

# productive partnerships:

the role of employment relations in growing the UK economy

## The Smith Institute

The Smith Institute is an independent think tank that has been set up to look at issues which flow from the changing relationship between social values and economic imperatives.

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Designed and produced by Owen Et Owen

productive partnerships

Edited by Tony Pilch

Supported by



2006

THE SMITH INSTITUTE

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UK economy

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Published by the Smith Institute

ISBN 1 905370 06 7

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## **Preface**

Wilf Stevenson, Director, Smith Institute

The Smith Institute is an independent think tank, which has been set up to undertake research and education in issues that flow from the changing relationship between social values and economic imperatives. In recent years the institute has centred its work on the policy implications arising from the interactions of equality, enterprise and equity.

The Smith Institute has worked closely with the Regional Development Agencies (RDAs) since they were established in 1998, holding national and regional events that have tracked their development as well as helping to share best practice. We have also published a series of key pamphlets looking at the issues that affect the RDAs. As part of this agenda and because of the increasing importance of productivity to the UK economy, the Smith Institute, in association with Yorkshire Forward, is delighted to be publishing *Productive Partnerships: The Role of Employment Relations in Growing the UK Economy*.

This collection of essays explores the role of employer and employee relations in promoting skills and productivity in the economy. The UK has historically experienced low levels of labour productivity compared with other major economies, but in recent years the country's performance on the government's headline measure of productivity – output per worker – has been improving. At the same time, however, new global challenges are emerging. As the contributors to this booklet acknowledge, meeting these challenges and boosting productivity over the long term will rest on making progress on the drivers of productivity – innovation, skills, investment, competition and enterprise. In turn, this will require employers, employees and key bodies to work together and forge a consensus in the workplace about how these challenges can be met, particularly in raising skills levels. We hope that the contributions within this pamphlet will help to develop the debate around how a progressive consensus in the workplace can help boost UK skills levels and productivity in each and every region of the UK.

The Smith Institute gratefully acknowledges the support of Yorkshire Forward in producing this publication.

## Foreword

Ed Balls MP, Economic Secretary to the Treasury

I am really pleased to write the foreword to this new publication – *Productive Partnerships: The Role of Employment Relations in Growing the UK Economy* – which the Smith Institute is publishing in association with Yorkshire Forward, the Yorkshire & Humber regional development agency.

The idea for this pamphlet first arose when I attended the steering group of the Employee Relations Forum for Yorkshire & Humber about 18 months ago in Leeds. The forum is organised by ACAS, and attended by representatives from business, trade unions, employers, academia and Yorkshire Forward. At that meeting, we discussed how employers and employees could work together better in partnership to raise levels of skills and innovation and to help deliver jobs and stronger growth across the region.

In his introduction to this publication, Tom Riordan, the new chief executive of Yorkshire Forward, sums up well that discussion in Leeds:

*Gone are the days when the boss knew best, or employees felt that improving productivity was not their problem ... to be successful, employers must raise the skill levels of their staff, ensuring that they are motivated and involved. Employees need to work more flexibly, improve quality and raise productivity levels. The interests of employers and employees are interdependent; both need to be more innovative and embrace change in the global marketplace.*

And since 1997, I believe, we have been demonstrating that we get better outcomes when government works closely with employers, trade unions and employees to shape economic and industrial policy.

That model for collaboration in policy making has worked well in the case of the Low Pay Commission's successful introduction of Britain's national minimum wage. It has worked well too in the Pensions Commission and the joint Trades Union Congress/Confederation of British Industry competitiveness work on productivity and competitiveness. And it has been at the heart of the strategic leadership role of the regional development agencies, where partnership between business and trade unions alongside local government has been crucial in shaping our new regional economic and industrial policy.

The purpose of this publication is to set out in more detail how partnership and collaboration in the workplace can strengthen our regional economies.

The theory is set out in the contribution from Dr Christian Ketels, a Harvard economist and close collaborator with Professor Michael Porter on competitiveness issues. His chapter provides an insightful account of the importance of collaboration both in economic policy making and in efforts to raise productivity. It presents a challenge both to trade unions and to businesses but makes clear that the potential benefits of partnership for both are significant.

The two chapters from the TUC general secretary and former director-general of the CBI then highlight the potential gains from forging new partnerships in the workplace to boost adult skills levels. Brendan Barber's contribution sets out in detail the positive case for partnership at work. Sir Digby Jones reminds us both that we need a flexible labour market and that investing in skills is critical to achieving that flexibility and responding to the challenge of globalisation.

The chair of the Advisory, Conciliation & Arbitration's Service Council, Rita Donaghy CBE, then describes the practical steps that have been taken to encourage partnership and dialogue around the issue of skills and innovation in the workplace in the Yorkshire region – and suggests that there is real potential in the employee relations forum model for every region of the UK.

Emily Stover DeRocco, the assistant secretary for employment and training at the US Department of Labor, presents a US perspective and demonstrates both the importance of regional collaboration to competing in the global economy and the practical measures that can be taken to develop a higher-skilled and more innovative workforce.

This collection of essays makes an important and timely contribution to the debate about how the UK can build on economic stability and further strengthen our modern industrial and regional policy to entrench higher levels of skills and innovation in each and every region of the UK.

## **Introduction**

Tom Riordan, Chief Executive of Yorkshire Forward

*In order that people may be happy in their work, these three things are needed: They must be fit for it. They must not do too much of it. And they must have a sense of success in it.*  
*John Ruskin, 19th-century social reformer*

Ruskin's attacks on the brutal factory conditions of Victorian Britain helped lead to the great workplace reforms and the foundation of the trade union movement in the early 20th century. In Yorkshire, Titus Salt and Joseph Rowntree embraced this enlightened approach, understanding that by improving workers' lives you could benefit from higher productivity.

After a period as mayor of Bradford, Salt decided to relocate his textile mill and create a new town, Saltaire, on the banks of the River Aire. In Saltaire, Salt created good-quality worker housing alongside a park, church, school, hospital and library. York's Joseph Rowntree was of a similar vein, creating the town of New Earswick and providing a library in his factory and free education for workers under 17.

The world of work has changed beyond recognition since then, but I am still left asking the question: Where are today's Salts and Rowntrees?

### **National economic context**

For the past 10 years the UK economy has grown faster than our competitors, and economic volatility, the British disease of the recent past, has been dramatically reduced. In the 2006 budget, the Chancellor announced that the UK economy was experiencing its longest unbroken expansion since quarterly national accounts data began, with GDP having grown for 54 consecutive quarters. Monetary policy has also been tightened, through Bank of England independence and by maintaining a stable exchange rate.

Challenges remain, however, within the UK economy, particularly the need to raise productivity. Productivity underpins strong economic performance and sustained increases in living standards, but the UK has historically experienced lower levels of labour productivity compared with other major economies.

In recent years the UK's output per worker – the government's headline measure of productivity – has been improving, but global challenges have emerged, in particular the

rise of India and China. The global economy is undergoing a major transformation, with far-reaching and fundamental changes in technology, production and trading patterns. Faster information flows and falling transport costs are breaking geographical barriers to economic activity. In this new, globalised world, goods and services can be bought from Bangalore as easily as they can from Barnsley.

In their report *UK Competitiveness: Moving to the Next Stage*, Porter and Ketels<sup>1</sup> suggest that while the UK has had significant recent success in raising prosperity, it needs a "new conception of competitiveness", focused more on supply-side measures. This includes collaboration between the various levels of government, business, educational institutions, chambers of commerce and trades unions. The collaborative approach to improving productivity was demonstrated by the Confederation of British Industry and the Trades Union Congress coming together to form a new permanent CBI-TUC Productivity Group.

### **Regional economic policy is working**

There is also a need to address geographic differences in productivity levels, not least the £30 billion gap between the North and the UK average. The past decade has seen rising growth rates across the English regions, and since the formation of regional development authorities in 1999, the majority of regions have grown above the European Union average.

The Yorkshire & Humber economy has experienced above-trend growth. Despite the region losing as many jobs in manufacturing as it did in the 1980s, unemployment remains close to a 30-year low, in part thanks to targeted efforts during major closures to get people straight back into the job market. The region has a booming science base and expanding universities, which produce 50,000 graduates every year and more research than Oxford and Cambridge combined.

But challenges remain: only half of 16-year-olds leave school with five GCSEs at A-C level; the region has above UK average rates of child poverty; and more people are living in workless households than the national average.<sup>2</sup>

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<sup>1</sup> Porter, M and Ketels, C *UK Competitiveness: Moving to the Next Stage*, DTI economics paper no. 3 (2003).

<sup>2</sup> *Advancing Together: Progress in the Region 2004* (Yorkshire Futures, 2004).

## **Employee relations as a productivity driver**

In a globally competitive world Yorkshire must continue to strive for a competitive edge. This will come not from access to raw materials and cheap labour, but from employers and employees working together to improve productivity. While the number of working days lost to strike action is lower in Yorkshire than the England average,<sup>3</sup> this can never be the measure of workplace engagement and involvement.

Gone are the days when the boss knew best, or employees felt that improving productivity was not their problem. Today's best companies are successful because they are customer focused, generate wealth, create quality products and services and get the best from their staff. But to be successful, employers must raise the skill levels of their staff, ensuring that they are motivated and involved. Employees need to work more flexibly, improve quality and raise productivity levels. The interests of employers and employees are interdependent; both need to be more innovative and embrace change in the global marketplace.

Two important drivers of this change are an increasingly ageing population and immigration. Both will drive companies to focus more on the need to get the best out of fewer and more diverse workers. By 2021, over 50% of the population in Yorkshire & Humber will be aged over 45; good news in the light of a recent survey of businesses in West Yorkshire, which showed that companies considered older workers to be more stable and consistent workers.

Expansion of the EU eastwards, and the fact that Yorkshire & Humber has the highest number of people dispersed under the National Asylum Support Service, poses different challenges for labour market policy makers. An older, more diverse workforce requires employers and employees to be galvanised to achieve success.

## **Team Yorkshire & Humber**

I was recently interviewed by a Franco-German TV station that wanted to know how we were achieving such an economic success story in Yorkshire. I told them we had the best of both worlds: the macroeconomic stability and flexible labour market of the US, together with the long-term economic strategies and microeconomic interventions that we have borrowed from Europe. But these conditions are not enough to guarantee economic success; we need to spread a collaborative approach across the entire region.

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<sup>3</sup> Office of National Statistics *Working Days Lost to Labour Disputes*.

How can we do this? We have developed the concept of Team Yorkshire – a collaborative approach to driving forward the region's economy, bringing together key players from the region to speak with one voice.

### **Conclusion**

The revised regional economic strategy reflects the importance of the workplace in improving economic competitiveness, and in assisting employers to enable everyone to have an equal chance to reach their full potential in the labour market. The Employee Relations Forum for Yorkshire & Humber is driving forward this agenda across the region.

Meeting these challenges and boosting productivity over the long term relies on making progress on the drivers of productivity – innovation, skills, investment, competition and enterprise. However, if our people are unable to reach their full potential, none of these drivers can be met.

Productivity will only be raised through collaboration between employers and employees, and by the creation of a shared common purpose. This common purpose requires government, regional development agencies, trade unions and business leaders to collaborate as never before – creating, not a lowest-common-denominator partnership, but groups that set measurable targets, provide leadership on diversity issues and take real action to achieve the highest common factor.

Nye Bevan's notion that "the purpose of power is to give it away" has never been more relevant to ensure that every English region achieves its economic potential.



