

“The British way of work should not be abandoned in the face of austerity...”

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## UP TO THE JOB

John Knell  
John Philpott



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## Introduction

Britain's labour market works well. Long gone is the so-called British 'labour problem' evident in the 1960s and 1970s, an era when wage settlements sky rocketed even when unemployment was high. During the long boom from the early 1990s until the financial crisis that emerged in the late 2000s, the UK combined a world beating rate of employment with low and stable wage inflation and sustained growth in real incomes. And when the great recession hit we suffered a smaller than expected increase in unemployment, with reductions in wages and hours of work more prevalent than job cuts.

Yet despite this obvious improvement in the functioning of the labour market the British way of work wins surprisingly few plaudits. There is concern about the types of jobs we do, about the extent of pay inequality, about how well we organise and manage people to get the best out of them in the workplace, and about what people feel about the overall quality of their working lives and their willingness to 'go the extra mile' for the organisations that employ them.

Our economy has more people working in high skilled jobs than ever before and as a nation we're more skilled than ever before. With trade unions in advanced retreat across the private sector there are few strikes and little constraint is exercised by organised labour on managers' ability to manage. But labour productivity nonetheless on average remains relatively low by international standards and varies markedly between the best performing private sector organisations and the majority, while low productivity continually bedevils the performance of many public sector organisations.

Moreover, while available evidence shows a high overall level of job satisfaction in British workplaces, only a small minority of employees say they feel engaged with their

employers. Effective communication, trust in senior management and a general sense of well being within workplaces is often very low. Employees have also experienced a marked fall in how much autonomy they have over their work and a large proportion reckon they are overqualified for the jobs they do.

### Britain's 'work problem'

All this places a big question mark over whether the British way of work is up to the job. The symptoms are plain to see: reduced employee and organisational performance, in many cases accompanied by rapid labour turnover, high levels of work-related stress and sickness absence. All these negative effects hit the bottom line performance of private sector organisations and the ability of public sector organisations to provide quality services, not to mention economic growth in the economy as a whole. Britain may have waved goodbye to its old style labour problem but still appears to have a significant 'work problem'.

It is not supposed to be like this. Pick up any book on human resources management published in the last 20 years and you'll find recipes for cutting the costs associated with poor management practice plus route maps to success founded on job enrichment, staff development, greater scope for employee autonomy in teams as well as individually, and continual two-way communication between managers and employees to establish trust and purposive engagement.

Similarly, reams of research by economists and psychologists show that while decent pay and job security are important to employees, what really makes people happy and most likely to engage with their organisations is a clear sense of organisational purpose, autonomy and scope for discretion, control over their pace of work, a supportive climate, a dynamic workplace atmosphere and the ability to participate in decision making.

Human resources professionals and the Chartered Institute of Personnel and Development (CIPD), as the leading voice of the human resources community, are among the most ardent

advocates of a shift toward a way of work that combines precisely these features and advances the shared interest of organisations and the people they employ. Although the first to admit that considerable further progress has to be made in the spread of effective people management and high engagement organisational cultures, the human resources community persists in the belief that this is where workplaces have been heading in recent years and is what the future of work will inevitably look like.

What even the most optimistic human resources professional must surely acknowledge, however, is that even in workplaces where one observes the full gamut of people management practices, organisational culture often pays only lip service to meaningful employee engagement. Similarly, ostensibly well managed workplaces can also suffer poor employee engagement if too many staff approach work with the mindset of wanting to know what the organisation can do for them, rather than what they can do for the organisation.

### Paradise postponed?

Moreover, the lurking suspicion is that in many workplaces things will get worse rather than better in what is likely to be a tough decade for the UK economy as individuals, businesses and governments pay down the debt incurred before and during the financial crisis. At the very least, organisations that merely ‘talked the people stuff’ to attract and retain staff in the so-called ‘nice decade’ of high employment before the financial crisis are more likely to adopt a harsher style of management, while even more employees will become either insecure or disengaged.

At best, austerity threatens to diminish the existing tangible quality of work – pay, conditions and job security – whether in hard pressed private businesses or in the public sector where government spending cuts will lead to job losses, pay freezes and a paring of pension provision. At worst, it could harm prospects for economic growth and efforts to improve the quality of public service provision by stalling progress in organisations attempting to build employee engagement and reinforcing disengagement where this already exists.

