a key priority for the next decade. Within this, five key themes of: growing globally competitive firms, developing a world class infrastructure, innovative and productive workplaces, environmental sustainability and growing an internationally competitive city (Auckland) have been identified.

In respect of the two areas of particular relevance for workplaces, the goal of growing globally competitive firms is focussed on the need for firms to be responsive to their customer base in local and international markets, and in particular to produce higher value goods and services. This is being addressed by ensuring the effectiveness of business regulation and macro economic policy settings, improving linkages between the private sector and science providers, sector engagements that bring all relevant players together to develop strategies for higher rates of growth, and enhanced strategies for innovation.

At microeconomic level, a complementary strategy designed to facilitate the development of innovative and productive workplaces has been put in place. Three particular areas of focus have been identified – the continued need for further investment in skills (and in particular the need for better skills matching), improving productivity through supporting workplace innovation and making productivity improvements at workplaces, and ensuring quality participation, particularly for groups that are currently under-represented in the labour market. Thus the current Economic Transformation Agenda breaks some new ground for New Zealand in paying attention not only to the wider policy settings but also to what is happening at the workplace level.

[2] These were: building Management and Leadership Capability, Creating Productive Workplace Cultures, Encouraging Innovation and the Use of Technology; Investing in People and Skills, Organising Work, Networking and Collaborating and Measuring What Matters.

New Zealand's policy response has been in line with international evidence on the importance of investment in both physical and human capital, together with the importance of research and development, innovation and the uptake of new technology as determinants of productivity growth. However, despite the stated intention of putting in place mechanisms for assisting workplaces to make improvements across all the drivers of workplace productivity, policy investments have been focussed on those drivers related to Investing in Skills and People, and Encouraging Innovation and the Use of Technology. Far less investment has been made in relation to other drivers, particularly in relation to Work Organisation, Building Leadership and Management, and Creating Positive Workplace Cultures, despite increasing research evidence that it is these areas that are critical for ensuring that the productive potential of investments in skills, technology, and innovation are achieved.

The rest of this paper goes on to argue that a greater amount of investment needs to be made in these areas, directed towards the aim of implementing a workplace development strategy. It is based on the view that workplace practices matter for three distinct reasons. The first is that the available international evidence suggests that workplace returns on investment in innovation, technology and the application of acquired skills is greater where these are accompanied by complementary practices such as more flexible forms of work organisation, employee involvement and strategic human resource management practices. Government and employer investment could potentially have a greater return if they are accompanied by workplace practices which facilitate the process of transforming inputs into productivity improvements.

Secondly, research evidence demonstrates that successful firms and workplaces have in place a distinctive set of management practices. These practices are based on the need for workplaces to operate in a holistic and sustainable manner. They also emphasise the contribution of employees to firm performance, and the need for them to be recognised and rewarded for this contribution. Furthermore evidence also suggests that those firms and workplaces whose organisational and competitive strategy is based on the delivery of high quality, high value-added products and services are likely to gain the best advantage from such practices.

Thirdly, labour force trends have established a new imperative for development strategies that improve the attractiveness of workplaces. A more educated labour force has different expectations of work. Employees seek a high level of job satisfaction to a greater degree than previously, and express a greater desire for a balance in the amount of time spent in work and non-work activities. Coupled with this is the dilemma faced by many countries of shortages of both skilled and unskilled labour, together with a more mobile (and internationally mobile) labour force.

All in all, these three factors combine to result in a compelling case for changes in workplace practices that will contribute to a higher level of performance and productivity than previously. The rest of this paper addresses issues related to this proposition.

INNOVATION, SKILL, AND WORKPLACE PRACTICES

The debate about the need for workplaces to change to new forms of work organisation rests on the argument that a conglomeration of factors, including (but not limited to) the impact of new technology, changes in patterns of consumer demand and more open world trading patterns have resulted in a fundamental change to the global economic order that has dominated since the end of World War II, based on mass production, tariff protection and increasing consumer demand driven by cost-based competition and rising wages.

Piore and Sabel in 1984 advanced the argument that the Western world was facing a "second industrial divide", in which flexible production of products and services for niche markets was taking the place of mass production. It was argued that such fundamental changes would need to be accompanied by consequent changes in the nature of work and employment relations, and that workplaces were adopting different ways of operating in order to compete in the new industrial era (Kochan, Katz and McKersie, 1984).

There have been on-going debates about whether these changes have occurred, and their extent and nature. Some of these debates have questioned whether the practices being discussed are really all that new. However, there would now appear to be general agreement that the changes that have been taking place over the past 20 years are more than just a re-jigging of traditional work systems, and that these changes are occurring in response to environmental conditions such as technological change, changes in product and capital markets and changes in the nature and structure of the workforce itself.