## Chapter 1

# UK competitiveness – old labour market institutions, new collaborative roles

Dr Christian Ketels, Principal Associate of the Institute for Strategy & Competitiveness at Harvard Business School and Co-author (with Professor Michael Porter) of *UK Competitiveness: Moving to the Next Stage* (May 2003)

## **UK competitiveness – old labour market institutions, new collaborative roles**

### **UK competitiveness: moving to the next stage**

The United Kingdom's track record over the past few decades makes it one of the clear European success stories in upgrading economic competitiveness. While this success was at least in part the corollary of the dismal initial situation of the late 1970s, it is still no small achievement, as our report *UK Competitiveness: Moving to the Next Stage*<sup>4</sup> pointed out. At the heart of the UK's performance was a clear focus on policies to open markets and increase flexibility throughout the economy, making the country a very efficient place to do business and serve European markets, especially relative to its continental European partners.

Despite clear improvements in the UK's general economic performance, and in productivity growth in particular, the 2003 report for the Department of Trade & Industry identifies a clear need to act. While the progress of the UK has been impressive, it still has not been sufficient to fully close the productivity gap separating it from its main continental European peers France and Germany. In addition, the policies that have propelled the UK's economic performance in the past are running into diminishing returns.

We argued in our report that the UK needs to move from a business environment focused on efficiency to one that provides the breeding ground for innovation. To reach the next level of productivity and prosperity, more companies based in the UK will need to move beyond their proven ability to leverage existing assets efficiently and compete based on unique products and services.

Creating a business environment that provides companies with the right conditions to make such a transition to innovation-based competitive advantage is thus a key priority for public policy. This assessment finds much support in the UK, especially in the present administration. But translating it into practical policy has proven more complicated than expected. Policy priorities need to be reviewed and paradigms that were essential for success in the efficiency-based stage are getting into conflict with new policy needs. Low taxes, for example, are still an advantage but have to be weighed against the benefits from investment in skills and infrastructure.

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4 Porter, M and Ketels, C *UK Competitiveness: Moving to the Next Stage*, DTI economics paper no. 3 (2003)

No less critical, but maybe even more challenging than changing course in terms of specific economic policies is the need to change the nature of public-private co-operation. In the efficiency-oriented stage of economic policy, the public sector was able to act unilaterally and on the national level: it was clear that removing barriers to competition and opening markets were the critical policy priorities and that central government had to drive these policies. In the innovation-oriented stage, this model no longer works; identifying the specific barriers that need to be removed in order to unleash more innovation is a complicated task involving many interrelated but individually "small" decisions throughout the economy.

Successful policies now require tight co-operation by a multitude of government agencies, private companies, and other organisations in designing and executing policies. And they require devolving authority and decision-making power within government from the central to the regional and local level.

The mixed recent economic data from the UK has been an unwelcome reminder of how hard these changes are. There is a sense that the government has been more focused on changing policies than on changing the nature of public-private co-operation. Where public-private co-operation has been in focus, it included more groups in the policy discussion but left decision making and execution management in government hands. This has made more resources available for important policy areas, but without a change in the policy process there is a question mark on whether these funds will or even can have the desired impact.

There is a serious threat that the UK might be losing the advantages of its efficiency-based model of competitiveness to higher taxes and more regulation, while not achieving the benefits of an effective, innovation-oriented business environment. But the efficiency-based model of the past decades is alone also not an entirely attractive option; this model has been reaching its limits in terms of further increasing UK prosperity.

Instead, the UK has a real opportunity to combine the investments made in areas critical for an innovation-driven economy with an investment in the institutions and the policy process to enable a more effective use of these resources.

### **Collaboration and competitiveness**

The UK needs to fundamentally change the nature of collaboration between public- and private-sector institutions to make the transition to the new stage of competitiveness.

As long as lowering taxes, liberalising the labour market, or opening goods and services markets for competition were policy priorities, collaboration was not a critical concern. All these policies could be implemented based on decisions taken in the national parliament. With the focus now shifting to microeconomic reforms to improve innovative capacity, a much higher level of collaboration becomes essential:

- The *identification* of competitiveness problems requires a combination of the dispersed knowledge on barriers to productivity and innovation in the microeconomic business environment. This knowledge is spread across many different institutions and individuals in the public and the private sector.
- The *decision-making* process needs to involve a broad group of institutions, both public and private, to be firmly rooted in an overall consensus. Only then can it affect the decisions by individual companies that are not formally required to comply with its recommendations.
- The *execution* of the action recommendation this process has arrived at again requires the active participation of many different parties – for example, to bring about changes in company practices, reform educational programmes and redirect infrastructure investments – to achieve the full effect of mutually reinforcing changes.

The UK is not the only advanced economy that needs to develop new institutions for collaboration<sup>5</sup> to meet the demands of achieving higher competitiveness in the modern economy; such institutions have emerged in many countries and regions around the world. Some are organised around geographies, like regional and national competitiveness councils.<sup>6</sup> Others are organised around specific clusters in a geographic area, like the many cluster initiatives that have been developed.<sup>7</sup>

While these institutions all share the common objective of increasing competitiveness, their specific activities take very different shapes, depending on the needs in a given location or cluster. Some concentrate on increasing interaction in a region, and thus positive spillovers, through networking and other related activities, even leading to joint export missions. Others focus on joint efforts to improve company sophistication – for example through courses to spread operational best practice – or on upgrading the

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5 The term "institutions for collaboration" has been introduced by Michael Porter. See Porter, ME and Emmons, W *Institutions for Collaboration: Overview*, Harvard Business School case 9-703-436 (2003).

6 Herzberg, B and Wright, A *Competitiveness Partnerships*, World Bank working paper WPS 3683 (2005) (see [www.publicprivatedialogue.org](http://www.publicprivatedialogue.org)).

7 Lindqvist, G, Sölvell, Ö and Ketels, C *The Cluster Initiative Greenbook* (Ivory Tower, 2003) (free download at [www.cluster-research.org](http://www.cluster-research.org)).

business environment, for example through a better dialogue with government agencies on infrastructure spending priorities or regulatory policies.

An illustrative European example is the effort launched by private-sector leaders in the Leipzig/Halle region of eastern Germany.<sup>8</sup> *Regionenmarketing Mitteldeutschland* was created on the initiative of Bart Groot, the chief executive of Dow Chemical's operations in the region – the second largest concentration of chemical industry activities in Germany – who was soon joined by the head of the BMW plant outside Leipzig to push for upgrading the region's competitiveness.

They agreed that for their companies' investments in the region to be sustainable in the long term, the region needed to prosper more broadly. Leaving this task to politicians and the public sector alone was not going to work, and the existing organisations representing the private sector – chambers of commerce and trade associations – were also struggling with their role in this process.

While the initiative first focused on marketing the region, it soon became clear that upgrading was necessary within the region. A number of cluster and cross-cluster efforts were launched, all under private-sector leadership but increasingly also with public-sector involvement.

While there are many examples of private initiative like this in the United States,<sup>9</sup> the traditional roles of the government and the private sector in Europe have made such private-sector-led efforts less commonplace.<sup>10</sup> Governments tend to play a larger role, initiating and financing cluster initiatives from Sweden (*Vinnväxt*) to France (*pôles de compétitivité*) to name just two. While the empirical analysis suggests that limited financial support by the government can be useful in launching such initiatives, the crucial challenge is to get the private sector engaged in running these efforts as "their" initiatives and to avoid dependency on public funds over time.

In the UK, the creation of the regional development agencies is the most important initiative to provide the public sector with an effective tool to engage in regional competitiveness efforts with companies, universities and other partners. Strengthening

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<sup>8</sup> Fear, J and Ketels, C *Cluster Mobilization in Mitteldeutschland*, Harvard Business School case (forthcoming 2006).

<sup>9</sup> See, for example, Porter, M *Clusters of Innovation* (Council on Competitiveness/Monitor, 2001) ([www.compete.org](http://www.compete.org))

<sup>10</sup> *Regional Clusters in Europe: Observatory of SMEs, No 3* (European Commission, 2002); Ketels, C "European Clusters" in *Structural Change in Europe 3 – Innovative City & Business Regions* (Hagbarth Publications, 2004).

the ability to mobilise such regional efforts is particularly important in the UK, which remains one of the OECD countries with the highest levels of economic inequality across regions.<sup>11</sup>

The experience of the regional development agencies indicates that creating a new institution is a start, but is not sufficient by itself. It takes time to convince local business leaders that it is more effective to turn to the regional development agency than to an MP or government minister to discuss and solve a particular problem. These differences in local decision-making patterns have also added complexity to the task of applying inner-city competitiveness strategies from the US in the UK, in city growth strategies.

A more fundamental change in the attitude of all participants is required, something that in the literature appears as the culture or the level of trust in a region.<sup>12</sup> A culture of regional collaboration does not emerge just because a new institution has been created. It requires a transformation of the overall decision-making context that establishes the roles of the new institution. It also requires the strong leadership of key individuals to symbolise the institution's relevance and impact. And finally it requires the willingness of the central government to allow these new institutions to take independent decisions.

This is easy enough in theory, but quickly runs into trouble in practice when a government is held responsible by its voters for decisions taken by a new institution – a situation likely to occur in the UK with its long history of a dominating central government.

### **Labour market partners and UK competitiveness**

The new, more collaborative approach to economic policy has created some new institutions, but it clearly also challenges labour market partners to review their roles. So far, UK companies with a higher union presence tend to register lower productivity,<sup>13</sup> often driven by lower investment rates. The statistically measured impact of unions in the UK is more negative than in peer countries, although the gap seems to be shrinking. The statistical correlation does not reveal whether low competitiveness in companies with higher levels of unionisation are the result of union behaviour, or whether unions are only more concentrated in industries that suffer from low competitiveness. But it is clear that a significant challenge exists for labour market partners to review opportunities for

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11 "Britain's Economic Divide Deepens" in *Financial Times* (20 March 2006).

12 See, for example, Saxenian, *A Regional Advantage: Culture & Competition in Silicon Valley & Route 128* (Harvard University Press, 1994).

13 Metcalf, D *Unions & Productivity, Financial Performance & Investment: International Evidence*, Center for Economic Performance DP 0539 (2002).

adopting a more competitiveness-oriented approach:

- Should union behaviour in labour contract negotiations change?
- Are there new activities that labour market partners should get involved in?
- Should they get engaged in emerging institutions of collaboration?

First, taking a competitiveness orientation affects the negotiation of labour market contracts, the traditional role of labour unions and employee organisations. Unions and employers need to review the productivity impact of their wage as well as their work rule demands. Higher wages affect company profitability and might curtail companies' ability to invest; they might, however, also induce companies to more actively pursue productivity improvements ("productivity whip").

More restrictive work rules have a direct effect on labour costs, much like wage increases. But they also limit a company's ability to organise itself for maximum productivity, increasing competitiveness cost. An interesting example is the case of Volkswagen's negotiations with Spanish unions at its SEAT plants:<sup>14</sup> Volkswagen executives clearly stated that their key concern was the flexibility of work practices to increase the overall productivity of labour *and* invested capital, not so much the direct labour cost per se, which in Spain was anyway going to be higher than in Eastern Europe. Adopting a competitiveness perspective should encourage labour market partners to agree on a more productivity-oriented trade-off between work arrangements and wages.

Second, the competitiveness orientation also defines new roles for unions and employee organisations. Labour market partners can contribute most to upgrading competitiveness where they possess specific knowledge or have specific capabilities to implement competitiveness action agendas. Three topics in particular are candidates to pass this test: the identification of workforce skill needs to guide education policy, the design and implementation of training programmes for workforce skills upgrading, and the identification and sharing of work practices that improve productivity across companies.

