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Understanding management

Main tasks

- **Understand why there has been far less change in work organisation than many pundits expected**
- **Discuss the nature of management's role – whether, in particular, management is a 'strategic actor' or a 'systems actor'**
- **Highlight the reasons for and consequences of the 'permanent restructuring' that characterises management behaviour in recent years**

Summary

It is management, defined as a group of people with responsibility to the board of directors or its equivalent for running the organisation, which exercises the discretionary rights that are the employment relationship's distinguishing feature. Historically, in comparison with trade unions and the state, management seemed to be a relatively unproblematic, if not unimportant, employment relations actor. Seemingly, it had settled for a particular way of doing things and to be more concerned with maintaining the status quo than changing it. Increasingly, however, there is a consensus that management has become the major force for change in the arrangements governing the employment relationship, reflecting increasing competition in capital as well as product markets. The nature and extent of change, however, are far from straightforward. At workplace level, there is little evidence of the changes in work organisation and strategic approach that a wide range of commentators expected and/or have called for. At company level, the situation is very different. Developments such as

‘divisionalisation’, ‘budgetary devolution’ and ‘marketisation’ have resulted not just in radically different ways of controlling workplaces, but also fundamental changes in the shape and size of companies. Coupled with the emphasis on ‘shareholder value’ that developments in ‘financialisation’ are encouraging, the result is more or less ‘permanent restructuring’ making it difficult to develop any consistency of approach. Employees are also being required to work harder at the same time as the security associated with the traditional model of the employment relationship declines. The extent of these changes nonetheless differs from one country to another reflecting the different the ‘varieties of capitalism’ and legal systems. This is because management is not so much a ‘strategic actor’ as a ‘systems actor’. It is an agent of the prevailing form of capital, driven by a logic of efficiency, but influenced by the interplay between two sets of deeply embedded institutions: on the one hand, those of employment relations and, on the other, those of corporate governance and finance. Arguably, of these two sets, it is the second that is the more important, becoming ever more so with the development of a global market for capital.

Introduction: the ‘great conundrum’

The term ‘management’ can be used to refer to three very different things: a process, i.e. planning, controlling, co-ordinating, developing, motivating, leading etc; a resource that brings together land, labour and capital to produce goods and services; and a group of people, comprising a range of positions from that of supervisor through to chief executive, with responsibility to the board of directors or its equivalent for running the organisation¹. The primary focus in employment relations is on the third of these - it is managers who exercise the discretionary rights that are the employment relationship’s distinguishing feature. As Chapter 4 pointed out, there are three main areas where the managerial hierarchy finds expression. Most attention focuses on personnel policies and practice, which covers recruitment and selection, training, appraisal, reward and discipline. Also important, however, are decisions about the nature of work organisation and the wider arrangements for the coordination and control encapsulated in the term ‘organisation structure’.

Historically, as Chapter 4 pointed out, most employment relations commentators paid no more than perfunctory attention to management's role. By comparison to trade unions and the state, management seemed to be a relatively unproblematic, if not unimportant, actor. Three main types of control emerged reflecting the thinking of the likes of Weber², Fayol³ and Taylor⁴, together with the experience of 'command and control' in the armed forces: 'direct control' via supervision, 'technical control' in form of machine-paced technology, and 'bureaucratic control' involving rules and procedures. For the most part, the day-to-day exercise of these controls was largely seen as an administrative function involving first-line supervisors supported by relatively low status personnel managers, many of whom were involved in welfare activities.

It was fear of 'organised' or collective conflict that ensured that the management of the employment relationship figured prominently on companies' agendas, helping to explain why management-trade union relations came to comprise the core of industrial relations studies. In some cases, for example in the USA, the determination to keep trade unions out of the workplace was a major factor in the development of welfare practices⁵; in others, such as Germany, employers supported alternative 'company unions'. In the UK, where craft unions were able to entrench themselves in the workplace in industries such as engineering, management resorted to lock-outs to impose 'procedures for the avoidance of disputes'. In most countries, prodded and prompted by governments anxious to institutionalise conflict, management agreed to make many of the rules and procedures of 'bureaucratic control' the subject of collective bargaining with trade unions as a means of legitimating their authority. For reasons that Chapter 4 explained, this was above all true at moments of political and economic crisis such as the periods following the two World Wars, in the case of the European countries, or the depression years of the 1930s in the USA. Yet such agreement was not unconditional: collective bargaining involved a process of mutual recognition in which trade unions were de facto required to recognise management's right to manage. Seemingly, management was not unhappy with these arrangements – in the years that followed, most of the focus centred on maintaining the status quo than changing it. To paraphrase Dunlop, management was one of a number of actors

working within an *industrial relations system* of institutions, processes and rules shaped by technology, markets and the balance of power in the wider society: it was assumed to share the same interests or 'ideology' of the state and trade unions in having a relatively stable framework within which it could get on with the tasks of planning, controlling and co-ordinating the business' activities⁶.