A worrying shift in business rhetoric is already detectable. Most of the leading employers' bodies are actively lobbying the Government to pursue a post-recession economic growth agenda that has lower labour costs and 'deregulated employment flexibility' at its core, while simultaneously highly sceptical of interventionist policy measures designed to modernise workplaces.

If this is what British business wants from government in the coming decade one can't put too much hope in the prospect of rapid advance toward effective workplace management practice or a change in organisational culture. But if so, economic growth and public sector reform is more likely to be hindered than helped since heightened forms of employee disengagement generated by job insecurity and stress represent a serious threat to the sustained performance of organisations.

### **Why we need an urgent rethink on work**

This is obviously of great concern to the CIPD which – to adopt the title of a current CIPD action research project – aims to help develop the next generation of professional human resources practice so that organisations move beyond the existing emphasis on process management and policing of employee behaviour. Whereas long-term economic and social progress requires a workplace management agenda that boosts both business performance and employee wellbeing, we fear that in tougher times organisations will come under ever greater short-term financial pressure to do the exact opposite.

As this essay argues, therefore, it is now more vital than ever that we openly admit that Britain has a work problem in order to provoke a genuine rethink of the British way of work.

We begin by looking at how the British way of work has evolved to where it is today. Our review outlines where things have gone right, where and why they have gone wrong, and as a guide to what might happen in the next few years shows how the evolution of work in Britain has over time been influenced by economic developments.

We then present our proposed solution to Britain's work problem: highlighting the kind of organisational cultures and people management practices that appear most conducive to combining high employee performance with high wellbeing; outlining what this implies for employers, employees, public policy makers and the human resources community; and making clear why such a rethink of the British way of work is not pie in the sky indulgence in today's tough times but essential for sustained economic and social progress.



# 1 Why Britain has a ‘work problem’

The interplay, and obvious tensions, between different perspectives of how best to manage people at work has been evident throughout the history of capitalism, with prevailing thinking shifting in line with economic and social developments and related public policy imperatives.

The dominant influence in the past 30 years has been the combined impact of rapid technological advance and globalisation. This has pushed all developed economies to become more flexible in the face of tougher competitive pressures and changing patterns of consumer demand by shifting productive capacity, including human resources, to sectors with high growth and job creation potential.

Britain’s policy makers have in this context sought to assist organisations by removing barriers to structural change. This has involved minimising perceived labour market rigidities, notably by maintaining curbs on trade union activities and operating one of the most lightly regulated labour markets in the developed world. In addition, skills, welfare and immigration policies have been designed to help ensure employers have an adequate supply of employable people able to fill emerging job vacancies and, if and when necessary, capable of switching fairly easily from one type of employment to another.

The consequences for work can be viewed in the changing *face* of work – the types of jobs we do, how much jobs pay, who does them and so on – and the changing *way* of work – how people are organised and managed in the workplace. Our prime concern in this essay is the British way of work, but this is obviously intimately related to and affected by the changing face of work so it is necessary to take a brief look at how the structure of employment has altered over recent decades.

## The changing face of Britain at work

The most obvious effect of ongoing economic restructuring is the dramatic fall in employment in manufacturing and heavy industry, with a related fall in the number of people working in skilled and unskilled blue collar manual occupations. Industrial manual work has shrunk from a third of total employment UK employment a generation ago to 10 per cent today. This was initially a major cause of mass unemployment. But subsequent improvement in the functioning of the labour market enabled a sharp reduction in structural unemployment – the rate of unemployment consistent with low and stable price inflation – with more than enough new skilled and unskilled jobs for employees and self-employed people created in fast expanding service sectors of the economy.

As for what the workplace looks like, most people nowadays work in offices making extensive use of computer technology, or in directly customer facing service jobs, rather than sweating over heavy machinery in factories. Workplaces are also generally smaller than before with people working for small employers or in teams within bigger organisations. And there is greater diversity in the workplace. Service sector employment provides greater opportunity for part-time or flexible working. This has enabled working mothers who would otherwise remain outside the labour market to combine jobs with childcare, and also kept in work older people who in times past faced a stark choice between full-time employment and full-time retirement. Similarly growth in immigration and population change has transformed the ethnic make-up of most UK workplaces.

Despite increased employment and rising real incomes, the powerful combination of structural change, a more flexible labour market and the greater exposure of workers to market pressure has also greatly affected what British people get paid.

There has been a steady fall in the share of national income received in wages relative to profits. In the mid-1970s wages and salaries accounted for 65 per cent of UK gross domestic product (GDP). Today the figure is 53 per cent.<sup>1</sup> More noticeable, however, is a big widening in pay differentials across the economy. Some economists talk of a divide between 'good jobs'

and ‘lousy jobs’, others of pay polarisation or an ‘hour glass’ labour market.