Belanger et al (2002) summarise the changes as taking place in three specific spheres - changes in production management, changes in work organisation, and changes in employment relations. In relation to production management, key challenges to managers have been the desire to deliver less standardised products and services that respond to (more particular) customer demands, while at the same time maintaining productive efficiency through standardisation of production or service delivery processes. Changes in work organisation have occurred as a result – in particular through the need to achieve worker participation in problem solving through the application of tacit skills and knowledge, the ability to multi-skill and to share knowledge, and the increased use of teamwork rather than hierarchical supervisory processes.

There is general agreement amongst economists that one of the key driving forces for change and continuing economic growth is innovation. Innovation as a concept is used to refer to a range of activities carried out both within and outside the workplace, including research and development, development of new knowledge, new products and services, adoption of new technology, and new management and business processes. While it encompasses the notion that innovation may result in the development of products and services that are "new to the world", the vast majority of product and service innovations result from moving into a new market segment (e.g. The Warehouse moving into grocery sales), re-branding or re-packaging of existing products (e.g. same product in different colours), new product lines (e.g. Hi-Bran and Fruity Weetbix), or improvements to existing product lines (e.g. telephone and internet banking).

Process innovations can also increase the efficiency and effectiveness with which goods are produced or services delivered. Throughout the 1980s and 90s, management and business processes became a focus for change, and a range of new systems (including quality management, Just-In-Time, Business Process Re-engineering and many variants on these systems) were put in place in a wide variety of workplaces in an effort to improve productivity.

The focus on innovation as a source of growth resulted in a range of studies looking to explain the reasons why some firms and workplaces are more successful than others in realising gains from innovation. The results of these studies demonstrated not only that successful innovation requires a more skilled workforce, but also that it was generally accompanied by a distinctive set of human resource management practices, particularly around employee empowerment, to unleash the creative potential of that skill. The reasons why this should be the case are explored below.

The empirical evidence overwhelmingly demonstrates a link between skill and labour productivity. Bosworth has argued that workplaces need a higher level of skill during initial set up and growth, and when they are going through change (Bosworth, 2005). In particular, firms whose competitive strategy is based on developing new products or services, or on increasing quality have been found to require higher levels of skill in their workforces (Delbridge et al, 2006). Given the importance of continued innovation for competitive advantage, a higher level of skill across the economy as a whole is needed for continued economic growth.

While there is little debate on the critical role played by skills in supporting innovation, over recent years, several commentators have drawn attention to the fact that skills on their own are a necessary but not sufficient condition for improved performance. In particular, some concern has been expressed in both the United Kingdom and the United States that increased levels of public investment directed towards increasing the supply of skills have not been accompanied by better deployment of skilled labour by employers and managers (Mayhew and Neely, 2006; Delbridge et al, 2006). One British commentator has suggested that the reason why a substantially better qualified workforce has not had a larger impact on productivity is attributable to lack of attention to other work practices that support and match these improvements. "In other words, improved levels of skill were not put to maximum good use because other factors, such as investment, innovation and more skill-intensive product market strategies, lagged behind." (Keep et al, 2006:546)

In addition to the need for higher levels of skill to facilitate the development and spread of innovative products, services and processes, other work has drawn attention to the role of new forms of work organisation. Black and Lynch (2001, 2003) in particular have argued that a range of workplace practices, particularly those associated with increased employee voice, explain a large part of the increase in multi-factor productivity in the US. However, they caution that it is not the practices themselves that have an effect, but how they are implemented, with firms realising more gains when a wide range of practices that reinforce each other are put in place.

The suggestion that there are “bundles” of workplace practices that can facilitate improved workplace performance has been a feature of industrial relation and management literature since the early 1990s. The next section of this report summarises the research that has been undertaken on the extent of change and its impact on workplace performance.

WORKPLACE PRACTICES IN HIGH PERFORMING ORGANISATIONS

The suggestion from the 1980s onwards that new systems of work practices were being put in place to assist firms to adapt to a change in the competitive environment led in North America to a range of research programmes attempting to consider the extent and nature of what became known as "high performance workplaces". Early studies focussed on incidence. A 1992 study for example (Osterman, 1994) found that 35% of private sector firms had introduced innovative work practices and made use of flexible forms of work organisation as a key strategy for becoming more competitive. Appelbaum and Batt (1994) analysed case studies in 185 workplaces along key dimensions of management methods, worker participation and work organisation, HR practices, industrial relations, and compensation systems, and concluded that fundamental changes were happening in the nature of work in American workplaces. Huselid (1995) undertook research into the impact of high performance practices, and on the basis of survey evidence argued that investment in high performance workplace practices resulted in lower turnover, improved productivity, and better financial performance.

