

## **Appendix**

### **The UK in comparative perspective**

#### **Main tasks**

- **compare the impact of employment relations in the UK with that in other countries**
- **highlight the distinctive features of the UK's employment relations and corporate governance frameworks that help to account for this impact**
- **raise suggestions for plugging some of the UK's institutional 'gaps'**

#### **Summary**

The UK compares relatively unfavourably on many of the indicators associated with the impact of employment relations. The employment rate may be higher in the UK than other countries. Yet its quality is relatively poor and the levels of pay low, resulting in relatively high levels of poverty and inequality, with implications for social mobility. Work organisation in the UK is typically rooted in the 'lean' and 'traditional' models with extensive managerial hierarchies, which is not only bad for people's personal development and long-term health, but also extremely inefficient, helping to account for the UK's relatively poor competitiveness performance: working longer hours, higher levels of supervision and proportionately more senior managers, it seems, are no substitute for employees working smarter, while 'numerical' flexibility is inferior to 'functional' flexibility. As well as the type of work organisation, there are other institutional features that help to understand the impact employment relations has

in the UK. Employment protection legislation is limited, which means insecurity and a reluctance to embrace change. The decline of collective bargaining, above all at sector level, means that large sections of the workforce no longer enjoy the benefits of the additional standards that come from collective agreements. Coupled with the absence of any provision for national social dialogue, it also means that the role, status and membership of key intermediary organisations such as trade unions and employers' organisations have been seriously affected: the UK no longer possesses the networks necessary for co-coordinating continuous improvement in key areas of personnel practice – training is perhaps the most obvious example. Along with limited employment protection, the relative lack of employee 'voice' – at workplace, sector and national level – means that employment is not contributing to social capital development to the same extent as it is in other countries. Also fundamentally important are the 'financialisation' and 'permanent restructuring' that the UK's corporate governance institutions have encouraged. These have made it very difficult for operating managers to develop any consistency in approach to employment relations, let alone create the long-term relationships that the 'learning' model requires. They have also discouraged the pursuit of business policies that emphasise quality products and services, helping to explain the UK's relatively poor overall competitive position. Encouraged by the weakness of trade unions and an institutional framework favouring 'numerical' rather than 'functional flexibility', many UK managers continue to compete on the basis of low-wage and low-skill labour with the wide ranging implications for poverty, health, quality of family life and competitiveness discussed in Chapter 2.

## **Introduction**

Having considered the impact of employment relations in a number of key areas, along with the nature and extent of the evidence for the links in Chapter 2, this Appendix turns to comparing and contrasting the UK with other countries. It is early days in the collection of robust cross-national comparative data dealing with issues such as social capital. As the European Commission points out in its *Industrial Relations in Europe 2008* report, 'Data are missing for comparing systematically, and quantitatively, the contribution of industrial

relations, exploring differences across Member States and regimes, sectors, instruments and issue areas ... This is above all true of data that would make possible a multivariate approach'<sup>1</sup>. This means that very little can be said about employment relations' relative impact - clearly, for example, employment relations are not the only explanatory variable in the case of health or social capital development. Even so, there are a number of areas where comparable data exist, in particular courtesy of the four main international organisations and their agencies, i.e. the European Commission, the International Labour Organisation, the Organisation for Economic Cooperation and Development and the United Nations. It is these data that structure the discussion that follows. To quote the European Commission again, 'if used with wisdom, the comparison of achievements and successes, or failures, across countries or regimes remains a useful learning device both for academics and practitioners, from which inspiration can be drawn'<sup>2</sup>.

To ease the problem of digestion, five countries have been selected as the basis of comparison with the UK – France, Germany, the Netherlands, Sweden and the USA. Each of these is a major competitor and/or characterised by different institutional frameworks of employment relations, reflecting state tradition and/or national business system: France is an example of the 'Latin' model, Germany and the Netherlands the 'Rhineland', and Sweden the 'Nordic'<sup>3</sup>. The USA is included because of its size and because it is often bracketed together with the UK on account of both its legal framework of employment relations and its brand of 'shareholder' capitalism.

### **Social indicators**

An area where the UK compares relatively favourably is occupational safety. According to the most recent data from Eurostat published by the HSE, it emerges that in 2005:

- The British rate of work-related fatal injury (1.4 per 100,000 workers) was the lowest across the EU, the average rate, excluding transport accidents, being 2.3 per 100,000 workers.
- The British rate of workplace non-fatal over-3-day injuries at 1,271 per 100,000 workers was the third lowest among EU member states.

- Industries reporting above average incidence of fatal and serious injuries were agriculture, construction, manufacturing and transport<sup>4</sup>

Further data on occupational health are available from the European Foundation's fourth working conditions survey. In their answer to the question 'Does your work affect your health?', only a fifth of UK respondents responded affirmatively, putting the UK at the bottom of the list<sup>5</sup>. All the other five countries reported higher levels, with the EU average being 35 per cent. The proportion taking leave because of ill-health was also less than Germany, the Netherlands and Sweden. Only France had a smaller proportion<sup>6</sup>.

Arguably, fatal and non-fatal injuries at work are the exception that helps to prove the rule. As a later section points out, it is in this area that the UK not only has extensive legislation guaranteeing employee 'voice' at the workplace level, but also long established social dialogue institutions in the form of the HSE. It is wholly consistent with the arguments of previous sections that it is because of these arrangements that health and safety policies and practices in the UK enjoy a very particular legitimacy.

A different picture emerges, however, in the case of mental health. Wilkinson and Pickett's have brought together the evidence from the WHO World Mental Health Survey Consortium) and national studies for Australia, Canada and the UK featured in Part 1. Consistent with the extensive income inequality, it emerges that the UK had one of the highest levels of mental illness of the 12 countries. Indeed, only the USA had a higher level. In the UK, more than one in five people had a mental illness, whereas in Germany fewer than one in ten did<sup>7</sup>.