- *Workforce skills*: unions and employee organisations have hands-on insights into the types of skills that employees entering the workforce will need to have in order to be attractive to employers. This information is crucial for designing an education strategy that meets actual skill demand. In the UK, some analysts have argued that the present

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<sup>14</sup> Subira, A and Ballarin, E *Unions & the Automotive Cluster in Catalonia*, IESE University of Navarra case 2-304-066 (2005).

skill strategy focuses too much on higher education, missing out on the demand that exists for low-level and medium-level skills.<sup>15</sup>

- *Workforce training*: unions and employer organisations have the capability to provide a platform for working with educational institutions to offer workforce training programmes. The involvement of labour market partners can ensure that the content of these programmes is aligned to real needs in companies. This can increase the effectiveness of workforce training programmes, both for existing employees and for the unemployed looking to improve their attractiveness to employers.
- *Work practices*: unions and employee organisations have widespread experience with different approaches to work practices applied across the economy. They can have a role in identifying practices that improve productivity and enable higher rates of innovation. Sharing these practices across companies can enhance competitiveness throughout the economy and create incentives to invest in the new skills and assets that take full advantage of more flexible work practices.<sup>16</sup>

Third, shifting towards a competitiveness orientation finally defines new roles for labour market partners in the new institutions for collaboration emerging in many regions and clusters. Competitiveness or cluster initiatives provide a forum in which unions and employee organisations can contribute to make better decisions on action agendas for competitiveness agendas.

This is particularly the case where the workforce skill or work practices issues discussed above are likely to be central to a region's or cluster's future competitiveness. It is also the case if a change in labour market agreements is fundamental for the economic future of a region or cluster, and improvements in productivity would simply take too long to change its economic trajectory on their own.

Labour market partners can be an effective element in these efforts, if they see them as instruments to upgrade competitiveness, not just as an additional negotiating table at which to pursue their old roles. The danger of existing institutions such as unions and employer organisations falling into their traditional paradigms<sup>17</sup> is one of the reasons cluster initiatives and the like have emerged to change the nature of the debate.

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<sup>15</sup> Keep, M *The Economic & Distributional Implications of Current Policies on Higher Education* (Oxford Review of Economic Policy, 2004).

<sup>16</sup> *Cracking the Performance Code: Findings of the Work & Enterprise Panel* (Work Foundation, 2005).

<sup>17</sup> For an example of the traditional paradigm dominating behaviour, see the discussion about the members of a new expert group on competitiveness and sustainability organised by the European Commission: <http://www.euractiv.com/Article?tmuri=tcm:29-152937-16&type=News> (accessed 3 April 2006).

Living up to the demands of the new competitiveness orientation in these three areas is not a trivial task. In their traditional roles, labour market partners negotiated on behalf of their members in a zero-sum fashion. In their new roles, they have to find ways to increase the overall value created in working together, moving to a positive sum mindset. While competing and co-operating at the same time, clearly, is a challenge, others have learned to live with it; many companies face this ambivalence in joint ventures or cluster initiatives that put them alongside their competitors.

### **Prerequisites for successful collaboration**

What are the odds that the unions and employee organisations in the UK will be able to adopt these roles in their established as well as in new arenas? First, both will need to make sure that they have the *relevant skills and knowledge* to deliver on the new tasks defined. This is much easier to do when their organisations are well represented across the country and have the financial resources to sustain an organisation that can collect relevant information and take an active role in any of the outlined activities. It will also depend on their ability to adjust the respective roles of firm-level, regional, and central organisations, with a relative increase in the importance of the local organisation.

Second, both have individually to want to adopt a competitiveness orientation; that is, they need to take a decision whether or not competitiveness upgrading as a key objective is individually in their best *institutional interest*. The answer to this question depends on the ability of their organisations to capture the positive externalities that positive-sum co-operation has to upgrade competitiveness. The higher the level of penetration the unions and the employer organisations have in the economy, the more they are going to benefit from contributing to the common good of higher competitiveness. The smaller or the more fragmented they are, the higher will be the temptation instead to reap benefits from zero-sum behaviour.

Third, unions and employer organisations will need to want to *engage with each other*. The divide between the labour unions and employer organisations has traditionally been much deeper in the UK than in Germany or the Nordic countries. Unions were arguably one of the key casualties of the last stage in UK competitiveness development since the early 1980s, not the least because they had previously been a major barrier to competitiveness.

Over the past few years, however, there are increasingly signs that the atmosphere between labour market partners has changed and there is much more concern about the

joint impact on productivity: the Trades Union Congress and the Confederation for British Industry have even worked together to formulate a joint position on competitiveness.<sup>18</sup>

Fourth, the overall economic climate matters. Higher growth rates tend to increase companies' willingness to make investments, including those they can make together with their employees in upgrading competitiveness. Lower growth rates instead put the focus on short-term cost control. Employers in the UK have increased their complaints about increasing taxes and regulatory burdens as growth rates have come down. Union members are at the same time more concerned about wages and job security, and want to see these views expressed by their unions.

Given these factors, what is the role that UK labour market partners and the trade unions in particular can be expected to play? More specifically, what is their importance going to be, where are they going to play a role, and what are they going to focus on?

Realistically, the labour market partners are not strong enough to be the central pillar of the institutional structures that the UK needs to make the transition to the new stage of competitiveness. Setting such a role as the objective would only create expectations that cannot be met. Labour market partners might, however, be engaged in other institutions, including the regional development agencies where they are already on the boards, but also many other types of networks and initiatives for competitiveness.

Their role in these efforts, however, will most likely be focused on specific issues related to their areas of expertise, not to initiating or managing an overall competitiveness effort. Trade unions in particular can play a more central role in regions and clusters where they remain strongly represented. There will be many cases where this will put the unions in the important but challenging position to help manage structural change in locations facing severe economic challenges. In these situations effective change will not occur unless trade unions will be part of the process from the beginning.

The topic that is most likely to dominate labour market partners' involvement in the competitiveness debate are productivity-oriented labour market agreements, especially flexible work practices. The participation in the design and implementation of the UK skills strategy could be another priority. Sharing best practices in work and organisational practices is another potential topic, but also one that in the UK context is not unproblematic.

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18 See the policy paper resulting from a joint CBI/TUC working group: *The UK Productivity Challenge* (CBI/TUC, 2001).

The country has seen a debate on the role of management in competitiveness that had a tendency to make management the culprit for low performance, instead of identifying low-performance management practices as a result of business environment conditions, a position we took in the 2003 Department of Trade & Industry report. This debate created the impression that government (and trade unions) thought they knew better how to manage companies: not the best basis for productive collaboration with employers and company management.

The UK has over the past few decades been able to significantly improve its competitiveness by opening markets and reducing the power of institutions, including trade unions, which had become barriers to productivity upgrading. As the country is now entering a new stage of its economic development, new institutions for collaboration will need to replace the remnants of the old institutions. The ability to collaborate, whether with the participation of traditional labour market institutions or through other channels, will be among the key factors to distinguish the most competitive regions in the world economy.



## Chapter 2

# Productivity and the industrial relations framework

Brendan Barber, General Secretary of the Trades Union Congress

## Productivity and the industrial relations framework

Improving productivity is vital if the UK is to continue to enjoy its strong economic performance of recent years. The Treasury's framework for improving productivity includes encouraging innovation, raising skill levels, and the development of an enterprise culture. These are clearly all important factors affecting productivity. But there should also be a focus on two further factors:

- First, we need to understand the barriers to raising the productivity of the UK economy, with labour market inequalities coming near the top of any list of such obstacles.
- Second, we must recognise the importance of workplace relationships in boosting productivity, and in particular the contribution that a constructive relationship between employers and trade unions can play. All the evidence shows that positive industrial relations are good for productivity. This is because workers whose esteem is high – who are challenged, respected, supported and fairly treated – are more productive than those who are taken for granted, exploited or given little development.

### Enterprise

The Treasury has identified enterprise as an important element of the productivity challenge. This is often seen as the preserve of managers and those who own businesses – a group of heroic individuals who are imbued with a mysterious entrepreneurial spirit.

But while we are right to celebrate those risk-taking individuals who succeed against the odds, the real need is for organisations and firms to show enterprise. Trade unions are natural supporters of greater enterprise. Key to increasing productivity is an understanding of the human element involved. Businesses are not simply machines; they depend on the efforts of the people they employ.

Enterprise is not only about the role of employers, but also about giving employees the confidence to take initiatives and risks within a company-wide enterprise culture. This is key to building adaptable organisations in which staff can and will undertake new processes, and where they have a sense of involvement and ownership in change.

### Innovation

Innovation is not just about new technology, but also about creative working practices. The employee input into these processes can help to make working practices more effective. While some companies are very keen to engage with ideas from their employees,

others seem pathologically opposed to this approach, seeing it as interference with their right to manage. This is a serious barrier to improving our productivity.

### **Skills**

Skill levels account for between 10% and 20% of the UK's productivity gap with France and Germany (measured in gross domestic product per hour). The overall effect of training as a stimulus for productivity is estimated to be twice as high as the wage effect.<sup>19</sup> Yet employer demand for skills remains relatively weak. Although around one in six employers report that they have skills gaps, two-thirds of all employers say they did not train any of their staff last year and 1.3 million workers still lack the skills they need to do their jobs properly.<sup>20</sup> The proportion of employers reporting skills gaps also varies considerably between regions, with the latest data showing gaps of from 14% in London to 24% in the Midlands.<sup>21</sup>

### **Inequality**

On average, women workers tend to have fewer formal qualifications than men, especially women aged 40 and over. There is also evidence that the skill level of women working part-time has not increased as much as that of male and female full-time workers.<sup>22</sup> However, there are clear constraints on the ability of part-time workers to improve their skills. Two-thirds of women working part-time and those not working at all would consider undergoing additional training, but financial constraints are the biggest barrier to such training.

The UK has one of the most highly gender-segregated labour markets in the European Union. One of the characteristics of the UK economy is that occupations are divided into those that are deemed to be only suitable for full-time workers, and those that are better done by part-time workers. As a consequence, in a society where women continue to hold the majority of caring responsibilities, the UK has one of the highest rates of women's part-time employment in the EU.

There is also a large inequality in the distribution of training opportunities: managers get three times as many training days as non-managers. And particular groups of workers are

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19 Deardon, L, Reed, H and Van Reenan, J *The Impact of Training on Productivity & Wages* (LSE Centre for Economic Performance, 2000).

20 *National Employers Skills Survey 2005* (Learning & Skills Council, 2006).

21 *National Employers Skills Survey 2004* (Learning & Skills Council, 2005).

22 Walby, S and Olsen, W *The Impact of Women's Position in the Labour Market on Pay & Implications for UK Productivity* (DTI Women & Equality Unit, December 2002).

also less likely to be offered training – older staff, part-time workers, and certain black and minority ethnic groups.<sup>23</sup>

In its general formal investigation into gender segregation among apprenticeships, the Equal Opportunities Commission identified occupational segregation as a major cause of the gap between female and male earnings, as women tend to be concentrated in sectors that pay less than those that predominantly employ men.<sup>24</sup> For example, average earnings in the male-dominated sectors of construction, plumbing and engineering were significantly higher than in the female-dominated childcare sector. Women are, therefore, concentrated in work that is low-paid and often only available on a part-time basis.

The wide disparities in the educational achievement of the UK adult population compare badly with that of our competitors. Despite the fact that a relatively high proportion of adults have high-level qualifications, there is a very large group with few or no qualifications – a polarity that can only damage our long-term prospects.

### **Trade unions and productivity**

There are few modern companies that do not pay at least lip service to the concept of employee involvement, and no annual report's quota of clichés is complete without "our staff are our greatest asset".

But despite the rhetoric, this is not always the practice. In particular many managers see little benefit in giving staff a collective voice, through the workplace representatives that trade union organisations provide. Indeed, the human resources jargon is clear. Direct participation – one-to-one communication between staff and manager – is obviously meant to be superior to indirect participation through a collective voice and elected reps.

But the reality is that these complement each other, and are not alternatives. Getting both right is the key to building a high-performance workplace.

Evidence from the United States shows that attempts to improve productivity through workforce involvement are far more effective in unionised businesses. Black and Lynch analysed data from the educational quality of the workforce national employer survey and found that "employee voice" arrangements had a larger positive effect in unionised

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<sup>23</sup> *The Learning Curve* (TUC, January 2006).