While the North American literature has been largely positive, European research has been consistently more critical in its consideration of the extent of change, the speed of diffusion, and the impact on both organisational and employee outcomes. The suggestion that wholesale changes were occurring across the whole of the western world received little support, with the OECD (1999) cautiously suggesting that while some changes did appear to be taking place, these were more limited in nature and showed considerable variation between countries.

A vast amount of research has been undertaken during the past 10 years, and an exhaustive summary of this is beyond the scope of this paper. There are, however, several key debates, which are summarised below. The first is the nature and scope of the practices that are argued to be part of the new workplace model. The second is the rationale for putting in place new workplace systems, and in particular the reasons why we would expect them on theoretical grounds to result in improved workplace performance. Lastly, is the question of whether in fact new systems do in fact result in improved performance, and if so, the factors that influence this.

The High Performance Workplace Model

The so-called "high performance model" has been controversial in the literature, not least because there have been debates about whether the range of practices that are said to make up the model do, in fact, result in high performance. As a result, other descriptors have been suggested, including high involvement management, high commitment workplaces, alternative work practices, innovative work systems, and supportive employment policies.

Aside from debates about its title, there appears to be more agreement on the components of the model. These include:

- Changed forms of work organisation involving employees carrying out a wider range of tasks, often in (autonomous or semi-autonomous) teams, and with a higher degree of autonomy in decision-making;
- Increased focus on training and skills development, particularly in relation to "soft" skills related to communication and working in teams;
- Mechanisms for improved two-way communications, and in particular mechanisms that provide for employee "voice" in the organisation;
- Improved processes for managing employees both individually and collectively – both in relation to HR practices such as recruitment and selection, performance management and pay policies, and in relation to the way that employees are treated by line managers.

Evidence on the extent of diffusion of these practices has been the subject of much debate over the last 10 years. Recent evidence from national level surveys in the United States conclude that while the take-up of individual practices has been extensive and has been present in most industries, the extent to which these have involved holistic and fundamental changes in organisational operations is much more limited. Few workplaces put in place a range of changes designed to reinforce each other, and changes in practices commonly apply to a subset of employees. For example, only 1.1% of firms could be characterised as "strong innovators" in respect of workplace practices by having put in place more than five changes to their workplace practices, and having them apply to more than 50% of the workforce (Blasi and Kruse, 2006). In addition, the sorts of practices that are being adopted tend to be those that result in the least amount of organisational disruption. For instance, work related team meetings are easy to implement, and will not disrupt the existing organisational order in the same way as, for example, autonomous self-managing teams.

Similar findings are evident from the United Kingdom Workplace Employment Relations Surveys (UK WERS). These also suggest that while there was a large increase in the number of firms that have adopted changed workplace practices in the 1990s, the pace of change may have slowed a little (Bryson et al, 2005; Kersley et al, 2006). The 2005 survey showed that 14% of workplaces had at least some employees in teams, and made use of job rotation and employee problem solving groups. However, a more restrictive definition of teams (to reflect the concept of autonomous teams with a high degree of inter-dependency between members) reduced incidence down to 9%. Similarly, a broader definition of job rotation to encompass training employees in the skills needed to rotate (but not necessarily making use of those skills) increased incidence to 36%. In addition, alternative practices were more common in workplaces that were large, foreign owned and unionised.

The question as to whether changed forms of workplace practices involve a "model" or "ideal type" (as opposed to an ad hoc collection) of practices has been a point of debate. Early arguments suggested that individual practices needed to be "bundled" in order for them to have a positive impact. This debate has been centred on the notion that while there is logic in the adoption of practices related to each of the individual drivers, there are synergies between them and that additional benefits will accrue to firms when they adopt more than one. Thus, for example, changing forms of work organisation may result in enhancing the knowledge and skills and employees, which then has the consequence of increasing employee motivation and enhancing the retention of quality employees (Huselid, 1995).

Empirical data on the extent to which individual workplaces have put in place more than one practice, and the proportion of employees who were affected by them on the other hand suggested that firms do not see the logic of a "model" or alternatively that the model is not a "one size fits all" one. This has evolved into a discussion which questions whether changes are occurring on the basis of "best practice" or "best fit".

Those who argue in favour of a best practice approach suggest that a single model is appropriate for all workplaces of any size, industry and age, and irrespective of their competitive strategy. A contingency approach, on the other hand, recognises that different firms may need to pick up different work practices depending on a variety of circumstances. In particular, it may be more difficult to introduce new forms of work organisation into workplaces that have a long history of very traditional arrangements as they will potentially be more disruptive and demand a greater degree of organisational change (Blasi and Kruse, 2006).

There is increased recognition now that changes to workplace practices are most effective in organisations whose competitive strategy is based on the delivery of high value products and services. They are less likely to be successful in workplaces where competition is still based on cost reduction, and in these circumstances are unlikely to deliver benefits to either employers or employees. This has led several commentators to the conclusion that attempts to improve workplace practices through direct policy interventions may be limited in their impact without other mechanisms design to improve the quality of production (Mayhew and Neely, 2006).