The UK's comparatively good showing in occupational safety also fails to be repeated in the case of *occupationally-related health*. As the Black report observes, life expectancy is the most commonly used comparative indicator of overall health, being based on objective mortality data collected routinely in most countries<sup>8</sup>. There are two measures: overall life expectancy calculated from birth and the probability of dying before reaching the age of 60. Here our source is the United Nations Development Programme's (UNDP) 2007 collection of Human Development Indicators. As will be seen from Table A1 (Row 2), overall life expectancy in the UK was 79 years in 2005, which is higher than that of the USA, but less than the other EU

countries. The probability of dying before the age of 60 (Row 3) in the UK was on a par with France, Germany and the Netherlands, but some way behind Sweden. Arguably, for the reasons discussed in Part 1, these results reflect differences in work organisation, along with levels of income inequality, more of which below.

For *poverty* and *inequality*, our source is again the UNDP's 2007 collection of Human Development Indicators. Row 4 of Table A1 gives details of the proportion of the population living below the poverty line. The UK clearly stands out: the proportion of the population below the line (12.5 per cent) is almost twice that in Sweden and one and half times that in the Netherlands, Germany and France. Only the USA has a higher proportion in this state.

Row 5 of Table A1 gives details of the Gini coefficient, which it will be recalled is an overall measure of the spread of a country's income distribution between the highest and lowest earners – the higher the figure, the greater the income inequality. It will be seen that, at 36.0, the UK again stands out, the level of income inequality being only exceeded by that of the USA.

The UK also has a large gender pay gap. In 2006, according to the calculation of the TUC based on the European Commission's *Equality Between Women and Men – 2008*, the gender pay gap stood at 20 per cent in the UK, which is a third higher than the 27 country EU average of 15 per cent. Of the larger EU members, only Germany had a bigger gap (22 per cent)<sup>9</sup>.

To achieve their levels of pay, many UK employees also have to work longer hours than their counterparts in most other countries, thereby intensifying the impact of employment on health and family life. Eurostat figures compiled by the European Commission for its 2008 report suggest that, while overall average hours worked in the UK were similar to those other countries (i.e. around 40 hours), the proportion of the workforce working more than 48 hours was the highest in Europe even taking into account the new member states. At 18 per cent, it was more than twice the EU average at 8 per cent. The proportion of the workforce working more than 48 hours in Sweden was 1.6 per cent and in the Netherlands 1.1 per cent<sup>10</sup>.

Working longer does not necessarily mean working harder, however. The same European Commission report draws on the European Foundation's 2005 survey of working conditions to produce an index of work intensity combining answers to questions about

‘working at a very high speed’ and ‘working to tight deadlines’. Respondents in the UK, along with those in France and Netherlands, reported less intensity than the EU average. Of our five EU countries, only Germany and Sweden reported higher levels<sup>11</sup>.

In the case of *continuing vocational training* (CVT), the UK appears at first sight to compare relatively favourably, being one of the few EU countries to achieve the Lisbon 2010 target of 12.5 per of the workforce in adult learning – indeed, its record is only bettered by Sweden and the Netherlands<sup>12</sup>. The more detailed analysis enabled by Eurostat's CVTS paints a less flattering picture, however<sup>13</sup>. Checcaglini and Marion-Vernoux offer an overview of the most recent (2005) data. On the basis of the numbers of firms providing training, employees' rates of access to vocational training and the mean number of hours an employee can expect to spend in training during a given year, they distinguish four groups of countries. The first group, which includes France and Sweden, was the most actively involved. Here around three-quarters of firms declared that they had trained at least one employee that year and almost one French employee out of two spent 28 hours on CVT on average, corresponding to 13 hours per employee. The UK is bracketed in the second group, along with Germany and the Netherlands. Here employees have lower rates of access to CVT courses and the number of hours is less. Thus, in the UK, less than one employee out of three on average benefited in 2005 and the number of hours spent annually undergoing CVT per employee amounted to only about six hours, regardless of the size of firm. Furthermore, employees' rates of access to training courses in the UK had decreased by some 30 per cent since 1999<sup>14</sup>.

As Chapter 2 emphasised, CVT is just the tip of the iceberg so far as the role of the workplace in developing human capital is concerned. Also important is *on-the-job development*. Here, as the discussion in the previous section confirms, UK workplaces would appear to offer less opportunity for learning than those in the other EU countries, the 'lean' and 'traditional' models of work organisation being more prominent.

In the case of *occupational mobility*, the UK is like the other countries in that relatively few women break through the ‘glass ceiling’, the lack of flexibility at senior levels being particularly acute. In the case of managers who are women, the UK was around the

average (i.e. around 31 per cent) in 2003<sup>15</sup>; The UK is around the average for membership of executive bodies, although here the average is much less at around 10 per cent<sup>16</sup>. In the case of representation of women among top levels of civil servants, the UK had one of the lowest proportions (10 per cent) in 2007; it was middling so far as level 2 is concerned at around between 20 and 30 per cent<sup>17</sup>

One feature that is distinctive is the pattern of part-time working in the UK. Along with the Netherlands and Sweden, the UK has one of the highest ratios of part-time to full-time working for women (42.3 per cent in 2007)<sup>18</sup>. The average usual hours worked each week, however, is one of the lowest (19.4 hours)<sup>19</sup>. Part-time workers, it is widely acknowledged, suffer in terms of opportunities for promotion as well as training and development. Arguably, the shorter the hours they work, the greater the problem.

The UK hardly does better on the more general social capital indicators. In the case of divorce, in 2005 (Table A1, Row 6) the number per 1,000 of population was, along with Germany, the highest of the five EU member countries. It had peaked in the 1980s, however, and had been stable or declining ever since<sup>20</sup>. In the case of the prison population (Table A1, Row 7) - a measure of how successful a country is eradicating the underlying causes of crime<sup>21</sup> - the UK had the highest proportion of the five EU countries. Indeed, it was almost twice that in Sweden.

There are, as previously pointed out, considerable difficulties associated with defining and measuring *social capital*. In the light of these, the level of trust in society has widely come to be regarded as a 'very close proxy'<sup>22</sup>. The most commonly quoted indicator comes from the so-called 'World Values Survey, which is regularly conducted in most countries. Basically, it takes the form of the proportion of people who say that they trust 'most people'. Row 8 in Table A1 gives the most recent results for the six countries. It will be seen that the UK ranks fifth, the level of trust being only half that in Sweden and the Netherlands; it is even exceeded by that of the USA. Only France has a lower score.