From the 1980s, as Chapter 4 suggested, interest in management moved centre stage reflecting the view that it had become the major force for change in the arrangements governing the employment relationship. A widespread consensus seemingly emerged among analysts, governments and international agencies about the why and wherefore of this development: management had to modify the traditional control structures associated with hierarchy, bureaucracy and specialisation because of the changing nature of competition. The starting point was the recognition that people were not simply one of the factors of production along with money and machinery, but the major source of competitive advantage – in the UK, *People: the Key to success* was the title of a 1987 National Economic Development Office/Manpower Services publication. The prescription implied not just a change in beliefs and assumptions. In the case of work organisation, increasing employees' participation in the design of work processes was recommended, along with the sharing of task-specific knowledge, with the emphasis on semi-autonomous team working with managers assuming the role of enablers and developers. In the case of personnel policies and practices, the emphasis was to be on 'high performance working' – coupling team working with individualised training and development, along with performance management linked to reward systems to enhance commitment and involvement. The specialist function was also to drop its 'Cinderella' image and shift from the largely administrative role associated with personnel management and take on responsibility for ensuring a more strategic approach that aligned policies and practices with business strategy.

Much of the thinking had its roots in the neo-human relations school associated with the likes of Maslow⁷, Herzberg⁸ and McGregor⁹. This recognised that labour was not a commodity and motivation was management's main problem. Also increasingly important was the 'resource based view' discussed in Chapter 3. It

was the changing context of business, however, that provided the main impetus. Especially important here was the growing dominance of Japanese companies in highly visible sectors such as cars and electronics arising from their use of new 'lean production' methods such as 'just-in-time', *kaizen* ('continuous improvement'), and the direct participation of the workforce. Bearing in mind the emergence of low cost manufacturers, above all in China, the *status quo* was deemed to be unsustainable: the future lay with quality products and a quality workforce. Moving into the new millennium, intensifying competition and/or pressure on scarce resources, coupled with the growing importance attached to the notions of the 'knowledge organisation' and 'knowledge economy', supposedly reinforced these imperatives - more and more companies would be forced by competitive pressures to increase the sophistication of their products and services, requiring them to transform their workplaces¹⁰.

In practice, however, even allowing for the cross-national differences discussed in Chapter 2, most features of work organisation have proved to be extremely durable. In over-viewing developments, one commentator puts it like this:

When compared with the momentous changes we've witnessed over the past half century in technology, life styles, and geopolitics, the practice of management seems to have evolved at a snail's pace. While a suddenly resurrected 1960s era CEO would undoubtedly be amazed by the flexibility of today's real-time supply chains and the ability to provide 24/7 customer service, he or she would find a great many of today's management rituals little changed from those that governed corporate life a generation or two ago. Hierarchies may have gotten flatter but they haven't disappeared. Front-line employees may be smarter and better trained, but they're still expected to line up behind obediently behind executive decisions. Lower-level managers are still appointed by more senior managers. Strategy still gets set at the top ...¹¹

For the UK, Table 8.1 summarises the detailed results of the 2004 Workplace Employment Relations Survey (WERS), which are consistent with the findings of the European Foundation's working conditions surveys outlined in Chapter 2. There is certainly little

evidence of autonomous team working and the bundles of practices associated with 'high performance working'; the number of workplaces with a comprehensive strategy also appears to be very small. Although there appears to be a new breed of HR managers, who are better qualified and have greater responsibilities, there are few signs of them getting a seat at the top table. At the same time, however, it appears that there has been a considerable increase in performance management; there is also a close relationship between those that adopt a more strategic approach and two key variables: the extent of changes taking place and the significance of labour costs.

‘Systems actor’ rather than ‘strategic actor’

Arguably, the main reason for failing to understand what was happening or, rather, not happening, was that observers were looking at management through the wrong lens. For much of the 1980s and 1990s the conventional wisdom was to see management as a ‘strategic actor’. In part, as Chapter 1 pointed out, this reflected a growing recognition that the original systems model of industrial relations associated with Dunlop was seriously limited – industrial relations could not be treated as a self-contained world in isolation from wider society, while management behaviour could not simply be explained in terms of its dealings with trade unions and governments. In part, it reflected the growing importance being attached to ‘strategy’ and ‘strategic choice’ in the social sciences more generally¹². Thus, rather than being regarded as members of an interlocking employment relations system working to its own internal logic, management, trade unions and governments came to be seen as ‘agents’ who shape the environment in which they operate and who are also influenced by forces from outside the world of employment. By implication, the environment does not determine behaviour; the parties - above all, the management of the large companies - have some discretion or choice in deciding what courses of action or strategies to follow. As Chapter 4 suggested, the most explicit use of the ‘strategic choice’ approach is to be found in the work of Kochan and his colleagues in the USA, where it was almost elevated to the status of a theory¹³. Management is seen as a strategic actor in two particular senses: its actions are held to be critical not only in determining the choice of business strategy to

be pursued, but also the main changes taking place in employment relations.