Workplace Practices and Workplace Performance

Many attempts have been made in the last two decades to address the relationship between individual workplace practices, or bundles of practices, and workplace performance. While there are strong intuitive arguments to suggest that they have had a positive impact, empirical evidence has been more equivocal. Positive associations have been found in some studies (see for example, Osterman, 1994, Huselid, 1995), while others have found weak or negative impacts (see for example Cappelli and Neumark, 2001). Taken as a total body of work, the evidence is at best confusing, relying on econometric equations and large-scale data sets. The dangers of using these to come to conclusions about the impact of practices on workplace performance is illustrated by one study that replicates two earlier ones, using the same data but coming up with very different results (Addison and Belfield, 2001).

The question as to whether workplace practices can impact on workplace performance assumes that measuring workplace performance is non-problematic. However, as a number of commentators have pointed out, this is very often not the case.

Drawing a causal inference between workplace practices and performance can in part depend on the indicators used to assess performance. Research into the linkages between workplace practices and performance has in different studies used variables such as HR indicators (such as employee turnover, reports of employee job satisfaction, or climate surveys), organisational Key Performance Indicators (KPIs) (such as customer satisfaction, or product defect rates) or financial performance (such as profit, or return on investment).

The difficulty is that while it is difficult to draw a link between changes in work practices and performance indicators other than HR ones, it is organisational effectiveness and accounting/financial KPIs that most managers consider to be crucial in assessing their organisation's performance. However, the range of external factors impacting on these make drawing a direct linkage between them and work practices difficult. While some studies have suggested that only a weak link can be established between workplace practices and performance, this may reflect the fact that other factors may be exerting an equally strong influence.

In addition, none of these indicators on their own can fully describe whether the organisation is performing or not, and firm performance may not be best assessed by reliance on a single measure, nor necessarily on the basis of an objective, measurable indicators. As Guest et al (2003) point out, managers commonly work on the basis of their subjective perceptions of performance, and this may be more reliable for hard-to-measure indicators such as climate, employee capability, and potential for future growth.

Recent work using the UK WERS data has found that subjective managerial perceptions of labour productivity in comparison with other firms were not dissimilar to objective measures based on financial performance, but that there were some differences (Kersley et al 2006). While this could mean that managers may not have an accurate view of how well they are performing, it could equally well mean that their subjective views more accurately reflect the complexities of assessing labour productivity to a greater degree than purely financial indicators.

Lastly, research that has attempted to identify the relationship between workplace practices and performance has largely been undertaken in the manufacturing sector, where quantifiable output measures make the measurement of productivity easier. Studies looking at the impact of workplace practices in the service sector have more commonly been based in case study methods. However, a recent econometric study in the retail sector found that high scoring management environments (including information sharing, participation in decision-making, performance monitoring, efficiency and fairness of supervision and regular opportunities for employee development discussions) were associated with higher productivity (measured by the value of sales net of taxes and purchases) when comparing the relative performance of different workplaces within the same firm (Jones et al, 2006).

Overall, research has not been able to definitively show that a change in workplace practices will categorically improve the performance of workplaces. However, the picture that is painted from a wide range of studies in both the manufacturing and service sectors, using both case study and service data, is that changes are associated with better organisational outcomes.

The Rationale for Positing a Link between Workplace Practices and Workplace Performance

Surprisingly perhaps, there has been little focus in the existing research on the reasons why we might, a priori, expect new types of workplace practices to have a positive impact on workplace performance. The rationale that explains the linkages between changing work practices and organisational outcomes has only recently emerged and is still incipient.

This is possibly the result of the fact that a large proportion of the work done so far has made use of large scale survey data using a limited range of variables, leading to explanations that have been described as “emaciated” (Hesketh and Fleetwood, 2006). Hesketh and Fleetwood argue for a robust explanation of the linkages between the two, which are based on more detailed information about the ways in which all stakeholders in a workplace interpret, understand and make sense of a workplace, and the environment in which change is taking place. Included among the variables that need to be considered are the nature of new jobs, tasks, and skills in relation to old ones, team composition, the relationship between team members, and the relationship between teams and management (including any corporate management).

Some writers have attempted to do this, with several explanations being put forward. In many respects the explanations are based on the logic of bundling, with practices being said to reinforce each other. For example, it may be argued that there is little point in providing workers with additional skills if those skills are not going to be deployed effectively through changes in work organisation. Conversely, providing employees with opportunities for involvement in decision-making will not change anything if they do not have the communication skills to participate, or if those opportunities occur in an atmosphere of mistrust between employees and managers.