The latter descriptions refer to a hollowed out pay distribution comprising at one end people working in well paid professional knowledge jobs and, at the other, people in low paid unskilled jobs, but with relatively few people in the middle of the distribution because of a dearth of mid-pay jobs of the kind that were once plentiful in manufacturing.

### Drivers of change in the British way of work

The most significant development in recent decades in the British way of work has been the evolution of management practice. Previously complex management hierarchies have mostly been replaced with flatter management structures, usually comprising a tier of senior management that determines organisational strategy and a tier of operational line managers whose job is to manage staff to deliver on strategy.

Alongside this, the traditional personnel function within organisations has gradually evolved into the human resources (or ‘people’) function, with human resources professionals working in tandem with senior management and line managers to ensure that every aspect of the way in which people are managed in the workplace is aligned with, assists the attainment of, and can influence the development of, organisational strategy.

In view of this it is possible to see how change in the British way of work is over time driven not only by economic and social developments, including what’s happening in the labour market, which influence short and long run organisational strategies, but also changing management perspectives on how to get the best out of employees. Moreover, the impact of particular strategic choices or shifts in management practice can often be felt in the workplace long after they are made, even when their original rationale has dissipated.

The British way of work today thus to some extent bears the imprint of workplace practice as affected by both the economic instability of the 1980s and early 1990s, and the subsequent long economic boom that lasted until the financial

crisis of the late 2000s, though there are clear differences of experience and legacy between the public sector (which accounts for roughly a fifth of total UK employment) and the private sector of the economy.

### The demise of collectivism in the private sector

In the private sector the initial cadre of leading human resources professionals that came to the fore in the 1980s, many of them schooled as personnel managers in the strife ridden post-war era of collective industrial relations and pay bargaining, made full use of the structural and legislative changes which together curbed the power of trade unions. There was a clear strategic people management decision to depart from traditional collective procedures and instead focus on employees as individuals.

As a result the British private sector approach to workplace management has shifted closer to that seen in the USA and away from the more collectivist and regulated approaches prevalent in much of continental Europe. Trade unionism is nowadays very much a public sector phenomenon – only one in seven private sector employees is in a union compared with one in two employees in the public sector.<sup>2</sup>

The new wave in the private sector introduced individual performance appraisal, individual performance-related pay conditioned by market forces rather than national or sectoral collective agreements, and direct communications between front-line managers and their employees.

Ever since a key part of the people management message to individuals has been that high performance merits high reward but also that poor performance is not acceptable, with employees constantly told they can no longer automatically expect a 'job for life'. Once again, however, the situation has been different in the public sector where workplace employment relations have been founded on the principle of equity rather than disparity in pay setting with, at least until relatively recently, an emphasis on job security.

## The indelible mark of job insecurity

While this recasting of the British way of work for the majority of people working in the private sector might be considered as nothing more than a reflection of harsh economic reality, which will in future impinge ever more on the public sector as well, the implications have been profound.

The initial effect in the 1980s and early 1990s was to shatter the expectation of long-term job security, which formed a key part of the unspoken bond of trust between employers and the post war ‘baby boom’ generation. Restructuring, outsourcing, offshoring of jobs to lower cost locations abroad and downsizing became common management buzzwords. This was most obvious in the private sector but the public sector was not totally immune, with jobs often being outsourced to private sector organisations.

Most important of all, however, is that the change this made to the fundamental implicit deal between organisations and employees undoubtedly fashioned the expectations and behaviour of subsequent generations, especially the so-called ‘Generation X’ of people who entered the workplace in an era of heightened job insecurity before the long boom that began in the mid-1990s.

With unemployment high and few jobs to choose from, Generation X found itself under pressure to work long hours – reversing a trend toward shorter hours that had been ongoing since the start of the twentieth century – and very intensively, and could no longer rely on collective support from co-workers to resist such pressure. This was clearly beneficial to employers at the time but had the long-run effect of making employees generally less loyal to their employer organisations and more likely to jump ship when something better came along.

The private sector management ethos of that era thus left an indelible mark on the British work psyche, which is to this day evident in high rates of turnover and employee retention difficulties, but was especially vivid during the long boom.