Although the approach's focus on the purposive behaviour of the parties, rather than on the outcome of some form of autonomous system working to its own logic, was a positive step, it arguably made a number of highly questionable assumptions. One is that strategy formulation is a straightforward process. But, as business theorists have increasingly recognised, strategy is a most problematic concept¹⁴. At best, strategies, understood as a sense of a direction, emerge as a result of a series of decisions made by people at many levels in the organisation; they involve continual reassessments and readjustments of position. Depending on the particular ways in which management runs the organisation, strategies, in the sense of a set of medium- and long-term plans, may not emerge at all; there may simply be a series of vague statements or a few key financial ratios. In the circumstances, it may not be feasible to expect the detailed integration of personnel policies and practices implied in the prescription of Kochan and his colleagues, let alone the fundamental shift in attitudes and behaviours entailed, for example, in managing a change in culture or task participation.

A second, crucial, assumption is that managers have the degree of choice with which they are credited. Clearly, managers, especially those who run large private sector companies, have enormous resources at their disposal and a significant measure of control over large numbers of employees. Yet they still may not be willing or able to shape their environment in ways that may seem logical to the analyst. To go back to the discussion in Chapter 4, management is not immune to the pressures of 'path dependency'. Each of the three considerations regarded as particularly important in explaining why people can become 'locked' into a particular path are in play. Thus, a major consideration in the introduction of 'high performance working' is the costs associated with change in terms of training and learning. The existing institutional framework also represents a major problem - the introduction of 'serious' team working has significant implication for almost every aspect of personnel policy, ranging from recruitment and selection, through training and development to appraisal and reward. Finally, there is the importance of vested interests. Very often it is managers themselves who represent the biggest barrier to changes

in work organisation. Major changes in the direction of semi-autonomous team working, for example, not only have implications for the inter-personal skills of individual managers, but also their numbers, privileges and status as a group. Arguably, it is for a combination of these reasons that most major instances of change involve crisis situations and/or 'greenfield' situations.

Important though 'path dependency' is in understanding why even management finds it difficult to change, it does not help us very much to explain the differences between countries identified in previous chapters. For this, it is necessary to develop another strand of the 'varieties of capitalism' thinking introduced in Chapter 3. This is that the trajectories of capitalist development not only give rise to institutions that are interdependent, but also different 'configurations' that have particular strengths and weaknesses for different kinds of economic activity. Thus, the interdependency may rise to so-called 'complementarities', where institutions in different areas (for example, the financial system and the corporate governance arrangements) come to be mutually reinforcing; equally, they may also involve 'tensions' that may have destabilising or adverse economic effects (for example, the role of the state and the financial system). It is within these 'complementarities' and 'tensions' that managers have to work¹⁵.

The starkest contrast is drawn between the two main types of capitalism outlined in Chapter 3 and revolves around the extent to which the economy is, or is not, 'coordinated': the 'stakeholder' or 'insider' systems found in the 'co-ordinated market economies' (CMEs) of the continental European countries and the 'shareholder' or 'outsider' systems characteristic of the 'liberal market economies' (LMEs) of the USA and UK. In the CMEs, the emphasis is said to be on non-market relations, collaboration, credible commitments and deliberative calculation on the part of firms. In terms of behaviour, enterprises embedded in 'insider' systems are said to be likely to emphasise longer-run performance, and to pursue investment strategies which involve long-term commitments to product and process innovation and associated skill development. In contrast, the essence of the LMEs is described in terms of 'outsider' systems, with arms-length, competitive relations and formal contracting, resulting in much more emphasis on short-run financial performance and the

adoption of investment strategies which are driven by purely financial criteria¹⁶.

Such differences shape the implicit contracts, comprising informal understandings on issues that are difficult to contract for formally, reached between the parties. In CMEs the basis exists under 'insider' systems for generating and sustaining the trust necessary to support wide-ranging implicit contracts. There are incentives both for managers to invest in skill development and for employees to acquire skills. Employees are likely to be regarded as enduring assets who form a potential source of competitive advantage. In LMEs, by contrast, the absence of employee stakeholder rights does not encourage the development of 'high trust' relationships and the implicit contracts which depend on them. Neither managers nor employees can be confident that their investments will be protected, which means weaker incentives to train or be trained. Employees are likely to be regarded as disposable liabilities and to be the focus of short-run cost minimisation by management. Proponents of the LMEs argue that fluid labour markets, together with easy access to stock market capital and the profit imperative, make LME firms the 'radical innovators' they have proven to be in recent years, in sectors ranging from bio-technology through semiconductors, software, and advertising to corporate finance. The logic of LME dynamics revolves around the centrality of 'switchable assets', i.e., assets whose value can be realised if diverted to multiple purposes. In the CMEs, by contrast, long-term employment strategies, rule-bound behaviour and durable ties between firms and banks underpinning patient capital provision predispose firms to be 'incremental innovators' in capital goods industries, machine tools and equipment of all kinds. In contrast to the LMEs, the logic of the CMEs revolves around 'specific or co-specific assets', i.e., assets whose value depends on the active co-operation of others¹⁷.