The logic for the connections between the various elements of an alternative model of work practices leads backwards from the notion that innovation is at the heart of growth. As was noted earlier, most innovations happen within workplaces rather than in specialist R&D institutions, and are incremental rather than major and "new to the world". Suggestions for innovations are most likely to originate from those employees who are either closest to the customer (and who therefore have a more realistic idea of customer preferences) or employees who are closest to the process of production or service delivery (and who therefore have an intimate knowledge of the ways in which that could be improved).

Under traditional forms of work organisation, there is no incentive for these employees to make suggestions for improvements. This is because under traditional systems managers decide the ways that things will be done. In addition, under traditional systems, because employees will generally have more routine jobs, they are unlikely to have a sufficiently wide view of the production or service delivery process to see where potential improvements could be made.

Creating a different environment requires the implementation of positive human resource management strategies designed to provide employees with the skills that they need to perform more broadly specified jobs, and a range of other skills that allow them to participate more effectively in the workplace (Jones et al, 2006). The range of HR practices that have been identified as being particularly important include more robust recruitment and selection processes, employee induction programmes, revisions to payment systems, performance management systems, and mechanisms for employee recognition.

Revising HR practices by themselves however, is not enough. The model requires a different approach to Human Resources Management (HRM), not just in relation to the development and establishment of HRM policies and procedures but in the way that they are implemented and operationalised by line managers. Performance is likely to be at its highest when employees not only have the skills required to perform the tasks that they are required to perform, but also that they are <u>motivated</u> to do so. This requires managers to adopt a more participative management style that recognises the value of employee input. Hodson (2001) argues that competent managers who treat employees with fairness and respect experience stronger worker commitment, extra effort, and reduced workplace conflict.

Managerial values have been identified as an important determinant of the on-going success of workplace change programmes. Given the extent to which such programmes may experience difficulties in implementation, together with the propensity for them to lose momentum over time, on-going managerial commitment to the underlying principles of High Performance Workplace Systems (particularly the need to support employee participation and involvement initiatives) is critical.

Workplace Practices and the Role of Management

The discussion above draws attention to the fact that while workplace practices are important for delivering productivity improvements, they can not, in and of themselves deliver improved performance. Improved workplace productivity is driven by good leadership and management practices, drawing attention to the fact that the "how" of change is as important as the "what".

While the importance of good management practice for improving productivity is obvious, defining what is meant by high quality management has proved to be elusive. A recent attempt has been made to do this by researchers at the Centre for Economic performance at the London School of Economics (Bloom and Van Reenan, 2005). This involved constructing an index of management practices with items in four areas – operations (focussed on manufacturing techniques and documentation of process improvements), monitoring (tracking and reviewing performance, plus consequences), targets (whether non-financial and non-operational targets are aimed for, how realistic targets are, transparency and how consistent through the organisation) and incentives (promotion criteria, pay and bonuses, performance management and recognition of high performance). Following interviews with managers in 732 medium sized manufacturing firms in the US, France, Germany, and the United Kingdom, it was found that higher management scores were positively and significantly correlated with higher total factor productivity.

Operational competence is also an important aspect of managerial quality. As Frenkel and Orlitsky (2005) note, operationally incompetent management fail to provide predictability in relation to the amount of work to be completed, and the tasks necessary for this to be achieved. This results in a high degree of uncertainty, and the possibility of longer unplanned working hours. Other studies have shown that managers within the same organisation or firms within the same industry deliver very different performance outcomes even though facing similar circumstances. Griffith et al (2006) in studying different areas of business within a United Kingdom wholesaler found that differences in management quality (using performance outcome measures based on customer satisfaction, operational measures, and staff and supplier views) accounted for around 40% of the difference in productivity between different areas.

Another study, undertaken by the Work Foundation in the United Kingdom, has also pointed to the importance of a range of management skills and competences as a key to workplace performance. This research was multi-layered and took place over time, moving from identifying key business drivers from the literature (Turner, 2005), to a survey of workplace practices in these areas. The key business drivers were:

- Customers and Markets - Included within this are Marketing, Customer satisfaction, supply chain management, new product development, and effects of market orientation on company performance;
- Shareholders and Corporate Governance - including Finance and Investment, corporate governance (roles and decision-making), and the legal system within which the organisation is working;
- Stakeholders - the way the company is conceptualised and its purpose, and the importance given to various stakeholders;
- People and Skills - external education and training and internal people management practices;
- Creativity and Innovation Management - moving away from an emphasis on change management processes to an organisational learning approach, understanding the role of technology.