## Work takes a walk on the brighter side

The boom years not only eventually witnessed a return to near full employment and tight conditions in the labour market, which altered the balance of power in individual bargaining between employers and employees over terms and conditions of work, but also placed greater strategic emphasis on the importance of making effective use of people as a source of competitive advantage.

Management thus started to combine individual performance management with what have come to be called employer branding and employee engagement strategies as means of attracting, retaining and motivating staff. Policy makers likewise began to stress the importance of workplace consultation procedures and how new employment rights to improve 'lifestyle flexibility', especially those helping families better reconcile work with childcare responsibilities, offered a 'win-win' outcome with employers as well as staff benefiting through reduced labour turnover and higher workplace productivity. Policy reviews were even conducted into employee engagement and improving health in the workplace.

During the boom it thus became ever more possible to offer an optimistic narrative of the British way of work. The quality of jobs generally improved in financial and less tangible ways. The number of jobs requiring higher level skills increased, while job tenure was stable. The 1980s trend toward long-hours working went into reverse. There was growth in flexible working patterns, and the rise in work intensification came to an end. Millions of workers benefited from the introduction of new statutory individual employment rights, including for the first time a national minimum wage.

Fierce competition for staff in a tight labour market in turn led many organisations to develop 'total reward' packages (mixing pay and other financial benefits with lifestyle benefits such as corporate gyms) to attract and retain staff in what came to be known as 'the war for talent', though even this wasn't enough to stop private sector organisations from offering far less generous pension provision. The proportion of private sector employees in employer-provided pension schemes fell from 46 per cent to 34 per cent between 1996 and 2010, with the

proportion in final salary pensions falling from 34 per cent to 11 per cent. Private sector employees are now far less likely to be in an employer-provided pension scheme than those in the public sector (where eight in ten employees are covered).<sup>3</sup>

### Let's talk it over

To encourage employee buy-in to the process of organisational change various methods of enhancing 'employee voice' and employee representation have also become popular. The aim is to build a sense of shared collective purpose into workplaces where the shift from trade union focused to individually focused employment relations often left employees feeling isolated, insecure and distrustful of employer motives.

The use of direct forms of management–employee communications has become increasingly widespread across British workplaces with notable increases in the use of work group briefings, systematic use of the management chain or cascading of information via emails and intranets, suggestion schemes and regular meetings of the entire workforce. By 2004 non-union representatives were as numerous as union representatives although they represented a significantly smaller proportion of the workforce (around 17 per cent compared with 37 per cent for union representatives).<sup>4</sup>

### Happy after all?

Given all these positives it is perhaps unsurprising that the weight of survey evidence typically finds a very high and rising overall level of job satisfaction in the UK in the years before the financial crisis. Usually at least two-thirds of employees say they are satisfied with their work, with the figure having been on a rising trend in the 2000s reversing a decline over the 1990s.<sup>5</sup>

Detailed analysis of the comprehensive Workplace Employment Relations Survey (WERS) of 1998 and 2004, suggests that in the first half of the boom between 1998 and 2004 employees became more satisfied with the sense of

achievement they got from work, felt that they gained more influence over their jobs, and perceived increasing job security and an improving climate of management–employee relations.<sup>6</sup>

Whatever the residual opinion of earlier generations scarred by the memories of tougher times, most people entering the workplace during the boom (so called 'Generation Y' and younger) thought the British way of work was essentially good. These 'good time' generations thus typically expressed concerns about work less in terms of tangible pay and conditions than with regard to whether work was challenging, fulfilling, sociable and 'fun'. Organisations able to meet these latter aspirations were those that came to score highest on the 'best companies to work for' league tables that came into vogue during the boom.

Given the improvement evident in many indicators of job quality before the financial crisis and recession, one might simply turn straight to the question of what the emerging post-crisis austerity will bring. To do so, however, would be to overlook the fact that on closer examination Britain can be said to have had a serious underlying work problem well before the crisis first hit, which may itself have a lingering influence on what happens in the coming years. For even in the nice decade, improvement in workplace performance and the experience of work was neither smooth nor universal across or within industrial sectors.

### Effective people management practice in the minority

Problems stem partly from continued operation of simple cost-based organisational models, the existence of which are widespread in the UK economy and not, as sometimes thought, nowadays confined to the bargain basement end of consumer-facing private sector services or located purely in the realm of dodgy employers who exploit vulnerable workers.

Within UK manufacturing, for example, while chemicals, pharmaceuticals and aerospace are the 'high fliers' much of the sector remains wedded to competing purely on cost. Where this is the case, unions are largely absent and managers show little interest in practices such as formal employee involvement and performance management systems.