<sup>24</sup> *Plugging Britain's Skills Gap: Challenging Gender Segregation in Training & Work – Report of Phase One of the EOC's Investigation into Gender Segregation & Modern Apprenticeships* (Equal Opportunities Commission, 2004).

establishments.<sup>25</sup>

In the UK, the presence of a recognised trade union is also positively associated with policies that contribute to high workplace performance, according to recent evidence from *Managing to Change?*, which confirms the positive productivity gains available.<sup>26</sup>

Data drawn from the 1998 workplace employment relations survey shows that 95% of managers in workplaces with a recognised union and engaged in a partnership-style relationship believe they have achieved an above average increase in productivity over the past five years.<sup>27</sup>

### **Building an enterprise culture**

Improving productivity depends to a great extent on the degree to which workers are able to undertake new processes. For a company to be more enterprising, its employees need to have a sense of ownership of new practices and procedures.

A good example is the Johns Mansville plant in St Helens, Merseyside. It employs 50 manual and white-collar staff, and is a leading manufacturer of energy-efficient building insulation and roofing insulation products, and of fire-retardant wall coverings.<sup>28</sup> To help secure the long-term future of the site, the company decided to develop a more highly trained workforce in partnership with the recognised union, the Transport & General Workers Union. The results were both an increase in output, and also a decrease in the "rejection rate" of finished products to around 5%. This compares with a 30% rejection rate in the company's Swedish plant.

### **Partnerships at a regional level**

Engaging employers and unions at a regional level can help boost productivity. This goal was behind the South East of England Development Agency's decision to establish a social dialogue forum. The forum brings together representatives from SEEDA, employers, unions from the private and public sectors, and the Advisory, Conciliation & Arbitration Service (ACAS) in the South East. Its aim is to improve the region's economic performance through building social dialogue.

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25 Black, S and Lynch, L "What's Driving the New Economy: The Benefits of Workplace Innovation", National Bureau of Economic Research working paper 7479 (2000).

26 "Management Versus Regulation?" in White, M et al (eds) *Managing to Change? British Workplaces & the Future of Work* (Palgrave Macmillan, 2004), part of the Economic & Social Research Council's Future of Work programme.

27 Metcalf, D "Unions and Productivity, Financial Performance and Investment: International Evidence" in *International Handbook of Trade Unions* (Edward Elgar, 2003).

28 TUC evidence to the Treasury select committee inquiry into regional productivity (November 2004).

The social dialogue forum has promoted good practice in areas such as long-term absence and drug and alcohol abuse in the workplace, and has piloted an innovative employee resource initiative on “workforce pooling” centred on the Cowes Marine Cluster.<sup>29</sup> This includes 50 member companies, mainly involved in boat building, component supply, or providing professional services.

The industry suffers from cyclical workloads that have an impact on staff retention and skill development. In 2004, the SEEDA social dialogue forum funded a feasibility study to assess existing experience of workforce pooling, the practical and contractual issues involved, and the costs and benefits to participating employers. This led to an operational pilot to demonstrate how workforce pooling arrangements could allow companies to collaborate on common projects, which they would be unable to complete on their own.

### **Encouraging innovation**

Another of the building blocks identified by the Treasury as a driver of productivity is innovation. Although innovation demands increased research and development, innovation policy should also stress the importance of innovative working practices. High-performance models, including the partnership approach to working, can make the best use of the experience and ideas of workers not routinely involved in company decision making, but who will encounter operational difficulties when putting new ideas into practice.

For example, at drinks and beverages multinational Diageo, annual organisational reviews are underpinned by a strong partnership agenda involving three recognised unions. The partnership agreement with the GMB, Amicus and the Transport & General Workers Union has been in operation for more than a decade.<sup>30</sup> According to Diageo, the positive aspects of involvement include support for change programmes, better awareness and involvement of the workforce and the creation of an environment strongly focused on behaviours. Unions are informed up to a year in advance of key proposals and there is more frequent contact between the workforce and business leaders.

### **Raising skill levels**

Too many UK firms are locked in a low skills equilibrium. They produce low-specification goods or services that can only support a low-price, low-wage business strategy. This is a major barrier to building high-performance workplaces in the UK.

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<sup>29</sup> *Workforce Pooling: Report on the Feasibility of, & Best Practice in Workforce Pooling in the Marine Industries* (South East England Development Agency, 2004).

<sup>30</sup> TUC evidence to the Treasury select committee inquiry into regional productivity (November 2004).

The UK's highly segregated labour market exacerbates skills shortages in key sectors such as construction, engineering and childcare. Occupational segregation ensures that women's skills are often poorly matched to the work they do, and it discourages women from either working at all, or at least working to their full potential. For many regions, local skills deficits are found in the five sectors highlighted by the Equal Opportunities Commission, and regional strategies to tackle occupational segregation are an important part of the way forward.

Research by influential academics such as Professor Ewart Keep highlights how poor skills usually go with other organisational problems, and that strategies to tackle the former cannot be undertaken in isolation from the latter. In a recent publication Professor Keep says that too many firms in the UK "are often unable to break free from this equilibrium [and that] demand for skill is therefore limited" by this.<sup>31</sup> He says: "If raising demand for skill is a policy goal, policy needs to find ways to encourage more employers to raise their game in terms of their product market strategies."

Many firms have poor workplace organisation and an employee voice is either non-existent or very weak. Union recognition will be a positive catalyst for change in such workplaces. It will make management raise their game. Unionisation increases women's access to training, mirroring the way unionised workplaces have done more to close the gender gap on pay than the national minimum wage.

The evidence shows that unions have a major impact upon training. Union members receive more training than non-members. According to figures from the labour force survey, during a sample three-month period, 39% of unionised workers had done some training, compared with just a quarter of non-members.<sup>32</sup>

Partnership between unions and employers can improve the skills base of the workforce, which in turn has a powerful effect upon productivity. Workers get more training when there is formal negotiation, not just consultation. In workplaces where training is negotiated, almost 40% organise an average of five or more training days a year, compared with less than a quarter of workplaces where training is only subject to consultation.<sup>33</sup>

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31 *Market Failure in Skills* (Sector Skills Development Agency, 2006).

32 *The Learning Curve* (Trades Union Congress, January 2006).

33 *Ibid.*

### **Union learning representatives**

An important development in recent years has been the creation of union learning reps – specially trained union members who help their colleagues take up training. They provide support for individuals and give them the confidence to take part in learning at work. They will encourage learners to complete courses and progress to others.

Union learning reps have encouraged thousands of workers who had not previously done any training to take their first steps back into formal learning. They are able to negotiate with providers to persuade them to develop programmes that meet the needs of those in the workplace, including delivery at times and venues to make training much more accessible to workers, especially those working unsocial hours or rolling shifts.

The network of learning reps has now grown to 12,000 and over the past year they have helped nearly 70,000 employees take up new learning opportunities in the workplace. Our target is to have 22,000 learning reps by 2010, helping a quarter of a million people a year to take up new learning opportunities in the workplace.

### **Boosting skills through union learning**

In the wake of lifelong learning agreements between management and unions, new training opportunities are being extended to workers across the UK. At the Siemens gas turbine factory in Lincoln, a recent agreement between the company and site unions Amicus and the GMB has created the framework for a learning culture in the workplace.

It aims to build a partnership and learning agenda across the company, encouraging employees to participate in learning and skills development. This will transform the workplace into a virtual learning centre, identifying and supporting employees who need help with literacy and numeracy (in line with the government's Skills for Life programme, the national strategy for improving adult literacy and numeracy) and promoting equal opportunities when trying to enhance skill levels. The agreement is being taken forward through a joint union/employer learning partnership committee, which meets once a month to introduce, implement and monitor learning initiatives on site.

At the VT shipyard in Portsmouth, hundreds of workers have been taking Skills for Life courses and learning about computers since management and unions signed a learning agreement in 2002. The deal emerged as part of a union learning fund project at the shipyard, launched a few months earlier. The agreement established a learning partnership steering committee, comprising representatives from management, unions

and providers, to oversee training at the site.

To help spread the positive benefits of the union impact upon training, the TUC has launched unionlearn, an initiative that will offer guidance on training for employers and employees, with courses ranging from essential skills such as literacy and numeracy through to university degrees. Unionlearn will also provide and co-ordinate training for union reps and officers. It will serve as a think tank and a skills research centre.

### **Creating a framework**

All these examples show that positive engagement between employers and trade unions benefits performance and productivity. This is the case at workplace level, at sectoral level and at regional level. But it is always important to get the framework right.

A good example is the National Skills Alliance. This was established in 2003 and is led by the Social & Economic Partnership, incorporating the TUC, the CBI and key government departments. Trade unions are also involved in learning and skills bodies at the local, regional and sectoral level, such as local learning and skills councils, regional skills partnerships and sector skills councils. This gives both employees and employers a voice.

The TUC welcomes these arrangements, and although we have sometimes felt that the discussions are skewed to the needs of the supply side or employers, they do demonstrate that a framework that involves the trade union movement is important to raising skill levels. A framework that involves trade unions can have a powerful effect on productivity, at both workplace and regional level.

### **Next steps**

Partnership between employers and trade unions can help to achieve major improvements in productivity. The evidence at workplace level bears this out. This is why the TUC and its affiliated unions have given such comprehensive support to union learning strategies. However, at regional level a dialogue between employers and trade unions, working with regional development agencies, also brings about benefits.

But there are big variations in arrangements for union-employer engagement between regions. In some regions dialogue is highly structured, while in others arrangements are far more informal. Social dialogue can help regions to:

- develop more of a demand-led approach to learning provision;

- tackle inequalities in the labour market; and
- encourage greater innovation and involve workers in developing an enterprising culture.

In order for this to work, though, there must be a positive acknowledgement that social dialogue at a regional level can boost productivity. We need to share good practice in different regions, but we also need to provide a clear framework for social dialogue in each region.

## Chapter 3

# The global picture

Sir Digby Jones, Director-General of the Confederation  
of British Industry

## The global picture

How can British companies respond to the challenges and opportunities presented by globalisation? The UK cannot match the low labour costs of India and China. So can we remain ahead of the game in the face of changes in technology, trade and consumer demand?

The UK already has a well-developed enterprise culture – it only takes four days to set up a new company – and the UK's private equity and venture capital industry is by far the biggest player in the European market,<sup>34</sup> second in the world only to that of America. We need to build upon this British success story and cultivate the capacity to realise new commercial opportunities.

Global competitiveness also requires a real drive to raise productivity levels, and this will depend in large part on achieving a stronger skills base. The UK needs skilled and adaptable workers who are able to respond to shifts in demand and to take on new roles and responsibilities; government, employers and employees share a responsibility for rising to this challenge, and we must all play our part.

Globalisation means that jobs will come, jobs will go – nothing remains the same forever. The challenge is to create more jobs than we lose – which we are doing – and to ensure that people have the skills to take advantage of these job opportunities, which remains a problem. A flexible labour market is fundamental to global competitiveness: we in the UK have redrawn considerable strength from our flexible labour market, and must be careful not to undermine this strength.

But too few in Europe recognise the need for labour market reform. The European Union now has a solid base of minimum employment rights; we do not seek to dilute them, but further ratcheting up threatens, rather than safeguards, jobs. Threats to labour market flexibility, in the form of European proposals to restrict the use of agency workers and to end the right of UK workers to opt out of limits on working time, show an adherence to old models.

The CBI wants to see further progress towards the Lisbon goal, shared by all EU member states, of making Europe “the most competitive and dynamic knowledge-based economy in the world”<sup>35</sup> A flexible labour market is a prerequisite for the achievement of this aim.

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34 The UK represents 52% of the European venture capital market.

35 *The Lisbon Strategy* (European Commission, 2005).

For the UK, perhaps our biggest challenge is ensuring we have the skilled workforce necessary to achieve this goal.