A survey based on questions in each of these five key business areas, and correlation of results against a range of organisational and accounting based performance indicators, resulted in the development of a Company Performance Index (CPI). This index was found to be highly predictive of productivity, but further research demonstrated that differences in performance between the top and bottom performing firms was attributable to "intangible" factors of production. These factors were largely to do with leadership behaviour, organisational climate and culture (Work Foundation, 2005) and consisted of:

- Structure - having a unique organisational structure that takes account of geography, size and history, and that enables continued success;
- Process - higher degree of informality and continued dialogue supported by simple processes that allow fast decision-making;
- Communication - openly sharing information between peers and networks of managers to ensure that timely and accurate information is available in order to get the best job done;
- Leadership - visible and accessible leadership and management, combined with high expectations from those in decision-making roles;
- Culture and employee relations – a distrust of the status quo, valuing quality rather than quantity, a focus on the long-term and on outcomes, a positive climate characterised (but not codified) by pride, innovation, and strong interpersonal relations.

LABOUR MARKET ISSUES

The focus of the paper so far has been on the need for work practices to change to deliver performance improvements at workplaces whose competitive strategies are based on production of high value products and services. It has been argued that these are needed both to deliver improvements to the workplaces themselves, but also to ensure a return on government and employer investment in training and skills development.

An additional reason for changing workplace practices comes from imperatives based on labour force trends. While this paper has not intended to address impacts on employees in detail, available evidence suggests that alternative work practices have benefits for employees as well as employers.

There are three specific trends that are of relevance. The first is that because of demographic pressures resulting from an aging population, most developed countries are looking to increase the labour force participation of people who have traditionally had lower than average rates of participation, including women, people with caring responsibilities, older workers and people with physical, mental and intellectual disabilities. Secondly, the increased demand for skilled labour is being felt internationally at the very time when both skilled and unskilled labour has become more geographically mobile.

Lastly, the workforce of today has a higher level of skill than in previous generations. Progress has been made with reducing the number of adults with no educational qualifications, increasing the number of people with tertiary qualifications, and increasing the number of people engaged in community and adult education.

All of these factors add up to providing a compelling case for the need for workplace practices that make workplaces attractive places for people to be. This extends beyond a mere fulfilment of contractual responsibilities to a release of employee discretionary effort. Employees who have been up-skilled or who have invested in education will inevitably wish to see a return on their investment – not simply in terms of a financial return in the form of higher wages, but also by having the opportunity to undertake more challenging work, and a chance to contribute their ideas. An international shortage of skilled labour means that employees will gravitate to workplaces which provide them with recognition of their skills and a chance to practice these in a high quality work environment. Lastly, employees are increasingly looking to reduce the amount of work time that spills over into other aspects of their lives, and increasing the attractiveness of workplaces offers a positive way to achieve this. All in all, workplace practices that offer a higher quality of work life to employees will provide a competitive environment that is better able to attract and retain these employees.

POLICY IMPLICATIONS

The focus of this report so far has been putting forward the case for a renewed focus on work organisation and employee involvement in order to increase the returns from other policy interventions that are being made in respect of investing in skills, implementation of new technology and innovation. In particular it is argued that this would assist workplaces competing on the basis of a high value strategy to achieve increased returns.

The question of how best to achieve this focus necessarily follows. It is evident that change in New Zealand workplaces, as in workplaces in many other countries, has been limited. Thus a case can be made for the construction of policy interventions that creates the pre-conditions for change amongst those workplaces with existing business models based on production and service delivery strategies that deliver increased value, and secondly that deliver the tools and assistance to help them achieve this.

A case for government involvement in the construction of such interventions has been argued by Mayhew and Neely (2006). They note that the interest of the state in developed economies is in maintaining competitiveness over the long term, by moving towards a high wage, high skill economy. It does this for two reasons – one is the inability to compete against lower wage economies, and the second is the distributional implications of competing largely on the basis of cost.

The difficulty is that the interests of private sector firms may be different, and may in fact be based on very short-term interests. Small and family-owned firms, for example, may have a greater interest in the delivery of an income over the course of the proprietor's working life than they are in the long-term development of the business. Consequently, their short-run goals may be in cost-minimisation as a means of either staying in business or competing in a specific market opportunity. Thus, an important goal for government is to facilitate the achievement of productivity gains through increasing quality and value-added price, rather than by increasing efficiency for an existing level of quality. "Critically, we need to be wary of policy initiatives which (wittingly or unwittingly) provide signals and/or incentives to agents in the economy that discourage or militate against moves to the higher value-added route. Or to put the matter more positively, we need to seek out policy initiatives which positively incentivise organisations to take the higher value-added road." (Mayhew and Neely 2006:452).

The desire of government to ensure that the long term interests of the economy are not sacrificed to the short term interests of private firms however, does not necessarily mean that government is best placed to deliver services that facilitate this process. The government's key role will continue to be creating the conditions in which the momentum for change continues. Creating those pre-conditions is not a totally passive process however. An important function for government is to provide support and assistance to organisations that are in a position to work directly with firms to achieve the government's workplace policy goals.