While up to the minute assessment is difficult, available evidence from the mid-2000s indicates that only one in five UK organisations were implementing people management practices in a consistent way. Around two in five applied more than 20 such practices, but take-up of specific practices varied considerably. For example, according to a government funded study, while over 90 per cent of organisations operate annual appraisals, only two-thirds offer staff flexible working options, only one-third offer performance-related pay to all employees, and only a quarter organise staff into autonomous self-directed work teams.<sup>7</sup>

In similar vein the 2004 Workplace Employment Relations Survey (WERS) found that the incidence and operation of team working, and the proportion of staff equipped to be multiskilled (or functionally flexible) had changed little since 1998 (the year of the previous WERS). Only in 6 per cent of workplaces were teams given autonomy to appoint their own leaders. There was an increase of 6 percentage points between 1998 and 2004 in the proportion of workplaces organising non-managerial staff in problem-solving groups, although, even in the latter year, the overall incidence of workplaces where this occurred was small (21 per cent).<sup>8</sup>

### Why organisational culture matters

Some aspects of the British work problem can thus be fairly straightforwardly linked to insufficient adoption of such management practices, with the economy-wide divide between ‘high road’ and ‘low road’ organisations commonly cited as a cause of the UK’s relatively poor productivity performance, either because it means too many organisations have little need to invest in employee skills or because too much of the skilled labour that is available to organisations is effectively wasted.

It is therefore tempting to conclude from this that Britain’s underlying work problem simply boils down to the incidence of inferior ways of work in ‘low road’ organisations. However, just as important is organisational culture, which if poor can have a damaging effect on workplace performance and employee wellbeing even in organisations that seemingly ‘take the high

road'. Organisational culture is in particular likely to be a far more significant cause of reported high rates of workplace stress and low rates of workplace trust and employee engagement than the incidence of people management practices per se.

The picture on stress and workload is generally one of worsening trends during the 1990s with stabilisation but no improvement thereafter. Measures of 'task discretion' likewise suggest that employees have increasingly less autonomy over how they do their jobs. A particular problem has been apparent in the public sector in the past decade, employees being subject to ever more intense target and inspection regimes but working within organisational cultures that limit scope for the exercise of personal discretion in meeting them.

Aspects of organisational culture are also likely to explain an intriguing dichotomy between the growing incidence of information and consultation methods across UK workplaces and equally robust evidence that a sizeable proportion of UK employees feel their voice lacks influence in workplaces and lack trust in senior management.

### Toxic organisational cultures

At the simplest level this might reflect the cultural tendency for many senior private sector executives constantly to couch organisational strategy in the language of 'employment flexibility', which if used loosely can act as a barrier to employee engagement.

Perhaps because the rhetoric of flexibility first came into vogue in the 1980s when job insecurity was rife it often conveys the impression that the primary objective of management is simply to improve cost efficiency regardless of what this means for employees, especially when allied to calls on policy makers to alter employment regulations in order to make it easier to hire and fire staff. Add in the associated connotations with down-sizing, offshoring and increased work intensity and it is easy to understand why this can create unease within workplaces.

In the public sector, by contrast, a different kind of cultural problem is observed in the form of deficient individual

performance management. Surveys suggest that around two in five public sector managers reckon their organisations are poor at managing employee performance. This is much higher than the equivalent figure of one in four for the private sector, with many public sector managers pointing to a culture of turning a blind eye to poor performance in their organisations. The symptoms are said to include relatively low productivity in many public sector organisations – since tolerating poor performers hinders and demotivates other employees – as well as relatively high rates of staff absence, although the latter phenomenon is in part due to the inherent stress associated with front-line public service jobs.

Toxic organisational cultures can also result in new ways of working being introduced without workers being properly consulted or line managers themselves being adequately equipped for the task. For example, for some employees the greater autonomy and discretion required by high performance management practices will itself result in a greater burden of responsibility and effort than they have been used to. This can cause stress for employees more comfortable with receiving instruction than sharing knowledge and working in teams.

Other difficulties can arise from the introduction of new technologies, which may involve not just new working practices but impose entirely new (and often unforeseen) pressures on staff.

This is especially true of the rapid advance of information technology in the workplace during the past decade, which has potentially created opportunities for greater employee autonomy, including scope to do more work from home, but also resulted in more sophisticated monitoring and surveillance of employees as well as blurring the boundaries between work and non-work time. More than half of UK employees – 52 per cent – are now subject to computer surveillance at work,<sup>9</sup> which has led to a sharp increase in stress among those being monitored – particularly white collar administrative staff.