### **Global competition as opportunity not threat**

The growing importance of trade is one indication of increasing global integration. At a world level, the value of trade in goods as a proportion of money GDP has increased from just 5.5% in 1950 to 18.8% in 2000. Offshoring has become a feature of the global economic landscape. While the UK experience of offshoring is still predominantly manufacturing, it plays an increasing role in service provision – and this trend will continue. A CBI poll revealed that nearly 90% of firms were satisfied by their offshoring experience and there will be fewer and fewer activities that are "unoffshoreable".

But it is short-sighted simply to see all this as a bad thing. Offshoring means UK jobs will be of higher quality: more skilled and in many cases more secure. We live and work in an increasingly globalised economy and should draw inspiration from the old Chinese proverb: what you cannot avoid, welcome.

China and India's economies are in a period of rapid expansion. Twenty years ago, just 10% of manufactured goods came from developing and emerging countries. By 2020, China and India's share alone could be 50%. China consumes around half of the world's cement, and a quarter of its steel. India's IT sector is growing at a rate of 26% a year and is the first-choice location for business outsourcing. But there is concern that high-skilled jobs are at risk, as China and India move up the value chain to higher-tech goods, for example mobile phones or personal computer equipment.

This is an opportunity, not a threat. China is home to one in five of the world's people and its GDP already accounts for 13% of world output (at purchasing power parity), second only to America's. China will give a huge boost to global demand and supply. A vast market in consumer goods will be opened. By 2020, if Chinese real incomes grow by 8% a year – and income distribution continues in its present proportions – the income of the richest 100 million households will be equivalent to that of the current average of Western Europe. Most of the money China earns from exporting goods is now being spent on imports from the world's richer economies. There is an opportunity here for a greater specialisation in the manufacturing sector, producing high-quality and aspirational goods.

The challenge of globalisation is not just the "threat" from China and India. The UK's performance gap with the USA has not narrowed. We compare poorly with America when

looking at the number of patents issued or the proportion of the workforce with degree-level qualifications – the UK proportion is 25%, compared with 40% in the USA. An impressive 45% of the Japanese working population has a degree. In order to compete with this, the UK (and Europe) need to continue to invest in research and development and new technologies.

The UK will need to focus its resources and think intelligently and creatively in order to build on our strengths and tackle weaknesses. The UK is the beacon of an open market, and I do not want to live in a Britain – or an EU – where we ban overseas companies. Both the consumer and the taxpayer win if free competition provides more for less. In the UK we need competitive taxes, skilled labour and quality infrastructure to continue attracting and retaining the very best global companies – and this applies equally to the EU as a whole.

Nye Bevan famously said that unilateralism would mean sending him as foreign secretary “naked into the conference chamber”, and without co-operation in the EU, the member states will walk naked into the world of globalisation.

There is no alternative to EU economic reform. It will be painful and difficult in the short term, but we have to take the bull by the horns. We need all member states to focus on making Europe an attractive place to invest and work by completing the internal market, enforcing better regulation and reforming the labour market. We must harness the knowledge and innovation necessary for growth.

Many people – and many states – accept the rationale for reform, as long as somebody else bears the burden. And one of the problems is that governments have portrayed economic reform primarily as a belt-tightening exercise to improve competitiveness, rather than as a long-term strategy to improve economic growth. They now have the important job of highlighting the benefits in the long term of doing this now, before it really is too late.

What is needed is national ownership of the reform agenda in order to aid implementation. We must speed up the process of opening up key utility sectors and the market for services in Europe. The development of open, flexible and competitive tax system across the EU is central to meeting the global challenge.

National parliaments and stakeholders need to buy in to make the Lisbon goal a reality.

The challenges and opportunities of globalisation require concerted action from all member states from the strongest possible position. Governments that give in to strikes, weak politicians who don't "get it" when it comes to the real challenge of globalisation – raising the bar to please a domestic agenda – are signs of failure.

And we see too few signs that our EU neighbours are heeding the wake-up call. All too often, labour market insiders – those with secure jobs and high salaries – are protecting their interests at the expense of young, female and disadvantaged workers. Some have caricatured the position of the UK employers as a dive to the bottom. But the UK's economic future does not lie in an unwinnable competition with China and India to reduce wage costs. We must ensure that we in Europe, and in the UK, have a highly skilled, flexible and innovative UK labour force that produces the goods and services that offer value to customers across the world.

### **Labour market flexibility is key to global competitiveness**

I believe a flexible labour market is fundamental to global competitiveness. But while few would disagree with this proposition, it begs two key questions: what is labour market flexibility, and how is it achieved? Three elements are fundamental: numerical flexibility, flexible working patterns and skills.

### **Flexibility benefits firms, workers and the economy**

So-called "numerical flexibility" – the ability of employers to adjust the numbers of employees according to changing demand and competitive conditions – has played an important role in convincing firms to hire staff even in times of micro- or macroeconomic uncertainty. The challenge for successive governments has been to balance this flexibility against the security of employment protection legislation for workers, and UK employment rates suggest that the flexibility offered by the rules on qualification for unfair dismissal and redundancy pay are about right.<sup>36</sup>

The UK's overall employment rate of 71% means that it is one of only three member states (along with Denmark and the Netherlands) to be meeting the target of 70% employment set out in the Lisbon agenda of 2000.<sup>37</sup>

The aim of numerical flexibility is to create a labour market in which employers are

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<sup>36</sup> UK employees qualify for protection against unfair dismissal after 12 months of continuous employment and statutory redundancy pay after 24 months. All employees are protected by relevant anti-discrimination legislation.

<sup>37</sup> *Employment Statistics* (Eurostat, 2005).

willing to hire new staff, and where workers who do become unemployed find it relatively easy to find a new job. The recent moves in Germany to move towards a more flexible labour market demonstrate the growing realisation that greater flexibility is needed, both to take advantage of the opportunities that globalisation brings and to avoid further loss of jobs.

Crucially, a flexible labour market is one equally accessible to all workers, avoiding an insider/outsider model in which insiders – typically men working full-time on permanent contracts – enjoy very high levels of employment security, while those on the fringes – typically the young, older workers, women and ethnic minorities – find getting a job much more difficult.

### **Flexible working matches global demands on business**

Flexible working patterns suit UK employers and employees. The use of part-time work, temporary work, flexitime and other non-traditional patterns of work helps match supply and demand in a service-driven environment; that is important for firms working in a global, 24/7 market. For employees, flexibility helps meet their demand for better work-life balance. Nine out of 10 requests for flexible working by parents of young children under flexible working regulations are now agreed, fully or partially, by employers, and other flexible working arrangements such as reduced hours, flexitime and job sharing are increasingly offered to all employees.<sup>38</sup>

This flexibility is crucial to labour market success, but it is equally important to have a labour market characterised by high levels of movement between different types of employment. Recent research by the European Foundation for the Improvement of Living & Working Conditions shows that the UK leads the way when it comes to moving from part-time to full-time employment – and vice versa – for both skilled and unskilled workers. The UK also ranks third among EU countries in the provision of phased retirement for older workers (54% of employers).<sup>39</sup>

Providing these kinds of flexibility is really appreciated by women and older workers – those more likely to balance work with family or caring responsibilities. Flexible working patterns help keep these groups within the labour market, maximising the UK's skills base and contributing towards greater overall flexibility. The high incidence of flexible working

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38 *Inside the Workplace: First Findings from the 2004 Workplace Employment Relations Survey* (DTI, 2005).

39 *European Survey on Working Time & Work-Life Balance* (European Foundation for the Improvement of Living & Working Conditions, 2006).

patterns, and the trend for these to grow and diversify further, is a cause for real optimism.

### **Recruiting globally helps the UK compete globally**

A flexible labour market needs a mobile workforce – one made up of highly skilled individuals from the UK, Europe and beyond. The ability to recruit globally is vital if the UK is to maintain its competitive edge, and the CBI has been leading calls to modernise the way we allow migrant workers – and students – into the country.

In a previous essay for the Smith Institute, we noted that the global economy demanded a more liberal attitude towards immigration.<sup>40</sup> The imperative for change is becoming ever clearer, and the Home Office's recent publication of plans to introduce a new, streamlined, points-based immigration system is very welcome. Migrants, particularly highly skilled migrants, need to see the UK as an attractive option in the global labour market, just as employers need a system that will make it as easy as possible for them to recruit globally.

Migrant workers from the new EU member states have added to flexibility by allowing employers to remedy skills shortages in construction and hospitality. The CBI's most recent figures show a clear sectoral link between the recruitment of migrant workers and skills shortages – the types of firm most likely to recruit migrants were construction firms (50%) and those in the hospitality sector (33%).<sup>41</sup>

But CBI members want to recruit from the widest pool of talent available, whether this means expert software developers from India, or international transfers within a company to keep a multinational business working effectively. The economy benefits from this kind of activity – migrants in the UK generate 10% of GDP, despite accounting for only 8% of those in employment.<sup>42</sup>

### **High skills levels are key to future productivity and competitiveness**

Raising individual employability is an essential part of maintaining UK competitiveness in a global economy, and helps deliver prosperity for all. Employers share the government's vision that by 2010, young people and adults in the UK should have knowledge and skills matching the best in the world. We also know that raising skills is a shared responsibility: government, employers, and employees all need to play active roles.

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40 Anderson, S "Migration: A Business View" in Pilch, T (ed) *Perspectives on Migration* (Smith Institute, 2005).

41 *CBI Employment Trends Survey* (CBI, 2005).

42 Treasury parliamentary question May 2002, quoted in *A Points-Based System: Making Managed Migration Work for Britain* (Home Office, 2006).

The UK is home to many world-class firms whose knowledge and innovation make a vital contribution to the UK and world economies. This reputation has led to many multi-nationals making the UK their European base, as we are seen as the springboard for business into the rest of the EU – 375 of the world's top 500 global companies have offices here. This is not to mention the thousands of British firms that prosper on the global stage.

But we must not be complacent.

Recent research has estimated that on average, an 8% increase in the proportion of trained workers can lead to a 0.6% increase in UK productivity, as measured by the value added per hour worked.<sup>43</sup> And of course the corollary is also true: low skills levels have a detrimental effect on overall productivity and competitiveness.<sup>44</sup> In 2005, CBI's employment trends survey showed a third of employers reporting that skills shortages had a serious impact on business performance.<sup>45</sup>

The need to improve skills at all levels will become ever more pressing as employer demand for skills grows. By 2020, 42% of jobs will be at graduate level or above, compared with 30% today. Demand at the lower end of the labour market is also shifting, with service jobs – particularly in the hospitality and personal service sectors – likely to experience significant growth. These service-sector jobs, probably corresponding to level 2 or level 3 qualifications,<sup>46</sup> require different types of skills, placing greater emphasis on customer handling, team working and communication skills.

Of course employers accept that they should train people to do their jobs, and many go further, providing financial support or time off for employees to study.<sup>47</sup> But employers have real concerns about the skills levels of those entering the workforce: only 56% of 16-year-olds gain a C or above in GCSE maths, and only 60% achieve this level in English.

It is estimated that low basic skills levels cost the UK economy £10 billion a year. Seven million adults lack the literacy skills and 17 million the numeracy skills expected of an 11-year-old; almost half of these adults are in employment. And we lag behind key European

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43 Dearden, L, Reed, H and Van Reenen, J *The Impact of Training on Productivity & Wages: Evidence from British Panel Data* (Institute for Fiscal Studies, 2005).

44 Office for National Statistics *International Comparisons of Productivity* (February 2006); using productivity measured as GDP per worker.

45 *CBI Employment Trends Survey* (2004 and 2005).

46 Level 2 is equivalent to GCSE passes at grades A\*-C, and level 3 corresponds with A-levels.

47 98%, 87% and 73% respectively – *CBI Employment Trends Survey* (2005).

competitors. The proportion of adults with low basic skills is significantly higher in the UK (23%) than in France (17%) and Germany (12% with low literacy and 7% with low numeracy). And our sorry performance does not end at basic skills. The UK ranks 20th across the 30 member countries of the Organisation for Economic Co-operation & Development for its intermediate skills levels (equivalent to A-level). In Germany, for example, 74% of the workforce is qualified to this level, compared with just 37% in the UK.