The ILO's 2004 *economic security index* offers us a final measure of the UK in comparative perspective (Table A1, Row 9). Briefly, this is a composite index which takes into account the seven forms of insecurity listed in Part 1. Sweden enjoyed the highest level of

security. The Netherlands, France and Germany also featured in the top ten. The UK was in 15th place and the US 25th.

In summary, the UK compares relatively unfavourably on many of the social indicators associated with the impact of employment relations. This is particularly true of the indicators of poverty and inequality, occupationally-related health and social capital development. In as much as the levels of *poverty* and *income inequality*, coupled with long working hours, have significant implications for the quality of family life, it seems not unfair to suggest that employment relations goes some way to understanding the problems being experienced in this domain as well. Arguably, too, the exception proves the rule. Occupational safety is an area where the UK compares relatively favourably: it is also the area where the UK has long-standing employee 'voice' and social dialogue institutions.

### **Economic indicators – reaping what is sown**

The focus now shifts onto the main commonly used indicators of macroeconomic performance and competitiveness – it will be recalled that these figured prominently in the two debates involving the connection between employment relations and macro-economic performance discussed in Chapter 2. Tables A2 and A3 replicate the data that Panic has brought together, dividing the recent past into two periods. The first, 1989–98, begins with the collapse of communism, followed by German reunification a year later<sup>23</sup>. The second period, 1999–2004, starts from the inception of European Monetary Union. In both case, the source is the OECD's *Economic Outlook*.

At first sight, the UK's record looks relatively impressive. Rows 1 and 2 in Table A2 suggest that the UK enjoyed above average *growth* in both periods, helping to account for the relatively high levels of GDP reported in Table A1 (Row 1). Row 3 confirms that this was matched by relatively low levels of unemployment<sup>24</sup> – especially in the second period. The growth in consumer prices or inflation (Row 4) was also relatively restrained, again, especially in the second period. The one indicator suggesting that things might not be quite as good as they seem appears in Row 5 and relates to the *balance on trade*. Along with the USA, the UK was the only country in negative territory in both periods.

With the virtue of hindsight, it is clear that the UK's performance,

along with the USA's, flattered to deceive. It was largely based on consumer spending and heavy borrowing, the magnitude of which only became fully clear with the financial and banking crisis.

As Panic persuasively argues, there are two other relevant comments to be made about the data in Table A2. The first relates to France and Germany, whose relatively poor performance commentators regularly attributed to their supposedly excessively regulated labour markets and costly social model. This performance largely reflected the constraints of European monetary policy during the two periods, with Germany having to cope with the added burden of unification. The second, which concerns the performance of Sweden and the Netherlands, reinforces the argument that economic performance and the quality of working life are far from being mutually exclusive. Sweden's performance was similar to the UK's and, if anything, the Netherlands' slightly better; yet both these countries scored very highly on the OECD's employment protection legislation index.

Arguably, the competitiveness indicators in Table A3 give a more realistic picture of the UK's relative position. As Row 1 confirms, in the first period, the UK experienced the biggest rise in *manufacturing unit labour costs* of the six countries. Absolute performance improved in the second period, but relatively was hardly better - Sweden achieved a reduction in unit costs. The changes in *consumer prices* relative to that of the manufacturing sector in other countries shown in Row 2 similarly show a decline in competitiveness: in the other countries there was a reduction or only a slight increase in relative prices, whereas in the UK there was an increase of almost 4 per cent. Rows 3 and 4 show the impact in terms of exports. The UK's rate of *growth of exports of goods and services* (Row 3) fell behind that of the other European countries in the second period. Its *export performance*, which is shown in Row 4, was similarly weak. In the first period, it managed to match Germany's. In the second, however, it dropped not only in absolute but also relative terms, being exceeded by the four other EU countries. Overall, taking into account the various measures, Panic scores the UK lowest of the countries for export performance in both periods.

Just in case there is any doubt, the UK's poor performance cannot be attributed to the incidence of industrial conflict as it was so often in the 1960s and 1970s. As Chapter 7 has shown, strikes in the UK

dropped to an all-time low in recent years, becoming largely a public sector phenomenon. In the words of one recent international comparison talking of the UK, 'Turbulent industrial relations in the 1970s became more 'peaceful' in the 1980s, and in the 1990s conflict levels became as low as in the central European countries, a trend which has continued in the 2000s<sup>25</sup>.

In drawing this section to a close, two points can be made, both of which run contrary to conventional wisdom. The first is that the UK's 'light touch regulation' approach can hardly be said to be associated with superior economic performance. True, UK can boast of higher rates of employment than France and Germany, but the quality of many of these jobs must be in doubt in the light of comparative data on low pay and work organisation. In terms of competitiveness, the UK scores poorly on a number of the key indicators. Arguably, this reflects reliance on the 'lean' and 'traditional' models of work organisation: working longer hours, higher levels of supervision and proportionately more senior managers, it seems, are no substitute for employees working smarter. 'Numerical' flexibility, to put it another way, is no match for 'functional' flexibility. The second is that the experience of countries such as the Netherlands and Sweden suggests that the quality of working life and economic performance are far from being mutually exclusive as they are so often portrayed in the UK. Taking improving working life into account makes it possible for managers to get the motivation, commitment and loyalty that they increasingly need for success. Improved performance makes it possible for managers to bring about a sustained improvement in working lives.

## **Institutional considerations**

### *Employment relations*

In terms of the UK's national employment relations framework, three reasonably well-known features stand out, helping us to understand the impact that employment relations has in the UK. One is *the extent of employment protection legislation* (EPL). Even with the increase in individual employment rights in recent years, the UK is widely recognised to have one of the weakest frameworks of such rights<sup>26</sup>, offering little counterweight to the privileges of shareholders. Indeed,

in the OECD's list of countries by employment protection legislation, the UK is second only to the USA in terms of the weakness of its employment security provisions<sup>27</sup>.

The second distinctive feature is the *limited provision for employee 'voice'*. The statutory right of representation for the purposes of collective bargaining is workplace rather than sector or nationally-based as it is in France, Germany, the Netherlands and Sweden<sup>28</sup>. Effectively, like their counterparts in the USA, trade unions in the UK are faced with a 'catch 22' situation - they have to have members to secure recognition, but they cannot demonstrate the benefits of membership without recognition. There are also no statutory provisions for compulsory works council-type bodies as there are in France, Germany and the Netherlands: the way in which the Labour Government implemented the EU national level information and consultation directive in 2004 effectively enabled employers to avoid setting up collective 'voice' mechanisms, which was the directive's intention.