Problems have in turn been caused by more rigorous measurement of employee performance. The principal purpose of what is often called ‘human capital measurement’ is to gauge

the effectiveness of workplace practices by calculating the financial rate of return organisations derive from investing in them. Human resources professionals like this because they reckon human capital measurement helps build the business case for adopting various people management practices and encourages organisations to treat people as assets to be invested in rather than simply as costs. However, performance measurement systems often prove to be a vice rather than a virtue and give rise to employee stress or dissatisfaction, especially if introduced in low trust organisational cultures or used as a means of reinforcing managerial command and control.

### Organisational culture and the pay divide

Another cultural difficulty for many workplaces has arisen from the spread of individual performance-related pay. While this is ostensibly introduced to incentivise higher performance the overwhelming weight of evidence indicates that it generally has the opposite effect of demotivating staff and harming cooperation in the workplace.

Incentive pay systems are only found to work effectively in situations where individual employee performance can be assessed objectively and can clearly be attributed to individual effort and contribution without being part determined by wider team or organisational performance. If not, and performance-related pay is thus based on the subjective judgement of managers, there is a substantial risk of assessment error, especially if assessment is influenced by some kind of favouritism, which can result in demoralisation or resentment on the part of employees who lose out.

Often linked to this is a perceived lack of transparency in pay setting, especially in relation to the pay of senior executives within organisations, given that in recent decades performance-related pay systems have been seen to be one factor that has greatly driven up the rewards for senior management relative to other employees in the workplace. The gap has ballooned in recent decades. For example, between the turn of the century and the start of the financial crisis in 2007 the pay of chief

executives of the FTSE 100 companies increased five times faster than median pay in the economy as a whole.<sup>10</sup>

### The critical importance of organisational purpose

It is against these broader cultural factors within organisations that poor levels of employee engagement, and indeed Britain's core work problem, are best understood.

Repeated studies show that the proportion of engaged employees across the UK is at best somewhere between a quarter and a third. Measures of net engagement – such as those provided by the CIPD's quarterly Employee Outlook surveys, which subtract the proportion of disengaged employees from those found to be engaged – are lower still. The research evidence suggests that this is not so much a problem of poor management practice as a problem of organisational culture.

Surveys of employees repeatedly show that attitudes towards senior management are less positive than those towards line managers, and most workers do not feel that they are actually valued by their organisation as a whole. The implication is this: colleagues and managers are likely to be considered as good and effective people, but organisations and structures are far less successful in coordinating and motivating on a larger scale. Information-sharing across organisations, and specifically from senior management downwards, is not perceived to be sufficiently effective, while the fairness or justification of pay differentials between senior management and the rest of the workplace (which have widened significantly in recent decades) is not perceived as sufficiently transparent.

The significance of this becomes clear when one considers that the other overwhelming message to emerge from employee attitude surveys is that people are happiest and most productive at work when they feel they are working for a larger and understandable organisational purpose that they choose to buy into, when they are able to contribute to that purpose, and when they feel they are fairly rewarded for their contribution.

The CIPD's programme of research called Shaping the Future demonstrated that having a shared sense of organisational

purpose among employees is a key driver of sustainable organisation performance. Employees' identification with a purpose is stronger if it is clearly articulated and if they are able to emotionally connect with it. An imposed common purpose creates cynicism and resistance, so it is important to help employees to identify with an organisational purpose that is beyond profits or short-term efficiency measures. By encouraging people to find their own meaning at work, they will connect and develop a true sense of what they are at work to do.

All too often, however, the greater informality, individualism and personalisation of workplace relations, and the associated suspicion of processes and senior decision-making, is making it increasingly hard to develop workplaces with a clear and well articulated sense of shared purpose.

Evidently, British workers are finding meaningful relationships with each other, and often with their line managers, but are not relating well to their employer organisations. Where relationships appear to break down is when they move from personal, team-based and one-to-one spheres, to organisational and procedural spheres. Rules, hierarchies and organisational structures are perceived by employees in starkly negative terms. One study shows that 85 per cent of people characterise the formal processes of their organisation's culture, yet only 6 per cent prefer this type of organisation over others.<sup>11</sup>

These findings demonstrate not only the potential virtuous circle of employee engagement but also the potential vicious circle of disengagement. Employee engagement is characterised as a chicken-and-egg problem: motivated, happy, committed employees are those who are valued more highly, kept better informed and granted more responsibility; 86 per cent of engaged employees say they very often feel happy at work, as against 11 per cent of the disengaged. Even more strikingly, 54 per cent of the actively disengaged reported that work was having a negative impact on their physical health.<sup>12</sup> These are vicious and virtuous circles that have considerable effects on workplace performance and spill-over consequences for the economy and society as a whole.