We perform rather better on our graduate numbers, comparing well with France and Germany – although not so impressively with the USA, where 42% of the population have degrees. And while China and India have low participation rates in higher education, they produce large absolute numbers – together they produce 4 million graduates annually, compared with 250,000 in the UK.

In China, while in 1997 only 3.2 million students were in higher education (about 4% of the 18-22 age group), this had grown to 7 million by 2000 (about 10%) and the Chinese government's target was to reach a 15% participation rate by 2005.<sup>48</sup> Of greater concern perhaps, is the fact that a third of China's graduates receive engineering degrees, compared with only 8% in the UK.

But it is not just about qualifications: we need a workforce that is innovative and creative, with a "can do" attitude.

Qualifications are important – for employees and employers – but what firms want above all is employees with the right attitude, who can cope with uncertainty and move with the pace of technological and organisational change. UK firms recognise that effective people management is by far the most important factor influencing their present and future competitive advantage: a highly skilled workforce at all levels is acknowledged as the key to productivity.<sup>49</sup>

Development of new ideas and cultivation of fresh talent, be it in schools or the workplace, will enable the UK to tackle the forces of globalisation and technological change in the 21st century.

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<sup>48</sup> *Higher Education in China* (Observatory on Borderless Higher Education, 2003).

<sup>49</sup> *CBI Employment Trends Survey* (2005).

## Helping businesses to invest in people

The CBI is playing its part – we do not just talk. We collect and disseminate good practice examples designed to inspire and encourage others: guidelines on work organisation and raising skills that are based on real case studies of successful UK businesses. Our forthcoming Human Capital Awards will identify and celebrate UK companies at the forefront of people management, focusing on the link between specific human resources initiatives and corporate performance and productivity.

Our award illustrates this very key point: training is never an end in itself, it must be linked to a firm's business strategy. This is backed up by a recent survey in which almost half of respondents said that aligning capabilities with business goals was the way in which training and development had best added value to their organisation in the past two years.<sup>50</sup>

But I recognise that some firms – particularly small and medium-sized enterprises – need convincing of the business benefits of training. That is why I am so proud that CBI lobbying helped convince the government to introduce the Small Firms Initiative. This successful initiative, launched in 2002, offered over a thousand pounds' worth of business support, helping some 20,000 organisations to access the Investors in People standard.

Just under two-thirds of the firms said they would not have got involved in Investors in People without the support offered by the initiative, and a further third reported that it enabled them to progress more quickly.<sup>51</sup> Almost half of those involved in the initiative reported improved productivity and improved position against their competitors. The culture of the organisations was also changed – nine out of 10 reported a significant impact on the way they involved employees in their business decisions. Seven out of 10 firms noted an improved attitude of staff towards training and development.<sup>52</sup>

We have urged the government to build on the success of this valuable scheme, which has brought real benefits to businesses, especially to small organisations. In an enterprise economy they have a particular advantage – they can respond faster to grasp opportunities. With even greater investment in their people, they will become even more important drivers of innovation and growth in the UK economy.

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<sup>50</sup> *IRS Learning & Development Survey* (2006).

<sup>51</sup> *Small Firms Initiative Final Report* (2005).

<sup>52</sup> *Ibid.*

The globalisation of higher education could also offer new business opportunities. Over 60,000 Chinese and Indian students come to study in the UK each year. Over half study for business or science degrees, and while they are here, they are exposed to British commerce and industry and our way of doing things. We must capitalise on this opportunity to foster business and advice networks that cross international borders.

In 2004, India was the seventh-largest inward investor in the UK. In the climate of increasing cross-border mergers and acquisitions, individuals who understand the cultures and customs of both countries and can identify and seize new opportunities, acting as "translators" to ease the process, will be highly valued.

We live in a world where China wants your lunch and India wants your dinner. But we have nothing to fear from globalisation; we can rise to the challenge. Globalisation provides opportunities for an open, innovative and trusted Britain with a flexible labour market. But without skilled people and lots of them we will not put the ball in the net – and that would be such a wasted opportunity.



## Chapter 4

# The Employee Relations Forum for Yorkshire & Humber

Rita Donaghy CBE, Chair of the Advisory, Conciliation  
& Arbitration Service's Council

## The Employee Relations Forum for Yorkshire & Humber

The Advisory, Conciliation & Arbitration Service, ACAS, has a distinguished public service record as an independent third force in the world of employment relations. Founded in 1975, at a time when tripartite institutions in the British economy were taken for granted, ACAS was established to improve industrial relations, help resolve (and if necessary arbitrate in) industrial strikes and other disputes, and encourage the extension of collective bargaining. The latter objective – increasingly contested in the more volatile industrial relations climate that provided the context for the dramatic decline of trade union membership, rights and influence in the 1980s – was eventually removed as part of ACAS's statutory duty in 1993.

Most tripartite institutions were abolished after 1979 by the Conservative governments, which were determined to free market forces, diminish the influence of trade unions, and remove the embryonic corporatist state that had developed in the 1960s and 1970s. Linked to the forces that were held culpable for Britain's economic underperformance, these institutions were considered to be cost-inefficient and highly dispensable, a remnant of a British state that had yet to be exposed to draconian reforms and the market forces that provided the benchmark of good practice for the Conservative governments of that period.

But ACAS, virtually uniquely and against all odds, survived intact. Although the services that it provided were not especially attractive to a government hostile to collective voice mechanisms in the workplace, to compromises between management and labour, and to what it considered to be needless interventions by state-funded organisations in the labour market, ACAS nevertheless, on any crude cost-benefit calculation, delivered tangible benefits.

These took the form of many fewer days lost in strikes (admittedly against the backdrop of a fast declining union propensity to strike), the advisory services that were provided free of charge to its many remote (and less remote) clients, and its pre-emptive role in resolving potentially high-cost individual disputes that would otherwise have been forwarded to employment tribunals.

With the election in 1997 of a new Labour government, ACAS's mission to spread good practice in employment relations had obvious resonance and appeal to the more pragmatic leaders of business and labour; and of course to the public policy makers eager

to learn from the vast experience of ACAS staff, as they embarked on the task of reforming British employment laws in line with the initiatives from Brussels as well as their own electoral commitment to balance fairness and efficiency at work. ACAS's position as a dispassionate facilitator of discussion and debate, so jealously guarded during the preceding years of turmoil and institutional meltdown, would again assume an active role in the policy renewal process.

### **Change and renewal in labour markets and employment relations**

The new Labour government took office in a phase of relative economic growth, fuelled in part by a bullish property market and consumer-led expansion in aggregate demand. But the domestic economy's longstanding productivity problem was bubbling below the surface of the more favourable macroeconomic indicators. Manufacturing continued to decline, with important spillover effects on public services, and per capita output levels and growth rates were, on any reliable measurement, inferior to the performance of other advanced industrial economies.

France, Italy, Germany and the Scandinavian countries outperformed Britain, usually by a considerable margin, and the US, notwithstanding its own faltering performance, retained its substantial historical advantage over Britain. For all the talk about a productivity miracle in Britain in the late 1980s, output, productivity, and investment levels in plant, people and technology continued to disappoint the pundits.

As in the past, many commentators sought to contextualise the enduring legacy of under-performance with reference to management and labour relations in the workplace.<sup>53</sup> Labour markets had been subject to a process of deregulation during the previous 15 years, so even the conventional economics fraternity could not point the finger at unwarranted rigidities. To be sure, there were deep anxieties about the prospect of new Labour's commitment to establishing a low-pay commission and a national minimum wage, but unions were continuing to decline and management prerogative did not appear to be seriously threatened by the discussions surrounding the introduction of a new statutory trade union recognition procedure.

The problem, many analysts agreed, resided in the slow take-up of the productivity-enhancing possibilities afforded by new information and communications technologies

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<sup>53</sup> The literature is surveyed in Nolan, P and O'Donnell, K "Industrial Relations, HRM and Performance" in Edwards, PK (ed) *Industrial Relations: Theory & Practice in Britain* (Blackwell, 2003).

and the management practices connected to the emergence of high-performance workplaces. The US, in particular, had embraced the high involvement and participation systems with allegedly significant benefits for both business performance and worker interests.<sup>54</sup> But movements in this direction were few and far between in UK businesses.

Even on modest definitions, the scope and coverage of human resource management practices remained extremely limited. According to Cully et al,<sup>55</sup> reporting on the first findings from the 1998 workplace employee relations survey, only a small minority of UK establishments (14%) could plausibly claim to have a coherent approach to human resource management: "Direct supervision of employees was the common mode used to control and monitor the work of individual employees, and while 54% of workplaces made individual employees responsible for monitoring the quality of their own work, less than 1% of workplaces used this as the sole means of monitoring quality."<sup>56</sup>

Referring specifically to high-performance work systems, the survey finding suggested, among other things, that information on financial performance was rarely disclosed to employees and there was little evidence of devolution of authority from senior management to line managers on matters of recruitment, pay and dismissals. Reinforcing these conclusions, research by Guest and his colleagues reported that only one in four companies had implemented "more than half" of the list of human resource management practices commonly associated with a strategic approach to people management.<sup>57</sup>

Nor does the evidence confirm that human resource management, where it is practised, has ousted the more traditional collective structures that were once dominant in British companies. Millward<sup>58</sup> found that human resource management practices had advanced further "in unionised workplaces than in the non-union sector", and the 1998 workplace employee relations survey findings confirmed that the positive association between union voice and high-commitment management practices remained intact.<sup>59</sup> Union voice mechanisms and high-performance management systems are, on the available evidence, complementary routes to achieving positive gains in business performance, improvements in worker morale and the more efficient utilisation of resources at workplace level.

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54 Appelbaum, E, Bailey, T, Berg, P and Kalleberg, AL *Manufacturing Advantage: Why High Performance Work Systems Pay Off* (Cornell University Press, 2000).

55 Cully, M, Woodland, S, O'Reilly, A and Dix, G *Britain at Work* (Routledge, 1999).

56 *Ibid*, p295.

57 Guest, D, Michie, J, Sheehan, M and Conway, N *Getting Inside the HRM-Performance Relationship*, ESRC Future of Work working paper 8 (University of Leeds, 2000).

58 Millward, N *The New Industrial Relations* (Policy Studies Institute, 1994).

59 Cully et al, *op cit*.

But there is also anecdotal evidence of some advances in the practices of small and medium-sized enterprises with regard to the management of people. This is revealed by research as part of the Future of Work programme of the Economic & Social Research Council on the impact of the national minimum wage. This research highlights different responses, which vary from evasion, impotence and the search for cost-cutting measures to better labour utilisation policies and new investment to underwrite improved production and service provision. The aggregate picture is, in short, rather mixed; yet it is hard to reject the conclusions of Cully et al that point to limited evidence among non-unionised UK organisations of any progress towards securing employee involvement and commitment.

Why, then, is there a continuing reluctance by British management to seize the high ground and invest in their employees, provide meaningful incentives to secure motivation and commitment over and above perfunctory levels, and step back from the entrenched long-hours culture that has been a long-standing feature of work in Britain? Why do British workers report higher levels of stress and dissatisfaction with their working lives than in the insecure and precarious employment conditions that prevailed in the early 1990s? What does it mean to speak of work-life balance in a business that refuses to acknowledge that women with young children may have special needs that require more flexible paid work regimes, and that men require comparable paternity leave entitlements to their counterparts in continental Europe? Best practice for both men and women may be witnessed in the Scandinavian countries, but British employers and the state have not been willing to match or come close to matching their provisions.

These, and other salient questions, provided the impetus in Yorkshire & Humber for a fresh means to investigate the changing world of work at the turning point of the new millennium. What were the possibilities for making a positive intervention in the developing discussions, focusing on the boundaries between paid and unpaid work, employment regulation, the future of trade unions, people management practices and the changing character of employment laws?