The UK also stands out on, again along with the USA, on account of its *highly decentralised structure of collective bargaining*<sup>29</sup>. The tentative forms of national level social dialogue that emerged in the 1960s and 1970s were abandoned in the 1980s. The incoming Labour Government of 1997 followed its Conservative predecessors in setting its face against systematic national level social dialogue - 'partnership' has been seen primarily as an organisation-based rather than national level activity<sup>30</sup>. Critically, being rooted in procedural rather than substantive rules, the UK did not develop the detailed sector multi-employer agreements that supplement and extend the legislative framework in most other EU member countries<sup>31</sup>. Save for a few sectors such as engineering construction and printing, multi-employer collective bargaining at sector level has been in decline since the 1960s. The result is that, whereas in 1980 collective bargaining covered some nine out of ten workplaces in the private sector, by 2004 this had dropped to less than two in ten<sup>32</sup>.

The decline of collective bargaining, above all at sector level, means that large sections of the workforce no longer enjoy the benefits of the additional standards that come from collective agreements. Coupled with the absence of any provision for national social dialogue, it also means that the role, status and membership of key intermediary organisations such as trade unions and employers'

organisations have been seriously affected: the UK no longer possesses the networks necessary for co-coordinating continuous improvement in key areas of personnel practice – continuing vocational training is perhaps the most obvious example. Along with limited employment protection, the relative lack of employee 'voice' – at workplace, sector and national level – means that employment is not contributing to social capital development to the same extent as it is in other countries. Arguably, too, there is a greater reluctance to embrace change.

One particular result is that, unlike many EU member countries, the UK has been unable to take advantage of the increasing flexibility built into EU employment directives, reflecting their increasing 'reflexive' and 'procedural' orientation. In the absence of national and sector arrangements for social dialogue, it is effectively restricted to the legislative route in transposing EU initiatives. Standards and entitlements have had to be laid down in law, with mechanisms other than collective bargaining, such as employment tribunals and/or the courts, ensuring compliance and redress. An unfortunate consequence is a growth of legal dependency. The parties to the employment relationship are encouraged to resort to legislation rather than trying to sort things out for themselves – something which, hardly surprisingly, does little to help to promote engagement or trust and therefore social capital development.

The main exception to these generalisations is health and safety. In this area, the UK not only has extensive legislation guaranteeing employee 'voice' at the workplace level, but also long established social dialogue institutions, in the form of the Health and Safety Executive (HSE), dating back to the Robbins report of the early 1970s<sup>33</sup>. This has enabled the HSE to go beyond an enforcement role to be a major influence on the promotion of good practice.

Although they have featured in case studies and general overviews, lack of data has meant that it has rarely been possible to make systematic cross-national comparisons at workplace level. Fortunately, the flow of such data is beginning to improve. Especially valuable are the European Foundation's living and working conditions surveys introduced in Chapter 2. It will be recalled from Lorenz and Valerie's analysis draws on the 2000 survey results to distinguish four main models of work organisation. Especially relevant is the

distinction between the 'learning' and 'lean' models. Both draw on employees' capacity for continuous learning and problem-solving, but the one emphasises worker autonomy, while the other prioritises managerial control and tight quantitative norms to fix the pace of work. It emerges that, even allowing for different degrees to which national producers are positioned on the high-technology or high quality end of product markets, there are significant differences between countries. Table A4, which draws on the 2005 survey results, gives details of the relative incidence of the four models.

Quite clearly, compared to the other four EU countries, it is the 'lean' rather than the 'learning' model that predominates in the UK. Indeed, the proportion of 'learning' workplaces in the UK is even less than the 27-country average, while that for the 'lean' model is higher: the UK's proportion of 'learning' workplaces is less than half that of Sweden, while its figure for 'lean' ones is twice as many. At the other end of the spectrum, the UK also stands out on account of the high proportion of 'traditional' workplaces – almost twice that of Sweden and, again, above the 27-country average<sup>34</sup>.

The same survey also makes it possible to get an impression of the extent of managerial hierarchies in the different countries. Perhaps not surprisingly, this mirrors the dominant model of work organisation. Consistent with the top down control of the 'lean' and 'traditional' models, the UK employs more 'senior managers' proportionately than the other EU countries. Indeed, of the 27 EU member countries only Ireland and Italy reported higher proportions. In the UK, something of the order of 14 per cent to 15 per cent was categorised as 'senior managers' as against an EU average of just under 10 per cent. In the Netherlands and France, the proportion was about the average at around 8 per cent. In Sweden and Germany, only just over four per cent were in the 'senior manager' category<sup>35</sup>.

There is yet a third set of relevant findings from the European Foundation' working conditions survey that bear on work organisation. This involves the relative importance in determining the pace of work of the direct control of a superior as opposed to the demands from other people. Consistent with the other sets of findings, it emerges that, in the UK, the balance is much more in favour of the direct control of a superior than in France, Germany, the Netherlands and Sweden. Indeed, in the words of the survey report, whereas in countries such as Sweden the direct control of a superior is 'almost

negligible' in determining work, in the UK it remains 'important'<sup>36</sup>.

In short, the UK stands out not just on account of its national institutional framework – one that gives little employment protection and scarcely any provision for employee 'voice'. Also distinctive are the institutional arrangements involved in managing the employment relationship at the level of the organisation. Managerial hierarchies, it seems, are more extensive in the UK than in other countries and there is much greater reliance on 'lean' and 'traditional' models of work organisation involving supervision. By contrast, the 'learning model' that encourages employee autonomy and initiative is less in evidence.

### *Corporate governance*

As Chapter 8 pointed out, there are also a number of features of the corporate governance arrangements of the UK's brand of 'shareholder capitalism' that are distinctive and highly relevant to the conduct of employment relations. At the risk of repetition, they are:

- 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, pension funds and hedge funds, which encourages a focus on short-term profitability as the key index of business performance rather than long-term market share or added value
- 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, along with the reconfiguring of the corporation through outsourcing, off-shoring and restructuring
- 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<sup>37</sup>.