As Chapter 2 suggested, although some object to the description of the UK as an 'hour glass economy', its employment structure is nonetheless skewed towards services, which have large numbers of both high- and low-paying employees – finance is an example of the former and hotels and restaurants the latter. The UK also has a concentration of businesses in sectors with low R&D, where pay levels are likely to be low, together with high proportion that compete

on the basis of costs rather than quality and ‘numerical’ rather than ‘functional’ flexibility¹⁸.

In summary, to answer the question posed at the beginning of this section, management is a ‘systems’ rather than a ‘strategic actor’ so far as employment relations policy and practice are concerned. Indeed, its strategic choices are much more limited than may at first appear. Superficially, the nature and extent of managerial hierarchy, along with personnel policies and practices, reflect the type of product and the balance between cost and quality. More fundamentally, as Table 3.3 in Chapter 3 has already outlined, the business strategy that lies behind these reflects the interplay between two sets of deeply embedded institutions: on the one hand, the institutions, processes and rules of employment relations and, on the other, the prevailing structures of corporate governance and finance. Arguably, of these two sets, it is the second, the structures of corporate governance and finance, which is the more important, becoming ever more so with the development of a global market for capital. In that it is not just employment relations institutions that have to be taken into account, therefore, the approach is very different from the portrayal of management as a ‘systems actor’ in the original Dunlop version. Also different, as the financial and economic crisis of 2007-9 has confirmed, is that there is no shared ideology. Reality is massively contested and the power of capital in much greater evidence. It is a subject to which the next chapter returns.

‘Permanent restructuring’

A further step in understanding management behaviour takes us back to the notion of ‘critical junctures’ introduced in Chapter 4 and involves appreciating the why and wherefore of the ‘permanent restructuring’ that has come to characterise developments in many large organisations in recent years, above all in the UK and USA. One source of this restructuring has been major changes in the arrangements for co-ordination and control with significant implications for the way organisations are run. The overall effect, with wide ranging implications for the management of the employment relationship, has been to exaggerate the importance of measurable results and targets. A second, and arguably even more important

source, has been the shift in emphasis from product market to capital market competition (so-called 'financialisation') leading to heightened merger, acquisition and disposal activity, with redundancy becoming the accepted way in which firms handle the consequences regardless of the overall economic situation. Indeed, 'headcount' reductions are typically put forward as a major consideration in justifying the initiative.

From management by task to management by performance

There have been changes in the internal co-ordination and control structures of large organisations that add up to little short of a revolution in the ways they are being managed. Above all, they involve a fundamental shift from the management by task characteristic of traditional organisational structures to management by performance. Critically, too, these changes affect the public as well as the private sector.

Three related changes in particular deserve attention:

Divisionalisation. This involves dividing the large-scale hierarchical organisation into a number of semi-autonomous strategic business units (SBUs) that operate as individual profit and/or cost centres that may be product and/or territory-based. In a phrase the organisation becomes 'decentralised operationally, but centralised strategically'¹⁹. Critically important is that headquarters retains control over target-setting and resource allocation, in effect operating as a 'central banker' shifting resources to and from the divisions depending on achievement of specified targets and/or return on investment. In the UK, divisionalisation has also been introduced into the public sector: for example, the National Health Service has been divided into 'Trusts', while the Civil Service has a plethora of 'executive agencies'.

Budgetary devolution. Budgetary devolution involves the allocation of responsibility for managing activities within financial resources or targets. Again, in the UK, it is a feature of the public as well as the private sector. Like 'divisionalisation', with which it nearly always goes hand in hand, 'budgetary devolution' can operate at a number of levels: it can relate to an SBU within a company or, an executive agency within the civil service or a trust within the NHS and also to

the internal units within such divisions – it can even involve bundles of activities. Budget formulation and control constitute one of the most important regular activities that corporate offices undertake. They establish key performance indicators (KPIs) for strategic business units (SBUs) and for managers themselves. These KPIs emphasise financial performance with corporate managers often ‘managing by numbers’ and intangible human assets and behaviour tending to be ignored since they cannot be ‘counted’²⁰.

‘Marketisation’. This is a short-hand for the greater application of market principles to decision making. Externally, it is reflected in developments such as ‘competitive tendering’, ‘market testing’ and the subcontracting or outsourcing of activities previously undertaken in-house, very often involving ‘off-shoring’ to another country where labour costs are much lower. Internally, it involves the introduction of ‘markets’, with different units being regarded as ‘purchasers’ and ‘providers’ trading products and services with one another. As Chapter 3 has emphasised, it is this development that has led to the fragmentation of work and contracts, blurring organisational boundaries and the disordering of hierarchies, raising questions about the continuing validity of the traditional model of the employment relationship depending on a single employer.

Although the thinking behind these changes is not new - General Motors pioneered ‘divisionalisation’ as a means of instilling greater accountability more than 80 years ago – there are two main reasons for their growth in recent years. One is the pressure of competition, which puts a premium on managing performance. In the private sector, this comes from the process of ‘financialisation’ discussed below. In the public sector, it comes from competition for scarce resources. In both circumstances, traditional ‘management by task’ structures are said to be not only costly and inefficient but also a major barrier to the management of performance.