### **The employee relations forum**

The idea for the Employee Relations Forum for Yorkshire & Humber was conceived in outline in 1998, and the forum held its first event, with 60 participants, in 1999. Its purpose was to engage practitioners from the business community, the trade unions and public services in dialogue and debate about the present character of, and future prospects for, collective employment relations in the Yorkshire & Humber region.

The political backdrop to its formation was the enactment of new measures by a new government that would restore the collective aspects of the employment relationship to the centre ground of public policy analysis. Discussions between senior regional and national ACAS officials, trade union and business leaders and academic researchers confirmed the latent demand for a new public policy arena focused on collective employee relations.

### **Organisation and objectives**

Inclusive, participative, policy-relevant and forward looking: these were the essential guiding principles of the newly formed forum. It set out to promote the analysis and understanding of the changing contours of employment relations in the region and to engage with the new policy developments that would form a potentially significant turning point in the region's and the nation's system of employment governance.

In the 1980s and 1990s, the language (if not the practice) of human resource management displaced collective issues from the forefront of policy and practitioner agendas. But it was about to be supplanted, many informed commentators believed, by a reconstituted pragmatism on the part of all parties to the management of the employment relationship.

What would be the effects of the new statutory trade union recognition procedure, and how would organisations cope with the likely challenges that it might bring? What steps were required to make good the deficit in communication, negotiation and bargaining skills – brought about by a "lost generation", within the ranks of both management and unions, that had had little exposure to collective matters in the workplace?

How would the exhortations from government, extolling the complementary aims of "fairness and efficiency", translate into workplace procedures and practices? Would the future reside in the diffusion and reinforcement of the partnership arrangements that had been tentatively broached in some organisations?

These and other pressing issues wrote themselves into the forum's immediate agenda. With respect to governance, a steering group was formed following a series of informal meetings led by the regional director of ACAS. The group included senior trade union officials, employment relations specialists from large private-sector and public-sector organisations, members of employer representative bodies, a member of the regional development agency, and leading academic specialists in employment relations and human resource management.

Chaired by the regional director of ACAS, the group's early activities centred on membership-building events – the first of which attracted participants from 60 organisations and was addressed by, among others, the then deputy general secretary of the Trades Union Congress, Brendan Barber, and the director of human resources at United Utilities.

From its inception, the forum brought to the region's policy, practitioner and consultative communities a unique blend of hands-on experience of employment relations from management, trade unions, neutral third-party advisers with an outstanding track record of resolving disputes and grievances, and an academic expertise that underscored the importance of close attention to the evidence base.

One member of the steering group was leading a national research initiative, funded by the Economic & Social Research Council, on the future of work. This gave the steering group, and more importantly the forum's members, early access to the latest national research findings and allowed the forum to situate specific regional matters within the broader employment context.

Among other issues, the Future of Work programme was investigating trade union organising initiatives to represent an increasingly ethnically diverse workforce, the lessons to be gained from the practice of human resource management in private British companies, the impact of the national minimum wage on the employment practices of small and medium-sized businesses, and the uneven results of the early wave of partnership agreements.

### **Events and networking**

The forum's initial programme of events aimed to promote a better understanding of the content and significance of the new legislation from Westminster and Brussels. As noted, hands-on experience was critical to demonstrate added value to the forum's members, and a formidable list of high-profile speakers – including government ministers, MPs and MEPs – addressed the pressing policy issues of the moment. They were supported by policy makers from the CBI, the TUC, the Engineering Employers' Forum and Yorkshire Forward, and ACAS national officers, for example, and by leading solicitors who provided regular updates on important legislative developments.

The events have featured direct practical inputs through the presentation and discussion of leading-edge case studies of best practice. Academics from the regional universities and the ESRC Future of Work programme have been called upon to report their latest findings

to complete the picture of present and future changes in the world of work and employment.

Changes with implications for employers, employees and their representative organisations have governed the forum's activities. These have included: the 1999 Employment Relations Act, the trade union recognition procedure, the role of the Central Arbitration Committee, the new information and consultation laws, the transfer of undertakings regulations, individual employment rights (such as paternity and maternity leave and the harmonisation of the pay and conditions of part-time workers with their full-time equivalents) and the Partnership Research Fund (see below). Diversity and equality issues have been central to all events.

Typically involving a mix of plenary sessions and small workshop groups, in which experiences and new challenges are discussed, the meetings have been designed to maximise networking and information sharing. Evidence from the members' feedback reveals that the sharing of practical experiences has been a key ingredient in the success of the forum. Networking arrangements at the events have been enhanced by the publication of a forum newsletter and the creation of a website: [www.erforum.org.uk](http://www.erforum.org.uk).

### **The second phase: 2003-06**

Against the backdrop of impressive year-on year gains in the number of fee-paying members (at present 110), the steering group produced a constitution for the forum, widened its own membership, embarked on an ambitious programme of work supported by substantial awards from the DTI Partnership Research Fund and Yorkshire Forward and sought and achieved a central role in the regional economic strategy, published in draft in 2006.

The production of the partnership toolkit was an ambitious project, and drew upon the expertise of the TUC Partnership Institute (no longer in existence), national unions (Unison, the Transport & General Workers Union and the GMB, for example) and leading international companies with a strong presence in the region. The toolkit enables subscribers to undertake a journey of management change that has as its objective the achievement of an agreed approach to workplace innovation and change.

The toolkit is produced in a format (essentially loose-leaf) that enables organisations to "pick and mix": it is not intended to be directive, to claim that there is a single, unimpeachable route to partnership success, or to imply that the knowledge base as

yet is sufficiently robust to underwrite wholesale enthusiasm for partnership at work.

Research findings from the ESRC Future of Work programme, summarised by Robert Taylor,<sup>60</sup> highlight the uneven results of partnership agreements in UK organisations thus far.<sup>61</sup> But Taylor, none the less, argues that partnership agreements have a resonance in many European organisations and could yet prove vital in the quest by businesses in the UK to raise their performance levels.

Thus far the high point in the forum's achievement list is the formal recognition by Yorkshire Forward of its future role in the region as a provider of expert advice on examples of best practice in employment relations. Reflecting its close association with ACAS, the forum has succeeded in pressing the benefits for business performance of attention to the structures and practices of management that improve employment relations and secure mutual gains for both business and labour.

### **Comments and conclusions**

The dearth of evidence of moves by UK management in the private and public sectors to introduce the structures of governance necessary to exploit the potential benefits associated with the transition to high-performance work systems remains puzzling. The research evidence is again mixed: some studies point to the positive impact of such systems on the bottom line, others point to new strains and stresses in the lives of the employees that work under such systems.<sup>62</sup>

The forum, keen to learn from national and local experiences, held its most recent event on this topic. With a presentation from the Minister for Employment Relations, Gerry Sutcliffe, and informative case studies from the largest hospice in England and a private-sector US-owned chemicals producer, the forum's members were exposed to the latest findings of good practice and the difficulties that are frequently encountered in shifting employment relations and management practices on to a plane that returns business benefits while making provision for enhanced employee involvement, participation and reductions in work-life conflict.

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60 Taylor, R *Partnerships at Work: The Way to Corporate Renewal* (Economic & Social Research Council, 2004).

61 Oxenbridge, S and Brown, W "Achieving a New Equilibrium? The Stability of Co-operative Employer-Union Relationships" and Tailby, S, Richardson, M, Stewart, P, Danford, A and Upchurch, M "Partnership at Work and Worker Participation: an NHS Case Study", both in Nolan, P (ed) *Industrial Relations Journal: Special Issue on the Future of Work* vol 35 (5) (Blackwell, 2004).

62 White, M et al (eds) *Managing to Change? British Workplaces & the Future of Work* (Palgrave Macmillan, 2004).

Listening and learning from such experiences has been the key to the success of the forum. If generalised across the country, it may well help secure the much-needed lift in the performance of employment relations and the British economy.

## Chapter 5

# Workforce innovation in regional economic development – talent driving prosperity

Emily Stover DeRocco, Assistant Secretary for Employment and Training, US Department of Labor

## **Workforce innovation in regional economic development – talent driving prosperity**

Revolutions in technology and information have ushered in the era of what we now know as globalisation. This era is marked by tremendous advances in communications, travel and trade, allowing individuals instant access to commerce from almost anywhere in the world. At the same time, businesses now work not only with companies across the street, but also with companies around the globe. In the new global economy, talent development is a key factor in every business's and nation's economic competitiveness.

Global competition is typically seen as a national challenge. In reality, the front lines of the battlefield are not national, but rather they are the regional economies within the country. Regions are where companies, workers, educators, researchers, entrepreneurs and governments come together to create competitive advantage. That advantage stems from the ability to transform new ideas and new knowledge into advanced, high-quality products or services. In other words, it is in regions where innovation occurs. Those regions that are successful demonstrate the ability to network and maximise innovation assets – people, institutions, capital and infrastructure – to generate growth and prosperity in the region's economy. These regions are successful precisely because they have connected three key elements: workforce skills and lifelong learning strategies, investment and entrepreneurship strategies, and regional infrastructure and economic development strategies.

### **Workforce innovation in regional economic development**

Economic regions no longer correspond to state, county, local or municipal boundaries. While many regions in the United States have thrived as a result of globalisation and made considerable progress in integrating talent and skills development into their larger economic strategies, there are regions that are struggling to compete. These regions are being forced to revitalise and reinvent themselves. The US Department of Labor recognises the importance of supporting regions that need additional technical and financial assistance to achieve these goals.

In February 2006, the US Department of Labor launched Workforce Innovation in Regional Economic Development (WIRED), which focuses on the role of talent development in driving regional economic competitiveness, increased job growth and new opportunities for workers. Through a competitive process, 13 economic regions from across the country were selected to participate in the WIRED initiative. The regions represent the diversity of

America – from metropolitan areas like Denver and Kansas City to rural areas like Eastern Montana and the Mississippi-Alabama border; from the transformation of traditional industries in Michigan and North Carolina to the creation of entirely new industries in Maine and California; and from a competition in Florida in search of the best ideas to a university in Indiana leading the way in a region. Each region brings a unique set of characteristics, and each offers the promise of unique solutions to the challenges posed by the global economy.

Each region will receive around \$15 million in funding over a three-year period and will also be provided with on-going expertise from several leading organisations in the field of innovation. The goal in each of these regions is to expand employment and advancement opportunities for American workers and catalyse the creation of high-skill and high-wage jobs in regional economies.

The WIRED initiative focuses on labour market areas that are comprised of multiple jurisdictions within a state or across state borders. It supports innovative approaches to education, economic development and workforce development that go beyond traditional strategies preparing workers to compete and succeed, both within the United States and around the world. This initiative is designed for regions that have been affected by global trade, are dependent on a single industry or are recovering from natural disasters. Through the WIRED initiative, the regions have a unique opportunity to design and implement strategic approaches to regional economic development and job growth.<sup>63</sup>

### **WIRED principles: system integration and regional partnerships**

The WIRED initiative is based on the principles of integration of systems and strong partnerships, which are the guiding force for the work of the Department of Labor. Over the past 75 years in the United States, we have built an array of systems and structures that feed and support the economy, including education, economic development, and workforce development systems. As a general rule, these creations have operated independently from one another. In a world where goods and services moved slowly and information even slower, the independence and isolation of these systems were economically irrelevant. However, in today's world, that is no longer the case. We must now integrate and leverage all available resources to meet the challenge of global competition or risk the irrelevance of the systems themselves.

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<sup>63</sup> Additional information on the WIRED initiative and the 13 regions can be found on the Department of Labour, Employment & Training website, [www.doleta.gov](http://www.doleta.gov).