Firm level studies show that managers within workplaces are critical to the process of workplace change. Within a given set of macro-level policies, managers have choices as to the type of competitive strategy they adopt. However, in relation to new forms of work organisation, the paradox is that managers require the active consent and participation of employees before real change can be put in place.

In relation to facilitating the process of change in New Zealand workplaces, policy investment has been made in increasing the supply of skills, and better uptake of new technology and R&D. Attempts have also been made to increase employer awareness of the range of ways in which they can improve their productivity, and at increasing the supply of management and business capability development services. These attempts have been limited in their impact for two reasons. The first is that raising awareness is not sufficient because many employers and managers do not have the skills to work through a process of workplace change. Those examples where change has successfully been made have most commonly been in large organisations where higher level organisational support may be available (e.g., specialist HR or Organisational Development staff) or where firms have engaged consultants to assist them in the process. However, these initiatives tend to operate on the basis of being responsive to management aims for a change process, and may not always challenge existing ways of thinking (e.g. by promoting models of employee engagement or partnership).

Secondly, many workplaces in New Zealand are competing on the basis of a cost minimisation model. Thus they are unlikely to perceive any benefit in investing in up-skilling, providing a more challenging and rewarding work environment or re-designing jobs.

These problems have also been identified in the United Kingdom where it has been argued that "… the real problem may be that there is limited scope for further initiatives to improve the environment in which firms operate. In terms of providing a competitive and liberal market, encouraging entrepreneurship and improving skills supply some notable successes have been achieved. That the favourable macro-economic environment has not been translated into higher levels of investment of innovation suggests that the real problem may well reside within firms themselves." (Delbridge et al, 2006:13). Accordingly, attention is turning to the ways in which firms utilise the skills available to them, and methods of work organisation.

Delbridge et al (2006) have argued powerfully for an answer to this problem which is workplace focussed. They assert the need for avoiding blanket solutions in an environment where those workplaces adopting high quality, high value-added strategies are adopting a more specialist approach. Because of this, specific and targeted assistance is needed, which builds upon the networks within which firms already operate. They also argue for policy interventions which might be used to assist the process of workplace development. The first option is the development of oversight bodies, organised in a sector or locality, provided with secure state funding, to provide support to workplaces attempting to make changes. The role of such bodies would largely be around the promotion of best practice in a way which is relevant to that particular industry or sector. The second is the possibility of working directly with firms to improve their internal systems, in particular around work organisation. There is precedent for this in the United Kingdom, in the example of the Work Research Unit (disestablished in the early 1990s) which developed a Joint Working Party model for improving work organisation and job design at individual workplaces. Delbridge et al also argue that there is a case to be made for making the provision of financial assistance to firms conditional on their consideration of existing employment arrangements. Thus, they suggest, that workplaces receiving grants for capital equipment or new technology should be required to ensure that existing arrangements for work organisation and employee information and consultation are at least taken into account.

CONCLUSION

The purpose of this paper has been to canvass recent literature which addresses issues related to the way in which workplace practices are associated with improved firm performance. In particular, it has considered the linkages between how those practices can support and contribute to business models and strategies that are based on the production of high value good and services.

A review of a wide range of studies suggests that the likelihood of "proof" of a simple and linear causative linkage between workplace practices and performance is remote. The range of factors which impact on firm performance, and the way in which the internal and external environment impact on firm dynamics makes the possibility of causation being demonstrated in any meaningful way impracticable. However, the evidence from those studies that have sought to understand and make sense of workplace performance in the context of a changing environment suggest strongly that changes in workplace practices have been crucial to those firms who have succeeded in adapting to changing competitive conditions. Fundamental to those changes have been the nature and quality of the employer-employee relationship.

The spread of such practices is, however, limited. Thus a case exists for the construction of policy interventions designed to increase their uptake, both through creating the pre-conditions for change and facilitating the development of tools to assist firms and workplaces in a position to make use of them to good effect. The scale of many New Zealand firms means that few have access to specialist resources that will provide them with the skill and expertise to put in place the on-going commitment that is needed for change programmes to achieve results. Development of mechanisms that assist in this process could assist firms achieving the productivity improvements needed in order for them to compete more successfully in both domestic and international markets.

BIBLIOGRAPHY

Addison, J.T. and Belfield, C.R. (2001) "Updating the Determinants of Firm Performance: Estimation using the 1998 UK Workplace Employee Relations Survey" British Journal of Industrial Relations 39(3):341-366.

Appelbaum, E. and Batt, R. (1994) The New American Workplace ILR Press: Ithaca.

Belanger, J., Giles, A., and Murray, G. (2002) "Towards a New Production Model: Potentialities, Tensions and Contradictions" in Murray, G., Belanger, J., Giles, A. and LaPointe, P.A. (2002) Work and Employment Relations in the High-Performing Workplace Continuum: London and New York.