## The economic tide turns again

Our account of the British way of work paints a mixed picture, with many positive features but more than enough on the negative side of the balance sheet to indicate that Britain has a significant work problem, which diminishes both economic performance and general wellbeing. We therefore conclude that the British way of work is not at present up to the job.

What is doubly worrying is the possibility that the progress made during the boom years will itself dissipate in a period of prolonged economic austerity, with the likelihood of several years of slow and painful economic recovery following the recession of 2008 and 2009 and unemployment hovering around the 2.5 million mark.

You don't have to be a genius to conclude that in tough times organisations that are primarily concerned with maintaining a low cost base will do everything they can to bear down on labour costs, which at the very least does not bode well for pay and conditions in such sectors. But cost pressures might well also result in a more general change in organisational practice, such as less generous total reward packages, which could hit job satisfaction levels and perhaps damage trust in workplaces across the economy as a whole. This would be especially damaging in workplaces where austerity wipes the gloss of employee engagement strategies founded purely on the cosmetic promise of a better quality of working life.

At the very least job security, pay and basic conditions of work pay will probably return as key priorities for employees. This will obviously present organisations with an ever greater task when it comes to employee engagement, particularly in the public sector, where staff face the unsavoury prospect of several years of hefty job cuts, zero pay increases and reduced pension provision.

## Room for optimism?

Those optimistic that organisations are ready for the task point to the unprecedented workplace cooperation that helped workplaces adjust relatively favourably when the massive global recession struck in 2008, with far fewer private sector employers

resorting to the rapid downsizing programmes that characterised the recessions of the early 1980s and early 1990s.

However, the severe wage restraint that was the necessary accompaniment to this outcome has itself been very painful for employees against a backdrop of an anaemic recovery from the recession and rising price inflation. Average real wages are no higher today than in the mid-2000s. With unemployment at best set to remain high for the next few years there is little prospect of any substantial improvement in the short run. And even with muted pay rises, employees are aware that without a return to a healthier rate of economic growth pressure will mount on employers to cut staffing levels, thus giving rise to a heightened sense of job insecurity.

For example, although the CIPD's quarterly survey *Employee Outlook* for summer 2011 finds a significant proportion (two in five) of employees reporting that their employer was not offering any pay increase, more than one in five were nonetheless in fear of losing their job.<sup>13</sup> No wonder then that the same survey finds an overall subdued level of job satisfaction and a very weak figure of just +10 for net employee engagement, a far from comforting sign as the British way of work confronts the challenges posed by a period of economic austerity.

## 2 Rethinking the British way of work

Despite some positive developments we judge that in the four years comprising the recession and weak recovery there has been a deterioration in the general mood of UK workplaces, which is likely to have exacerbated the underlying work problem.

In the absence of an urgent rethink of the British way of work a prolonged period of slow economic growth and the pressures it brings to bear on workplaces will make the existing work problem even worse by further loosening the bond of engagement between employers and employees.

Moreover, it is vital that organisations respond to current economic pressures in an appropriate manner since, as we have earlier discussed, previous experience suggests that the actions organisations take now may well affect the work psyche and the functioning of workplaces for years to come. In this respect it is important to note that levels of job satisfaction are particularly low among younger workers whose previously strong sense of security, confidence and optimism seems to have been hit particularly hard by the shock of recession and rocketing youth unemployment.

### **Our vision: the productive workplace**

What therefore is the best way forward for work? Our vision is that of the ‘productive workplace’. This takes as its starting point the abundant weight of evidence that people are happiest and most productive when they feel they are working for organisations with a clear purpose, that seek to fully engage the discretionary effort of staff, recognise and fairly reward that effort, give regular and clear information about what’s going on in the organisation, and listen to and take account of what staff have to say.

The effective application of various people management practices is a necessary but far from sufficient condition for the productive workplace. Organisational culture is ultimately far more important, which is why even organisations that implement the entire gamut of people management practices don't often perform to their best.