One of the keys to integrating these disparate systems and structures is strong partnerships at the regional level. Each of the 13 WIRED regions has a partnership that is representative of the entire economic region and is comprised of civic, business, investor, academic, entrepreneurial and philanthropic leaders. The quality and strength of the regional partnerships are key to the success of WIRED. The initiative will demonstrate that a partnership among such a diverse and disparate group of organisations can in fact come together and leverage each other's strengths for the common good.

### **Talent driving prosperity**

Last year, *New York Times* columnist Tom Friedman published a book that has given shape to the process we have known as globalisation, and that shape is flat. It is not the same flatness thought by those who mocked Christopher Columbus, but rather it is a world without barriers, without the obstacles that used to impede commerce and trade. Information, goods and services now travel freely around the world and the advances in communications and technology have fuelled the competitiveness in the global marketplace.

For regions to succeed in this flattened world, they must pay attention to three critical elements. These elements were identified in a groundbreaking report, *Innovate America*, published by the Council on Competitiveness.<sup>64</sup> The first element is infrastructure. This includes not only the traditional factors such as highways, bridges and buildings, but also 21st-century factors like access to broadband and wireless networks. The second is investment, including the availability of risk capital and the conditions that encourage the use of such capital.

The third critical element is talent. A region may possess a strong infrastructure and the investment resources for success, but without the talented men and women to use those elements for economic growth, they are meaningless. Talent can also drive the other two elements, because investment capital is smart money and it will follow the talent, while infrastructure can be built to support a growing economy.

The WIRED initiative was launched in recognition that this third key element, talent, drives prosperity. In other words, the bedrock of a nation's competitiveness is a well-educated and skilled workforce. WIRED will demonstrate how talent development can drive the transformation of regional economies and the systems that support those economies in order to enable regions to compete in the new global economy.

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<sup>64</sup> *Innovate America* (Council on Competitiveness, 2004).

# Conclusion

Tony Pilch, Smith Institute

## Conclusion

The present government has presided over 10 years of continuous economic growth, with the result that Britain now stands alongside the USA and Canada as one of the fastest-growing economies of the G7. As this booklet testifies, low levels of inflation, interest rates and unemployment have allowed thinkers from government, business, trade unions and academia to engage in a debate about how the UK economy can build upon these fundamental strengths to develop the dynamism and flexibility that will secure its strength in the future.

Having overcome the Asian crisis, the IT bubble, an American recession, euro area stagnation and, most recently, the challenge of the oil shock and house price inflation – challenges that in previous decades led to British recessions – there is no doubt that the UK now has a strong and stable economy.

The central pillar of the UK's recent economic revival has been its success in generating high and sustainable levels of employment. The number of people in paid work now stands at around 29 million. Since 1971, UK employment has increased by 16.8%, with more than half this rise occurring since 1997. While both male and female employment levels have risen over the past eight years, female employment growth has been particularly strong, and is now at almost record levels. In each and every region of the UK, employment has risen. Yet the government is committed to going further and seeing the gaps between regions narrowed.

Increasingly, policy makers acknowledge that narrowing the gap between regions and sustaining long-term prosperity across the UK will require more than increasing employment alone, impressive though that clearly has been. Evidence already shows that even when there have been rapid rises in employment in each region, gaps in economic performance between regions remain, suggesting a need for an evolution of thinking and policy.

In short, prosperity and growth in the regions depend on the proportion of the workforce employed *as well as*, crucially, the productivity of workers. Today, productivity is the key driver of national living standards and the main source of economic growth in the long term.

Dr Christian Ketels, principal associate of the Institute for Strategy & Competitiveness at

Harvard Business School, highlights in his chapter the need to focus on the wider drivers of productivity:

*[T]he policies that have propelled the UK's economic performance in the past are running into diminishing returns ... The UK needs to move from a business environment focused on efficiency to one that provides the breeding ground for innovation. To reach the next level of productivity and prosperity, more companies based in the UK will need to find it beneficial to move beyond their proven ability to leverage existing assets efficiently and compete based on unique products and services.*

### **Productivity**

It is now well rehearsed that Britain's productivity record has, over recent decades, been especially poor. Following the Second World War Britain began to lag behind the United States and the other major European economies in productivity growth. Less well known is that the UK is the only country in the G7 to have narrowed the labour productivity gap with the US since 1992, when the US productivity surge began.

Budget 2006 reported that in the present economic cycle, productivity growth is 2.3% – higher than at any time since the 1960s. Perhaps contrary to popular perception, Britain has now caught up with Germany in productivity, is ahead of Japan and has halved the gap with France. However, a significant gap remains with the US.

As a result, there is now a recognition – not least in the essays in this booklet – that having embedded economic stability and generated massive employment growth, the next focus of the UK's economic policy must be to increase and sustain even higher levels of productivity.

The impact of skills on productivity is clear. Each of the chapters in this booklet makes clear the central role that skills must play in efforts to raise productivity. As shown by the interim report of the Leitch review of skills, skills have a number of impacts on productivity: directly, by increasing human capital in a firm or country; and indirectly, by spillover impacts on the productivity of other workers and by encouraging greater investment and innovation.

Sir Digby Jones, director-general of the Confederation of British Industry, notes in his chapter that "recent research has estimated that on average an 8% increase in the proportion of trained workers can lead to a 0.6% increase in UK productivity, as measured

by the value added per hour worked". This supports the Leitch review's findings:

*Without an internationally comparable skills base, UK businesses will be less able to succeed in the high value-added activities the UK needs to boost growth and will risk becoming trapped in low value-added activities. Improving the UK's skills base – making the skills of the people the UK's number one asset – will enable businesses to take advantage of new opportunities, markets and technologies and open up new careers, improved progression and higher pay to individuals.*

*The UK's future prosperity will depend upon ensuring that the UK has the skills base to be able to adapt to global changes. The UK workforce must have the skills to take advantage of changes in technology and workers must be able to re-skill as the structure of the economy changes – otherwise growth will slow and groups and areas risk being left behind.*

The need to increase productivity and skills is made all the more pressing by the present wave of globalisation, in which new markets, new places for production, new competitors and new ideas emerge with extraordinary rapidity. In this global economy the productivity of UK workers and businesses is vital. When we know that China and India are now turning out more engineers, more computer scientists and more university graduates – 4 million a year – than the whole of Europe and America combined, the need to ensure that the UK raises its game is clear.

As well as helping to meet the challenges of the global economy, increasing the productivity of our workforce can also help us tackle domestic challenges, such as reducing inequalities between regions. Regional economic inequalities are underpinned by clear differentials in the productivity of workers, with the most prosperous regions having the highest rates of productivity. Emily Stover DeRocco, assistant secretary for employment and training in the US Department of Labor, emphasises in her chapter the connection between regional economic performance and the drivers of productivity when she says:

*Global competition is typically seen as a national challenge. In reality, the front lines of the battlefield are not national, but rather they are the regional economies within the country. Regions are where companies, workers, educators, researchers, entrepreneurs and governments come together to create competitive advantage. That advantage stems from the ability to transform new ideas and new knowledge into advanced, high-quality products or services. In other words, it is in regions where innovation occurs. Those*

*regions that are successful demonstrate the ability to network and maximise innovation assets – people, institutions, capital and infrastructure – to generate growth and prosperity in the region's economy.*

## **Partnership**

The government's productivity and regional policy frameworks are based on ensuring that, in each region of the UK, the now familiar five drivers of productivity – competition, innovation, investment, skills and enterprise – are entrenched. Indeed, this approach underpins the government's wider economic strategy.

But in order to achieve lasting and significant change, the real challenge for government is to ensure that efforts to promote productivity are not just at national or regional level, but at the local business level and, most crucially, between employees and employers. Unless there is an understanding between businesses and workers that both need to be more skilled, enterprising, innovative and productive, the impact of the government's productivity framework will be compromised.

Without a workplace consensus that the key to future business growth and to individual prosperity rests with the ability of both employers and employees to engage in an innovation- and enterprise-focused way with a firm's capacities and capabilities, the ambitions and aspirations of government, businesses and individuals will not be met. This point is well made in his chapter by Brendan Barber, general secretary of the Trades Union Congress, when he states:

*[W]e must recognise the importance of workplace relationships in boosting productivity, and in particular the contribution that a constructive relationship between employers and trade unions can play. All the evidence shows that positive industrial relations are good for productivity. This is because workers whose esteem is high – who are challenged, respected, supported and fairly treated – are more productive than those who are taken for granted, exploited or given little development.*

As each of the contributors to this booklet makes clear, the biggest priority in terms of the focus of partnerships and collaboration is skills: they help boost productivity, are vital in narrowing the gap between regions and are central in meeting the challenges of the global economy.

As a result, the more that employers and employees can work constructively together to

forge new arrangements to drive up skills, the better. In the words of Ed Balls MP: "...we get better outcomes when government works closely with employers, trade unions and employees to shape economic and industrial policy."

### **Delivering productive working relationships**

The key question, of course, is how to build on the willingness of employers and employee representatives to develop a workplace consensus around the issue of skills. Without doubt, the establishment of regional development agencies has helped to establish a partnership approach to wider regional economic policy making. Drawing on the expertise of employers, employee representatives and business leaders, regional economic strategies chart a path of economic growth for each region.

But as Dr Christian Ketels acknowledges, regional development agencies cannot foster the workplace partnerships that are required if they act alone:

*The new, more collaborative approach to economic policy has created some new institutions, but it clearly also challenges labour market partners to review their roles ... But it is clear that a significant challenge exists for labour market partners to review opportunities for adopting a more competitiveness-oriented approach.*

This challenge has, as the chapter by Rita Donaghy CBE, chair of the Advisory, Conciliation & Arbitration Service's Council, shows, been understood and acted upon by the Employee Relations Forum for Yorkshire & Humber. This chapter demonstrates that when key partners come together to unite around a major issue, progress is possible. Each of the partners in the forum has had the foresight to see that having worked in partnership to agree on the *objectives* of the regional economic strategy, they must develop similarly collaborative approaches in working on the *means* to deliver those objectives.

In looking to the future, while it may not be appropriate to roll out this model in its precise form in each and every region of the UK, there is clearly an opportunity to draw the broad lessons from this approach. The most obvious opportunity for regional development agencies is to help deliver regional economic strategies by encouraging and instigating regional and local stakeholders – including employer organisations and employee representatives – to collaborate on the issue of skills. Action to promote partnership should be based on the following lessons:

- Having come together to agree on the objectives of regional economic strategies, the

same collaborative approach needs to be developed in order to agree on the means to deliver those objectives.

- Skills are the primary means by which individuals, businesses and regions are able to prosper in the global economy.
- A partnership approach to increasing skills levels is likely to be the most successful means by which progress can be sustained.
- The *identification* of skills problems requires a combination of the dispersed knowledge on barriers in the microeconomic business environment holding back progress on skills and productivity. This knowledge is spread across many different institutions and individuals in the public and the private sectors.
- The *decision-making process* needs to involve a broad group of institutions, both public and private, to be firmly rooted in an overall consensus.
- The *execution* of skills programmes and training requires the active participation of many different parties to realise the full effect of mutually reinforcing changes.

In conclusion, the government has a proud economic record, with low interest rates, low levels of inflation and high rates of employment helping to drive economic growth. The action that the government has taken has clearly paid off and helped deliver the economic stability that businesses and individuals enjoy today.

However, such stability cannot be an end in itself. Rather, if Britain is to face up to the challenges of greater international competitiveness and a rapidly changing global marketplace, such stability must be a platform upon which a dynamic and flexible working population is founded; a workforce that has the capabilities and aptitudes to cope with change and capitalise upon new opportunities as they arise.

One of the key messages of this booklet is that the primary responsibility to deliver change now rests with partners at the regional and local level. As this collection of essays demonstrates, there is perhaps no more important area in which to collaborate than on the issue of skills. By working together in a constructive partnership on skills, employers and workers now have the opportunity to make a vital contribution to delivering productivity growth across each and every region. This is one of the central challenges facing employers and employees today. Working together, this can be among their most significant achievements.