Black, S. and Lynch, L. (2001) "How to Compete: The Impact of Workplace Practices and Information Technology on Productivity" The Review of Economics and Statistics 83(3):434-445.

Black, S. and Lynch, L. (2004) "What's driving the New Economy? The Benefits of Workplace Innovation" The Economic Journal 114:97-116.

Blasi, J.R. and Kruse, D. (2006) "High Performance Work Practices at Century's End" Industrial Relations 45(4): 547-578.

Bloom, N. and Van Reenan (2005) "Measuring and Explaining Management practices Across Firms and Countries" Unpublished paper, Centre for Economic Performance, London School of Economics.

Bosworth, D. (2005) Determinants of Enterprise Performance Manchester University Press: Manchester.

Bryson, A., Gomez R., and Kretschmer, T. (2005) "Catching a Wave: The Adoption of Voice and High Commitment Workplace Practices in Britain, 1984-1998" Unpublished Paper, Policy Studies Institute/London School of Economics.

Cappelli, P. and Neumark, D. (2001) "Do 'High-performance' Work Practices Improve Establishment Level Outcomes?" Industrial and Labour Relations Review 54(4): 737-775.

Dalziel, P. and Lattimore, R. (2004) The New Zealand Macroeconomy: Striving for Sustainable Growth with Equity (5ed) Oxford University Press: Melbourne.

Delbridge, R., Edwards, P., Forth, J., Miskell, P., and Payne, J. (2006) The Organisation of Productivity: Re-thinking Skills and Work Organisation Advanced Institute of Management Research.

Economic and Social Research Council (2005) The UK's Productivity Gap: What research tells us and what we need to find out, ESRC Seminar Series: Mapping the public policy landscape, ESRC, Swindon.

Frenkel, S. and Orlitsky, M. (2005) "Organisational trustworthiness and workplace labour productivity: testing a new theory" Asia-Pacific Journal of Human Resources 43(1): 34-51.

Griffith, R., Haskel, J. Neely, A. (2006) "Why is productivity so dispersed?" Oxford Review of Economic Policy 22(4):513 – 525.

Guest, D., Michie, J., Conway, N., and Sheehan, M. (2003) "Human Resource Management and Corporate Performance in the UK" British Journal of Industrial Relations 41(2): 291-314.

Hesketh, A. and Fleetwood, S. (2006) "Human Resource Management—Performance research: under-theorised and lacking explanatory power" International Journal of Human Resource Management 17(12): 1977-1993.

Hodson, R. (2001) Dignity at Work Cambridge University Press: Cambridge.

Huselid, M. (1995) "The Impact of Human Resource Management practices on Turnover, Productivity and Corporate Financial Performance" Academy of Management Journal 38(3): 635-672.

Jones, D., Kalmi, P., and Kauhanen, A. (2006) "Human Resource Management Policies and Productivity: New Evidence from an Econometric Case Study" Oxford Review of Economic Policy 22(4):526-538.

Keep, E., Mayhew, K., and Payne, J. (2006) "From Skills Revolution to Productivity Miracle – Not as Easy as it Sounds?" Oxford Review of Economic Policy 22(4): 539-559.

Kersley, Barbara, Alpin, C., Forth, J., Bryson, A., Bewley, H., Dix, G., and Oxenbridge, S. (2006) Inside the Workplace: Findings from the 2004 Workplace Employment Relations Survey Routledge: London and New York.

Kochan, T., Katz, H., and McKersie, R. (1984) The Transformation of American Industrial Relations Cornell University Press.

Mayhew, K. and Neely, A. (2006) "Improving Productivity – Opening the Black Box" Oxford Review of Economic Policy 22(4): 445-456.

OECD (1999) "New Enterprise Work Practices and their Labour Market Implications" in Employment Outlook, June 1999.

OECD (2007a) Economic Survey of New Zealand OECD Policy Brief, April 2007, Paris: OECD.

OECD (2007b) "More Jobs but Less Productive? The Impact of Labour Market Policies on Productivity" Employment Outlook Paris: OECD.

Osterman, P. (1994) "How Common is Workplace Transformation and Who Adopts it?" Industrial and Labour Relations Review 47(2): 173-188.

Piore, M. and Sabel, C. (1984) "The Second Industrial Divide: Possibilities for Prosperity" New York: Basic Books.

Statistics New Zealand (2007) Hot Off The Press: Productivity Statistics – 1988-2006 (Revision issued 1 May 2007) Wellington: Statistics New Zealand.

Turner, N. (2004) Cracking the Performance Code: A Review of the Literature on Organisational Performance The Work Foundation: London.

Work Foundation (2005) Cracking the Performance Code: How Firms Succeed The Work Foundation: London.