The second reason for the changes is the revolution in information processing facilities made possible by the coming of the microchip and associated developments in computer software. These have provided managers with instruments of arms-length control and co-ordination that are far more effective and efficient than task-based structures. More or less instant up-to-date data on activity and costs can be used not only to monitor performance against targets, but also

make 'coercive comparisons' between individual units leading to the more or less continuous stretching of targets.

An era of 'financialisation'

Alongside this, there is a widely held view that the approach of UK management in particular has been influenced strongly by the LME system of corporate governance, with its orientation to short-term results and treatment of employees as a cost to be minimised, rather than a resource to be nurtured and developed²¹. Specific features of the UK's 'shareholder capitalism' seen as important in understanding management's employment relations behavior include:

- a privileged position for shareholders and an overwhelming emphasis on shareholder value as the key business driver as opposed to the interests of other stakeholders
- a high concentration of institutional share ownership by investment trusts and pension funds which encourages a focus on short-term profitability, rather than long-term market share or added value, as the key index of business performance
- relative ease of take-over, which not only reinforces the pressure on short-term profitability to maintain share price, but also encourages expansion by M&A rather than by internal growth, while reconfiguring the corporation through outsourcing, off-shoring and restructuring to remove parts of the business from the portfolio
- a premium on 'financial engineering' as the core organisational competence, the domination of financial management over other functions and numbers driven as opposed to issue driven planning.

The pressures on company managers from these features intensified in recent years. Some idea of the sheer scale of the M&As taking place in the UK can be gauged by studying Table 9.1, which shows acquisitions by foreign-owned and domestically-owned companies over the period 1997-2006.

As Froud and her colleagues remind us, since the mid-1980s traditional M&A forms have been joined by other kinds of investment/divestment²². These include inter-business sell-offs, where ownership of a particular unit changes hands; spin-offs, where the divested part

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of the company is floated and shares distributed to shareholders of the parent; and purchases by internal management (MBOs) or external management (MBI) buy-outs. Leveraged buyouts (LBOs), which are heavily financed by debt, have also figured.

A walk down any High Street in the UK brings life to the statistics. Even before the banking and financial crisis of 2007-9, many building societies had become banks and part of larger groups. Abbey National now belongs to Spain's Banc Santander, Cheltenham and Gloucester to LloydsTSB, and the Woolwich to Barclays, while Halifax is part of a wider group involving the Bank of Scotland. The banks themselves have not been immune: Natwest is part of Royal Bank of Scotland Group and the Midland has been absorbed by HSBC.

In manufacturing, the changing landscape is, if anything, even more dramatic. Many companies that were once household names have simply disappeared. Courtaulds, the chemicals/textile manufacturer, was split into two independent companies in 1990 that were subsequently absorbed by Akzo-Nobel and Sara Lee respectively. Lucas Industries, the engineering company, merged with the USA's much smaller Verity in 1996, the merged company being taken over three years later by the TWR, which proceeded to divest most of the businesses. British Steel merged with the Dutch company Hoogovens in 1999 to form the Corus Group, which was brought by Tata Steel of India in 2007. GEC, the UK's largest engineering company in its day, is no more after a disastrous restructuring at the time of the dotcom boom/bust in 2001. Even the mighty bell weather of British business that was ICI has gone: a division into heavy and speciality chemicals in the 1990s was followed by absorption into Akzo-Nobel and AstraZenica respectively.

Fundamentally important is that whereas in earlier decades, market position was the main driver – be it diversification to spread risk in the 1970s or more focus ('sticking to the knitting' in Peters and Waterman's phrase²³) in the 1980s - in the 1990s, financial considerations came to the fore. In the 1970s and 1980s, to paraphrase Froud and her colleagues, competition was based on product and process, most notably in sectors such as cars and consumer electronics; pressure was exerted through the product market, with consumers making firms winners or losers by virtue of their combined

purchasing power; the management challenge was represented in physical terms - 'lean production' was about better factories with lower build hours, less inventory and higher quality; and there was a leading role for Japanese companies such as Toyota whose practices were widely imitated and transplanted²⁴. By the late 1990s, the emphasis of competition shifted to financial results in the form of current and projected cash returns on investment using cross-sector league tables such as MVA (market value added) and EVATM (economic value added), with the returns on investment in one firm explicitly compared against all others regardless of product or sector; pressure was exerted through the capital market by shareholders via buy, sell and hold decisions; the management challenge came to be represented in narrow financial terms; and there was a renewed leadership role for US companies. Overall, a key consequence of what has come to be known as 'finanzialisation', has been to intensify the pressure on managers to increase returns to shareholders: the proportion of profits paid out to shareholders in the form of dividends and share 'buy-backs' rose from just over 40 per cent in the 1960s and 1970s to around 70 per cent in the 1980s and 1990s²⁵.