As Chapter 8 emphasised, many of these features came to be exaggerated, following financial deregulation in the 1980s and the accompanying globalisation of capital markets. Apart from the USA, no country has been more affected by 'financialisation' than the UK.

Along with high levels of M&A activity<sup>38</sup> and other kinds of investment/ divestment heavily financed by debt, evidence for this comes in several forms: the rise in the number and financial assets of hedge funds<sup>39</sup>, the financial resources leveraged by private equity companies<sup>40</sup> and the levels of executive pay and stock options<sup>41</sup> that helped to fuel the significant growth in income inequality.

Not only has the 'permanent restructuring' that 'financialisation' encourages made it difficult for operating managers to develop any consistency in approach to employment relations. It has also discouraged the pursuit of business policies that emphasise quality products and services, helping to explain the UK's relatively poor overall competitive position. Encouraged by the weakness of trade unions and an institutional framework favouring 'numerical' rather than 'functional' flexibility, many UK managers have continued to compete on the basis of low-wage and low-skill labour. As well as hardly encouraging employees to go the proverbial extra mile, working harder rather than smarter has the wide ranging implications for the poverty, health, quality of family life and competitiveness discussed in previous sections.

## **Conclusions and implications**

For UK policy makers, this comparison must make grim reading. For two conclusions are pretty inescapable. The first is that many of the objectives they have set themselves – ending child poverty, enhancing the quality of family life, improving health, increasing social mobility and building a knowledge economy<sup>42</sup> – are unlikely to be achieved unless there are substantial changes in the UK's institutional framework of employment relations. Above all, there has to be a shift from the 'traditional' and 'lean' forms of work organisation that are so harmful to people's health and personal development as well as being a drag on business performance. The second is that the 'market' is not going to deliver such a shift, any more than it is a responsible banking system. The same goes for the 'learning organisation' and 'knowledge economy'. The shrinking in the size and influence of the financial sector, along with a reining in of 'financialisation', may lead to a refocusing on product and process as the main forms of competition and, in terms of horizons, greater emphasis on the long as opposed to the short term – all of which will put a premium of better

employment relations. Even so, it will be very difficult for individual companies to shift from ‘traditional’ and ‘lean’ forms of work organisation on their own – policy makers will have to help to bring these changes about, be it in the traditional forms of intervention of legislation and taxation or the ‘softer’ initiatives of the ‘nudge’ approach much favoured by the present Coalition Government<sup>43</sup>.

It is not difficult to come up with suggestions for plugging the UK's institutional ‘gaps’ that go with the grain of existing structures and processes - David Coats and his former colleagues at the Work Foundation have put forward a wide-ranging programme of changes<sup>44</sup>; the author of this text has also made a number of suggestions<sup>45</sup>. The problem is getting policy makers to recognise the critical importance of the workplace in influencing behaviour. Proof of the point lies in the failure to make anything of the opportunities that have been available in recent years – they include the EU Directive providing for national level information and consultation machinery, which would have given employees, through their representatives, an opportunity to make an input to major business decisions, thereby promoting their legitimacy and contributing to engagement; the Company Law Commission’s recommendation that larger companies should produce Operating and Financial Reviews covering policies and practices across a range of social and environmental issues, which would have provided the basis for widespread benchmarking and continuously improving standards; and the ‘Warwick Agreement’ proposal for sector forums, which would have made it possible to develop strategies for productivity, health and safety, pay, skills and pensions’ in low paid industries with large numbers of ‘vulnerable workers’. Each of the opportunities was missed – some for ideological reasons, but mostly because of short-term political considerations, reflecting the contested nature of policy-making in the area. For, in practice, the Labour Governments’ much-vaunted ‘third way’ meant little more than a ‘pendulum approach’: anything resembling a concession to trade unions, such as signing the social chapter or a commitment to introduce statutory trade union recognition, had quickly to be balanced by downplaying its significance and/or limiting its impact.

Arguably, very little is likely to change until there is some joined up policy making in the area. This would mean bringing back a

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Department of Employment as Coates recommends<sup>46</sup> or revamping Acas as an agency reporting through the cabinet office as the present author has suggested<sup>47</sup>. For such developments to happen, however, policymakers have to recognize the key message of this text, namely that employment relations matter.

**Table A1 Social indicators<sup>48</sup>**

	<i>France</i>	<i>Germany</i>	<i>Netherlands</i>	<i>Sweden</i>	<i>UK</i>	<i>USA</i>
GDP per head (PPP, US \$), 2005	30,386	29,461	32,684	32,525	33,238	41,890
Life expectancy at birth, 2005	80.2	79.1	79.2	80.5	79.0	77.9
Probability at birth of dying before 60th birthday (per cent of cohort, 2000-5)	8.9	8.6	8.3	6.7	8.7	11.6
Population below 50% of the median poverty line, 2004-5	7.3	8.4	7.3	6.5	12.5	17.0
Gini index of income inequality various dates	32.7	28.3	30.9	25.0	36.0	40.8
Social trust (per cent of those who trust 'most people')	23	36	69	76	30	36
ILO Economic Security Index, 2004	0.83	0.79	0.86	0.98	0.74	0.61

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**Table A2 Macroeconomic indicators** (annual averages, per cent: A=1989–98; B=1999–2004)<sup>49</sup>

	<i>France</i>		<i>Germany</i>		<i>Netherlands</i>		<i>Sweden</i>		<i>UK</i>		<i>USA</i>	
	A	B	A	B	A	B	A	B	A	B	A	B
Growth of real aggregate demand	2.4	1.9	0.7	1.3	1.4	2.0	1.9	3.6	3.1	3.0	3.4	0.6
Growth of GDP (at constant prices)	2.2	2.1	1.2	1.8	1.7	2.4	2.8	3.8	2.7	3.0	3.0	1.6
Unemployment (standardised)	10.6	9.4	7.2	8.5	5.8	3.3	6.7	5.6	8.1	5.2	5.9	5.2
Consumer prices	2.2	1.8	2.7	1.3	2.1	2.8	4.0	1.4	4.0	1.2	3.3	2.5
Balance on trade in goods and services as per cent of GDP	0.7	1.1	0.0	0.9	4.2	3.1	0.7	5.4	-1.9	-2.1	-1.4	-4.4