Promoting many of these developments have been new forms of private investment funds, which have assumed an increasingly 'active' role in seeking to influence company share performance:

Hedge Funds. These are aggressively managed with the aim of delivering the highest returns for their members, typically wealthy individuals or professional investors such as insurance companies and pension funds. Essentially, they make sophisticated bets on the future direction of an asset or even a whole financial market. They invest in stock, bonds, currencies, futures, options, indexes, using techniques such as 'short selling' (selling borrowed securities when prices are considered overvalued to then re-purchase them after an anticipated drop in value) and 'leveraging' (borrowing money to invest).

Private Equity Groups. These are 'private' (as opposed to 'public') companies that typically take a controlling interest in a business with a view to delisting it from public stock exchanges, holding it private during which time they may restructure its internal organisation as well as reserve capital, and re-listing it on

the stock market through an ‘initial public offer’²⁶. High profile businesses taken over in recent years in the UK include the AA motoring organisation, Boots the chemist, and the department store chain Debenhams.

Sovereign Investment Funds. These are state-backed funds that governments use to reinvest for the longer term some of the returns from depleting assets such as oil and gas. Notable examples include the Norwegian Government’s Pension Fund, the Abu Dhabi Investment Authority and the China Investment Corporation. The investment strategies of these funds tend to more long term, but they size means they can be critical in particular takeover situations.

‘Financialisation’ was not just a matter of ‘path dependency’. The immediate catalyst was deregulation of the financial sector in the 1980s (so-called ‘Big Bang’) and the accompanying globalisation of capital markets. In the UK, the ‘City of London’ was given much freer rein, with access to credit and credit markets being substantially eased across the world. The effect was to increase opportunities to borrow (leverage) on the basis of expected rises in asset values. As well as giving a very considerable boost to the activities of Private Equity Groups and Hedge Funds, it also fueled the growth of a veritable ‘industry’ of business intermediaries who derive their income from share price-related activities ranging from the buying and selling of shares to M&A. In the UK, as Folkman and his colleagues argue, while senior managers in major companies benefited considerably from the incentive schemes and share options they were encouraged to put into place, their numbers at around 500 were hardly sufficient to carry the full weight of responsibility for what was happening²⁷. Rather it was senior investment bankers, city analysts and traders, accounting and law partners, consultants, and senior advertising and PR executives who provided much of the impetus. In the case of M&A, for example, they could typically expect to make in fees two to three per cent of the value of the transaction²⁸. In 2003, their numbers were estimated to be around 20,000 on the basis of tax returns of those earning more than £250,000 a year²⁹.

Implications

It is difficult to underestimate the impact of these changes on day-to-day employment relations in the UK. It is not just that many employees find themselves working for very different organisations from the ones they joined, with significant implications for their pay, career prospects and pensions or that some are now in jobs where the employer who pays may be different from the one who directs. As authoritative bodies such as the Audit Commission³⁰ and the of Commons Public Administration Select Committee of Commons Public Administration Select Committee have recognised in the case of public services, centralised and detailed targets, very often reflecting short-term political pressures, have considerably distorted management priorities as well as riding roughshod over local consultative processes³¹. More generally, the sheer pace and extent of the change that these developments have encouraged are important. Crucially, it has made it very difficult for operating managers to develop any consistency in approach to HRM, let alone create the long-term relationships that ‘high performance working’ entails³². Short-term pressures to maximise the share price or, in the case of public services, implement top-down policy changes from governments, mean that day-to-day management of organisations is constantly being disrupted. Adding to the problem in many organisations is the rapid turnover among managers – expectations raised and promises made by one manager can be quickly set aside or disabused by another. Inevitably, the time and energies of HR managers tend to be consumed in managing the operational implications of restructuring, helping to explain the significance of the extent of change cited in the previous section. Indeed, many large organisations are littered with half-finished initiatives that had to be interrupted because of M&A or divestment activity³³. In these circumstances, it is not surprising that operational managers seem to be ‘muddling through’ rather than creating the long-term relationships that ‘high performance working’ entails – they cannot do much else.

The developments described here have also had implications for our understanding of the nature of management that take us back to the discussion in the previous section. It has long been recognised that management is not a homogeneous group, comprising a range of positions from that of supervisor through to chief executive. Yet the

assumption was that a common thread was present, making it possible to think in terms of a professional body of expertise involving planning, controlling, co-ordinating, developing, motivating, leading etc. For most managers directly involved in managing operations at workplace and divisional levels, this continues to be the case, albeit reconciling the conflicting requirements to cut costs to the bone and yet at the same time promote the commitment necessary for innovation becomes ever more difficult. Arguably, however, recalling the comments of the CBI's Director General in Chapter 2, 'financialisation' and 'divisionalisation' mean that, unlike their forbears, very senior managers at headquarters level are increasingly detached from these processes, along with the communities in which they take place. In Khurana's words, they are like 'hired hands', with their job boiling down to 'financial engineering' and/or target setting, coupled with extreme risk taking³⁴.

Prospects for the future

In the UK, on the basis of reports from member companies, the the same Director General of the CBI, Richard Lambert, recently suggested that there were likely to be changes in management behaviour described here as a result of the recession that engulfed the world following the financial crisis of 2007-9³⁵. Most companies expected that, with their reliance on debt falling, there would be less focus on 'financial engineering' and more emphasis on day-to-day operations. Accompanying this shift would be a more collaborative approach with the different groups of 'stakeholders' in the business. For example, companies would work more extensively with schools and colleges to fund and design courses that were more closely aligned with their needs. R & D partnerships with universities and other businesses would also expand. Similarly, they had learnt that there were risks in focusing too much on lowest cost suppliers; they would also be working more closely with key suppliers, having learnt the hard way that their operations were being placed at risk by their financial problems - in some cases, they were thinking about financing their suppliers themselves. Concerns about operational and reputational risk, as well as rising energy and transport costs, would encourage them to bring their supply chains closer to home. A more collaborative relationship with employees was also expected. Indeed,

it was already being reflected in the ‘remarkable story of what happened to the employment numbers’ outlined in Chapter 3: output had fallen by 6.2 per cent from the peak, but unemployment was down just 1.9 per cent. All in all, the strongest messages coming through reflected their concern about business reputation and the declining trust in business. All this, suggests Lambert that the era of maximizing shareholders value might be drawing to a close. ‘Suppliers, customers, employees, communities: their interests are aligned with those of shareholders over the long term, but not necessarily over the short. If they are going to be given greater weight in business decision-making, then ideas about profit maximisation will have to change’. Here he quotes two other sources with approval. One is Jack Welch, the former boss of General Electric and one of the CEOs most associated with the concept of shareholder value, who told the *Financial Times* that he now thought it was ‘the dumbest idea in the world’. The other is Peter Drucker, the business ‘guru’, who suggested that business enterprises should be seen as ‘organs of society. They do not exist for their own sake, but to fulfill a specific social purpose and to satisfy a specific need of a society, a community, or individuals. They are not ends in themselves, but means’.

The problem, which Lambert recognises but does not have an answer for, is that the market for capital is global rather than national. He reminds us that less than half the shares in the FTSE 100 companies are now owned by UK investment institutions. Moreover, these shareholder groups tend to be heavily focused on trading and short term performance, ‘preferring to take the certainty of short term capital gains rather than the risks of longer term returns’. Nowhere were the implications more obvious, he adds, than in the hostile takeover of Cadbury’s at the beginning of 2010. Ahead of the bid, less than a third of Cadbury shares were held by the institutions that have traditionally been associated with company ownership in the UK – pension funds, unit trusts and the like. Many of these argued that it was in the best interests for Cadbury to stay independent – it was Kraft whose future prospects were more uncertain - and that Kraft’s final offer was some way short of what they believed the company was worth. Yet the takeover process took on an air of inevitability. As the bid dragged on, foreign investors started to take their profits - mainly by selling their shares to short term traders and hedge funds.

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Lambert quotes the words of the Cadbury's chairman after the deal was completed:

At the end of the day, there were simply not enough shareholders prepared to take a long term view of Cadbury and prepared to forego short-term gain for longer-term prosperity. Individuals controlling shares which they had owned for only a few days or weeks determined the destiny of a company that had been built over almost 200 years.

Table 9.1 HR policies and practices: Evidence from the UK's Workplace Employment Relations Survey

Recent years have certainly seen reductions in the tiers of managers in some organisations – British Steel, which is now a subsidiary of Tata Steel, is a good example³⁶. These have rarely been accompanied, however, by the widely-promoted semi-autonomous team working. According to the 2004 WERS, around three-quarters of workplaces (72 per cent) reported that some employees were involved in formally designated teams³⁷. Yet only a small number of these, just 6 per cent, said that employees were allowed to appoint their own team leaders. Other data, from the 2001 Skills Survey, also suggests that, although there had been some increase in team working in the 1990s, there had been a substantial decline in task discretion³⁸. Less than half of employees said that they had a lot of influence on how work was done or the order in which tasks were undertaken; only a third said so in relation to the tasks performed³⁹.

Individualism rather than collectivism? There has certainly been a shift in emphasis to individual employment relations. One indicator is the number of workplaces covered by collective bargaining. In 1980, some nine out of 10 workplaces in the private sector were covered. In 2004, this had dropped to less than two in 10 (16 per cent)⁴⁰. Paralleling this development has been an increasing emphasis on performance management even where unions are recognised, as in the public sector. Yet, for all the talk, individualised contracts are very rarely found beyond the higher echelons of senior executives. Essentially, most contracts of employment tend to take a 'standard form', the written statement usually requiring the consultation of other documents that are expressly incorporated, such as staff handbooks and occupational pension schemes composed on advice from lawyers⁴¹. In theory, this makes it much easier to differentiate between each individual and pay him or her according to their performance. In practice, it is rare to find any difference between the pay of most employees and what there is, is most likely to be linked to length of service. 'Merit pay' awards for most have an uncanny similarity to movements in inflation and should more accurately be called 'cost of living awards'. Where there is variety, it is found among poor performers, who rarely exceed 5 per cent, and high performers where usually less than 10 per cent are given above average awards.