**Table A3 Changes in international competitiveness** (annual averages, per cent): A =1989–98; B=1999–2004<sup>50</sup>

	<i>France</i>		<i>Germany</i>		<i>Netherlands</i>		<i>Sweden</i>		<i>UK</i>		<i>USA</i>	
	A	B	A	B	A	B	A	B	A	B	A	B
Relative unit labour costs in manufacturing (a)	-1.4	1.1	1.4	0.0	0.5	1.2	-2.4	-2.3	4.4	1.2	-0.4	-1.2
Relative consumer prices (a)	-0.2	-0.3	0.2	-0.8	-0.5	1.3	-1.0	-1.0	1.2	3.9	•	0.4
Growth of exports of goods and services	6.5	3.6	5.7	5.6	4.5	5.7	6.5	4.5	5.7	3.4	7.9	2.6
Export performance (b)	0.6	-1.8	-1.1	0.4	0.9	-0.7	0.6	0.4	-0.4	-2.2	0.6	-2.8

a In dollar terms, relative to that of the manufacturing sector in 42 countries. Minus indicates improvements in competitiveness.

b Change in each country's volume of exports of all goods and services relative to that of the volume of total imports of goods and services into its export markets. Minus indicates that the performance is deteriorating.

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**Table A4 National differences in work organisation models** (% of employees)<sup>51</sup>

	'Discretionary Learning'	'Lean '	'Taylorist'	'Traditional'
France	47.7	23.8	17.5	11.0
Germany	44.3	19.9	18.4	17.4
Netherlands	51.6	24.3	11.4	12.7
Sweden	67.5	16.0	6.9	9.6
United Kingdom	31.7	32.4	17.7	18.2
EU-27	38.4	25.7	19.3	16.4

## References and notes

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- <sup>1</sup> European Commission. 2009. *Industrial Relations in Europe in 2008*. DG Employment and Social Affairs, Brussels. p.70.
- <sup>2</sup> European Commission. 2009. *Industrial Relations in Europe in 2008*. DG Employment and Social Affairs, Brussels. p.70.
- <sup>3</sup> For further details, see Marginson, P. and Sisson, K. 2004. *European integration and industrial relations. Multi-level governance in the making*. Basingstoke: Palgrave. Chapter 2.
- <sup>4</sup> For further details, see [www.hse.gov.uk/statistics/european/index.htm](http://www.hse.gov.uk/statistics/european/index.htm).
- <sup>5</sup> European Foundation for the Improvement of Living and Working Conditions. 2007. *Fourth Working Condition Survey*. Dublin: European Foundation for the Improvement of Living and Working Conditions. p.61, Figure 7.1. Available at [www.eurofound.europa.eu](http://www.eurofound.europa.eu).
- <sup>6</sup> European Foundation for the Improvement of Living and Working Conditions. 2007. *Fourth Working Condition Survey*. Dublin: European Foundation for the Improvement of Living and Working Conditions. p.64, Figure 7.7. Available at [www.eurofound.europa.eu](http://www.eurofound.europa.eu).
- <sup>7</sup> Wilkinson, R. and Pickett, K. 2009. *The spirit level: why more equal societies almost always do better*. London: Allen Lane. pp. 66-8.
- <sup>8</sup> Black, C. 2008. *Working for a healthier tomorrow. Review of the health of Britain's working age population*. Presented to the Secretary of state for Health and the Secretary of State for Work and Pensions 17th March. London: TSO. p.29.
- <sup>9</sup> TUC. 2008. *Hard work, hidden lives. The full report of the Commission on Vulnerable Employment*. London: TUC. The TUC reminds us that the European Commission presents the gender pay gap in 'unadjusted form' – the difference between men's and women's average gross hourly earnings as a percentage of men's average gross hourly earnings. The gender pay gap is based on several data sources, including the European Community Household Panel (ECHP), the EU Survey on Income and Living Conditions (EU-SILC) and national sources. The target population consists of all paid employees aged 16-64 that are 'at work 15+ hours per week'.

<sup>10</sup> European Commission. 2009 *Industrial Relations in Europe in 2008*. DG Employment and Social Affairs, Brussels. p.64: Chart 2.4. Available at [www.eurofound.europa.eu](http://www.eurofound.europa.eu).

<sup>11</sup> European Foundation for the Improvement of Living and Working Conditions. 2007. *Fourth Working Condition Survey*. Dublin: European Foundation for the Improvement of Living and Working Conditions.p.58, Figure 6.9. Available at [www.eurofound.europa.eu](http://www.eurofound.europa.eu).

<sup>12</sup> European Commission. 2009 *Industrial Relations in Europe in 2008*. DG Employment and Social Affairs, Brussels. p.60: Chart 2.2). Available at [www.eurofound.europa.eu](http://www.eurofound.europa.eu).

In the UK, achieving the Lisbon target is highly correlated with the recognition of trade unions: respondents in workplaces where trade unions were recognised were more likely to have members of the workforce in workplace training than those that did not.

<sup>13</sup> Eurostat (Nestler, K. and Kailis, E.) 2003. ‘Continuing vocational training in enterprises in the European Union (CVT2)’. *Statistics in focus*. Population and Social Conditions, Theme 3. Luxembourg: Office for Official Publications of the European Communities. Available at: [www.eurostat.ec.europa.eu](http://www.eurostat.ec.europa.eu); Eurostat (Nestler, K. and Kailis, E.) 2003. ‘Working time spent on continuing vocational training in enterprises in Europe’. *Statistics in focus*. Population and Social Conditions, Theme 3. Luxembourg: Office for Official Publications of the European Communities. Available at [www.eurostat.ec.europa.eu](http://www.eurostat.ec.europa.eu).

<sup>14</sup> Checcaglini, A. and Marion-Vernoux, I. 2008 ‘Trends in European companies’ vocational training practices’. *Céreq*, No 80 May-June.

<sup>15</sup> European Commission. 2005. ‘Communication from the Commission to the Council, the European Parliament, the European Economic and social committee and the Committee of the Regions. Report on equality between men and women’. p.16.

<sup>16</sup> European Commission. 2005. ‘Communication from the Commission to the Council, the European Parliament, the European Economic and social committee and the Committee of the Regions. Report on equality between men and women’. p.16.