'High performance working'? Despite the rhetoric and strong public policy support for the adoption of an integrated bundle of high performance or high involvement practices, the take-up has been low. In 1998, the then WERS reported that 'high commitment management practices are associated with better economic performance, better workplace well being and a better climate of employment relations, *but just 14 percent of all workplaces have a majority of them in place*'⁴². WERS 2004 suggests very little evidence to indicate that the take up quickened in recent years. Take the three practices that, on this occasion, it uses as indicators of 'high performance working', i.e. team working, multi-skilling and problem solving groups. The proportion of continuing workplaces combining these three practices rose from 22 per cent to 29 per cent between 1998 and 2004, but the increase was

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much smaller (from 15 per cent to 19 per cent) if team working was restricted to groups exercising a degree of autonomy⁴³.

A strategic approach? The need for management to develop a more integrated approach to employment relations has been a constant theme since the publication of the Donovan Royal Commission report (1968) four decades ago. Yet, as review after review⁴⁴ has concluded, although some individual cases stand out, it is very difficult to identify any general patterns or styles in British management's approach. WERS 2004 showed that only four out of ten (38 per cent) of workplaces were accredited for by Investors in People (IiP), which requires them to have a planned approach to setting and communicating business objectives and developing people to meet those objectives⁴⁵. Less than two-thirds of workplaces (61 per cent) reported having a strategic plan covering just one of three employment relations issues, i.e. employee development, employee job satisfaction, and employee diversity.

Perhaps most interesting are the data on the workplaces that do appear to be pursuing a strategic approach. There are four findings that are important. First, there is no clear link between the measures of HRM strategies and product market strategies - quality, it seems, is not as critical in this context as many people believe. Second, there is a positive relationship between these measures and the amount of change that management has introduced at the workplace - the more changes being experienced, the greater the likelihood of a strategic approach to HRM. Furthermore, this positive relationship between HR integration and the probability of making changes held across eight types of change. Third, there is also a positive relationship between these measures and labour costs. Workplaces whose labour costs exceeded half their sales revenue or operating costs were significantly more likely than those with lower labour costs to have a strategic plan covering HRM, to involve specialist managers in its preparation and to be IiP qualified. Fourth, higher scores on the HR integration index were also associated with a higher incidence of contracted-out services. Attention to change, labour costs and contracting out are wholly consistent with the pressures for restructuring that many UK organisations have been experiencing for the reasons considered below.

The HRM function: more than personnel management by another name?

The WERS findings in respect of the specialist function are largely consistent with the picture emerging so far. Overall, it seems, the function continues to struggle to achieve the position and status associated with strategic HRM. Only just over one in four workplaces had a specialist manager who spent more than half of their time on HR matters⁴⁶. In the economy as a whole, managers responsible for employment relations were involved in the preparation of a strategic plan in around half (53 per cent) of all workplaces (ibid, 64). In multi-establishment companies, only three out of five of private sector respondents reported having someone responsible for employment relations on the board of directors or top governing body: this is important because workplaces with board-level employment relations representation were much more likely to include employment relations in a strategic business plan (ibid, 62, 64).

Yet many more workplaces had specialists in 2004 (28 per cent) than in 1998 (17 per cent) (ibid, 39). Moreover, not only had the proportion with 'human resource managers' increased –there are more 'human resource managers' than there are 'personnel managers' - they were also likely to be better qualified (especially the female specialists who considerably outnumber their male counterparts), spend more time on employment relations issues, have more staff assisting them, and more likely to be responsible for pay and pension entitlements than personnel managers. The HR label also made a difference in terms of the autonomy that local managers have when making decisions about employment relations matters. Specialist managers were also likely to seek advice from external sources. Overall, if there is no great evidence of concern with 'grand' strategy, the specialist function does appear to be developing the all-round competence that commentators have advocated⁴⁷. Equally, it does not appear that there has been any increase in the unloading of key responsibilities to either line managers or external agencies.

Summary

Changes in the policies and practices directly involved in managing the employment relationship turn out to be nowhere near as dramatic as many pundits have proclaimed. There is certainly little evidence of autonomous team working and 'high performance working'; the number of workplaces with a comprehensive strategy also appears to be very small. At the same time, however, it appears that there has been a considerable increase in performance management; there is also a close relationship between those that adopt a more strategic approach and two key variables: the extent of changes taking place and the significance of labour costs. There have also been developments in the specialist function: there appears to be a new breed of HR managers, who are better qualified and have greater responsibilities.

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Table 4.1 Mergers and acquisitions in the UK, 1997-2006⁴⁸

	By UK companies		By foreign companies	
	<i>Number</i>	<i>Value £ billion</i>	<i>Number</i>	<i>Value £ billion</i>
1997	506	26.829	193	15.717
1998	635	29.525	252	32.413
1999	493	26.163	252	60.860
2000	587	106.916	227	64.618
2001	493	28.994	162	24.382
2002	430	25.236	117	16.798
2003	558	18.679	129	9.309
2004	741	31.408	178	29.928
2005	769	25.134	242	50.280
2006	739	27.694	242	75.511

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