<sup>17</sup> European Commission. 2008. *Women and men in decision making. Analysis of the situation and trends.* p.46. Available at: [http://ec.europa.eu/employment\\_social/publications/2008/ke8108186\\_en.pdf](http://ec.europa.eu/employment_social/publications/2008/ke8108186_en.pdf)

<sup>18</sup> There is another interesting contrast between the UK and Sweden. Both countries have roughly the same employment rate for women. In Sweden, the maternal employment rate (i.e. the number of women with children in employment) is only slightly lower than the overall rate, whereas it falls to two-thirds in UK. Also a much higher proportion of maternal rate is part-time in UK. Public spending on childcare in Sweden is around five times that of UK. In the UK, two thirds of women without children have full time jobs, whereas less than a third of mothers are in full time employment.

<sup>19</sup> Eurostat (Romans, F. and Preclin, V.) 2008. European Union Labour Force Survey-Annual results 2007. *Population and social conditions in focus.* Tables 1 and 4. Luxembourg: Office for Official Publications of the European Communities. Available [www.eurostat.ec.europa.eu](http://www.eurostat.ec.europa.eu).

<sup>20</sup> Eurostat figures quoted in Cabinet Office - the Strategy Unit. 2008. *Families in Britain. An evidence paper.* p.25. Available at [www.cabinetoffice.gov.uk/strategy..](http://www.cabinetoffice.gov.uk/strategy..)

<sup>21</sup> Panic, M. 2005. 'Reconstruction, development and sustainable peace: a unified programme for post-conflict countries, in UN Department for Economic and Social Affairs, Development Challenges in Sub-Saharan Africa and Post-Conflict Countries, Report of the Committee for Development Policy'. New York: United Nations.

<sup>22</sup> Organisation for Economic Cooperation and Development (Cote, S and Healey, T.). 2001. *The Well Being of Nations. The Role of Human and Social Capital.* Paris: OECD. p.42.

<sup>23</sup> Panic, M. 2007. 'Does Europe need neo-liberal reforms?' *Cambridge Journal of Economics*, No 31, 145–169.

<sup>24</sup> Cabinet Office - the Strategy Unit. 2008. *Getting on, getting ahead. A discussion paper: analysing the trends and drivers of social mobility.* Available at [www.cabinetoffice.gov.uk/strategy](http://www.cabinetoffice.gov.uk/strategy).

According to the Cabinet Office's Strategy Unit report quoting a European Foundation's 2008 European restructuring monitor study, job quality has

been improving in UK on the basis of the increase in the proportion of higher paying jobs. This is true, but the study goes on to say that this movement was not as strong as in other countries. The UK, along with Germany, was classed as a hybrid case of 'polarisation' and 'upgrading'. For further details, see European Foundation for the Improvement of Living and Working Conditions. 2008. *More and better jobs: Patterns of employment expansion in Europe*. Dublin: European Foundation for the Improvement of Living and Working Conditions. Available at [www.eurofound.europa.eu](http://www.eurofound.europa.eu).

<sup>25</sup> Scheuer, S. 2006. 'A Novel Calculus? Institutional Change, Globalisation and Industrial Conflict in Europe'. *European Journal of Industrial Relations*, Vol.12; No.2, 143-164.

<sup>26</sup> As the then Prime Minister boasted in the foreword to the proposed programme of legislation outlined in *Fairness at work* (1998), the UK would remain 'the most lightly regulated labour market of any leading economy in the world' (House of Parliament, 1998: *Fairness at Work*. London: The Stationary Office).

Ironically, the financial and economic crisis led employers' representatives to complain about the relative lack of employment security in the UK. In the light of a 75 per cent reduction in orders, Matthew Taylor, chief executive of JCB, is quoted as saying: 'We are making some very good employees redundant and that hurts'. He went on to contrast the position in the UK with that in Germany, where it was possible to put JCB's employees on a two-day week, with the Government making up some of the wages to avoid lay-offs *The Sentinel*. 2009. 'Fears for bleak future as more job cuts loom'. Tuesday, 13 January. Available at [www.thisisstaffordshire.co.uk/panels/Fears-bleak-future-job-cuts-loom/article-608714-detail/article.html](http://www.thisisstaffordshire.co.uk/panels/Fears-bleak-future-job-cuts-loom/article-608714-detail/article.html)

<sup>27</sup> Organisation for Economic Cooperation and Development. 2004. 'Employment protection and labour market performance'. Chapter 2. *OECD Employment Outlook*. Paris: OECD. p.72, Chart 2.1.

<sup>28</sup> Marginson, P. and Sisson, K. 2004. *European integration and industrial relations. Multi-level governance in the making*. Basingstoke: Palgrave.

<sup>29</sup> Traxler, F., Blaschke, S. and Kittel, B. 2001. *National Labour Relations in Internationalised Markets*. Oxford: OUP; European Commission. 2009 *Industrial Relations in Europe in 2008*. DG Employment and Social Affairs, Brussels. p.70. Available at [www.eurofound.europa.eu](http://www.eurofound.europa.eu).

- <sup>30</sup> Taylor, R. 1999: Blair 'rejects' partnership with unions and employers. *Financial Times* 7 July.
- <sup>31</sup> Sisson, K. 1987. *The Management of Collective Bargaining: an International Comparison* Oxford: Blackwell.
- <sup>32</sup> Kersely, B., Alpin, C., Forth, J., Bryson, A., Bewley, H., Dix, G. and Oxenbridge, S. 2006. *Inside the Workplace: Findings from the 2004 Workplace Employment Relations Survey* London: Routledge. pp.179-84.
- <sup>33</sup> Bach, S. 1994. 'The working environment', in Sisson, K. (ed). *Personnel Management: a comprehensive guide to theory and practice in Britain*. Oxford: Blackwell.
- <sup>34</sup> The fourth *European Working Conditions Survey* includes several indicators of autonomy at work: three of these have to do with the worker's freedom to exercise control over the work process (the ability to choose or change the order of tasks, the methods of work and the speed or rate of work); the fourth refers to the influence the worker has over the choice of working partners, and the fifth concerns the ability of the worker to interrupt their work in order to take a short break, when they wish. On the basis of a composite indicator drawn based on the five indicators, of the five European countries, Sweden and the Netherlands displayed the highest levels of autonomy, followed by France. The UK was in fourth place, at around the EU average, with Germany bringing up the rear. For further details, see European Foundation for the Improvement of Living and Working Conditions. 2007. *Fourth Working Condition Survey*. Dublin: European Foundation for the Improvement of Living and Working Conditions. p.51, Table 6.1. Available at [www.eurofound.europa.eu](http://www.eurofound.europa.eu).
- <sup>35</sup> European Foundation for the Improvement of Living and Working Conditions. 2007. *Fourth Working Condition Survey*. Dublin: European Foundation for the Improvement of Living and Working Conditions. p.6, Figure 1.3. Available at [www.eurofound.europa.eu](http://www.eurofound.europa.eu).
- <sup>36</sup> European Foundation for the Improvement of Living and Working Conditions. 2007. *Fourth Working Condition Survey*. Dublin: European Foundation for the Improvement of Living and Working Conditions. p.57, Figure 6.7. Available at [www.eurofound.europa.eu](http://www.eurofound.europa.eu).

<sup>37</sup> Sisson, K. and P. Marginson. 1995. 'Management: Systems, Structures and Strategy', in P.K. Edwards (ed) *Industrial Relations: A Comprehensive Guide to Theory and Practice in Britain*. Oxford: Blackwell. pp.89-122; Sisson, K. and P. Marginson. 2003. 'Management: Systems, Structures and Strategy', in P.K. Edwards (ed.) *Industrial Relations: Theory and Practice (second edition)*. Oxford: Blackwell. pp.157-88.

<sup>38</sup> Office for National Statistics. 2007. *Mergers and Acquisitions involving UK Companies: 4th Quarter 2006*. First Release. London, ONS.

<sup>39</sup> According to IFSL Research, in 2007 London was the second largest global hedge fund centre after New York, being home to two-thirds of the 1,500 European-based funds. Its share of global hedge fund assets more than doubled between 2002 and 2007 to 20 per cent with the result that, at the end of 2007, four-fifths of the stock of European hedge fund assets totaling around \$500bn were managed out of the UK, the vast majority from London.

IFSL Research goes on to explain that London's strong position is due to many factors including its local expertise, the proximity of clients and markets, a strong asset management industry and a favourable regulatory environment. London is also a leading centre for hedge fund services such as administration, prime brokerage, custody and auditing. The financial barriers to entry into prime brokerage are high and business is principally conducted by large investment banks. With around a half of European investment banking activity conducted through London, it is a natural location for prime brokerage services (for further details go to *IFSL Research Hedge Funds 2008* at [www.ifsl.org.uk](http://www.ifsl.org.uk)).

<sup>40</sup> One review (Private Equity International) suggests that London was also second only to New York in terms of the location of the number of major private equity companies. Eleven of the top 50 by funds raised since 2002 were located in London – other European capitals could only muster four between them (Amsterdam, Paris and Stockholm (2)).

<sup>41</sup> See, for example, Towers Perrin 'World Total Remuneration' reports. In his RSA/Sky Sustainable Business Lecture quoted in Chapter 8, the Director General of the CBI draws attention to what he describes as 'another big change in corporate culture, at least for the biggest companies. According to Income Data Services, the chief executives of the UK's 100 largest companies will have earned 81 times the average pay of all full-time workers in 2009, up from 47 times the average wage back in the year 2000'.

For further details, see Lambert, R. 2010. RSA/Sky Sustainable Business Lecture Series – 30 March. ‘Does business have a role as a ‘force for good’ in creating a more sustainable economic, social and environmental future?’

<sup>42</sup> Cabinet Office - the Strategy Unit. 2008. *Families in Britain. An evidence paper*. Available at [www.cabinetoffice.gov.uk/strategy](http://www.cabinetoffice.gov.uk/strategy).

<sup>43</sup> Thaler, R.H. and Sunstein, C.R. 2008, *Nudge: Improving Decisions About Health, Wealth and Happiness*. New Haven and London: Yale University Press.

<sup>44</sup> Coats, D. 2010. *Time to cut the Gordian Knot – the case for consensus and reform of the UK’s employment relations system*. London: The Smith Institute.

<sup>45</sup> Sisson, K. 2006. *Responding to Mike Emmott: What “industrial relations” suggests should be at the heart of “employee relations”*. Available at [www2.warwick.ac.uk/fac/soc/wbs/research/irru](http://www2.warwick.ac.uk/fac/soc/wbs/research/irru); Sisson, K. 2009. ‘Why employment relations matter’. *Warwick Papers in Industrial Relations* No 92. Coventry: Industrial Relations Research Unit.

<sup>46</sup> Coats, D. 2010. *Time to cut the Gordian Knot – the case for consensus and reform of the UK’s employment relations system*. London: The Smith Institute.

<sup>47</sup> Sisson, K. 2009. ‘Why employment relations matter’. *Warwick Papers in Industrial Relations* No 92. Coventry: Industrial Relations Research Unit. Available at [www2.warwick.ac.uk/fac/soc/wbs/research/irru/wpir/](http://www2.warwick.ac.uk/fac/soc/wbs/research/irru/wpir/)

<sup>48</sup> Source is Panic based on Eurostat, ILO and UNHRD data. For further see Panic, M. 2007. ‘Does Europe need neo-liberal reforms?’ *Cambridge Journal of Economics*, No 31, 145–169.

<sup>49</sup> Source is Panic based on OECD, *Economic Outlook 2005*. For further details, see Panic, M. 2007. ‘Does Europe need neo-liberal reforms?’ *Cambridge Journal of Economics*, No 31, 145–169.

<sup>50</sup> Source is Panic based on OECD, *Economic Outlook 2005*. For further details, see Panic, M. 2007. ‘Does Europe need neo-liberal reforms?’ *Cambridge Journal of Economics*, No 31, 145–169.

<sup>51</sup> European Foundation for the Improvement of Living and Working Conditions (Valeyre, A., Lorenz, E., Csizmadia, P., Gollac, M. Illéssy, M. and Makó, C.) 2009. *Working conditions in the European Union: Work organisation*. Dublin: European Foundation for the Improvement of Living and Working Conditions. Available at [www.eurofound.europa.eu](http://www.eurofound.europa.eu).