Productive workplaces are those where senior managers are able to rely on highly capable front-line managers to lead and engage staff to make the most of their potential in meeting the needs of customers or clients (which in the public sector means taxpayers and service users). This requires senior managers to establish a clear vision and sense of direction while enabling skilled front-line managers and staff to use their discretion in pursuing that vision, with managers responsible for performance managing staff and supporting them in the learning and development activities that help them do a better job.

The leadership and effective people management that underpins productive workplaces not only impacts positively on productivity and performance but also enhances the ability and willingness of staff as a whole to cooperate during periods of necessary change or when responding to unavoidable adversity. In view of the fact that meaningful collectivist forms of work generate the highest levels of wellbeing and satisfaction the potential benefits of rethinking work in more associational and less impersonal terms is thus critical at times of economic difficulty such as our nation confronts today.

Rethinking the British way of work in line with our vision would represent a culture shock for many organisations and employers, as well as presenting a challenge to employees, public policy makers, and especially the British human resources community.

### Employer mindsets must change

British business leaders, not to mention their de facto spokespeople in main employers' organisations, give far too little consideration to accumulating evidence on employee distrust and rising stress in the workplace. In particular, employers must

come to recognise the long-term malign effects of fostering insecurity as a tool for management. Labour markets and employment practices cannot become significantly more flexible in the simple ‘hire and fire’ sense without driving Britain firmly back onto the economic ‘low road’.

If organisations can no longer offer the level of economic security that is expected of them, this needs accommodating in some other way. Organisations that are genuinely serious about employee engagement will eventually have to confront the issue of power – not only employees’ discretionary power in the workplace but also the collective voice that has been lacking in British organisations since trade union membership went into freefall nearly 30 years ago. Employers may be fully justified in resisting a return to old style union power but the purely atomised workplace has been equally detrimental to employee performance and wellbeing.

Truly purposeful employee engagement may also need to involve radically different ways of rewarding staff for their contribution, which take account of effort and risk but move away from individual performance-related pay. Relating pay more closely to team or overall organisational performance is one way forward.

Alternatively, organisations might move toward greater use of equity-based remuneration, though this would at some stage have to be accompanied by sincere opportunities for employees to participate in the financial decision-making of firms. There is considerable evidence that greater employee ownership and financial participation can create win–wins of happier, more committed employees, which is one reason why the John Lewis approach wins so many plaudits. But whether this or similar approaches will ever sit comfortably with the dominant type of British business model (in which shareholder value is primary) is questionable.

### Employee mindsets must change too

There is a tendency when discussing workplace change to view employees as passive recipients of whatever organisations serve

up to them. But this is rarely if ever true. While management practice and organisational culture can clearly help or hinder employee engagement, it is ultimately employees themselves who choose whether or not to go the extra mile.

Those who choose not to, who might be called ‘low road’ employees, are as big a problem for workplaces as ‘low road’ management practice or low trust organisational cultures. This is especially true if employees combine their disengagement with actual negativity toward their employer, which perversely often has a negative impact on disengaged employees’ mental and physical wellbeing.

Confronting employee disengagement can be as big a challenge to organisations as seeking positive engagement. But it is easier to confront in workplace settings where employees are working to a shared purpose and with a strong collective ethos since this serves to marginalise individuals who choose actively to disengage and creates an impetus to change negative mindsets. Even in such settings, however, employees should never be allowed to adopt a ‘take it or leave’ attitude to work and, with their employer, should thus be constantly challenged to address any attitudinal causes of disengagement.

### **Reframe the public policy narrative on work**

Policy makers could make a major contribution to shifting employer and employee mindsets by reframing the prevailing British narrative on work, first by being brave enough to stand firm against calls to turn the clock back on employment regulation and second by highlighting why the productive workplace should be seen as an important component of any meaningful concept of the so-called Big Society.

A 2011 CIPD report in the *Work Horizons* series considered in detail the argument that the UK economy needs a new dose of employment de-regulation to create jobs, in particular by making it easier for employers to dismiss staff without legal redress.<sup>14</sup> The conclusion was that further deregulation of this kind would at best do little to improve the underlying functioning of our

already relatively deregulated labour market and at worst might exacerbate those structural problems that remain. But even if such deregulation were shown to boost job hiring, any beneficial effect would be offset by a worsening of the work problem by adding to job insecurity and undermining hopes of fostering stronger employee engagement.

If, however, policy makers remain firmly wedded to employment deregulation as a policy objective, they should at least do more to temper this with efforts to promote the spread of productive workplaces along the lines we suggest.

The Coalition Government has placed civic voluntary association, as opposed to public sector organisations, at the centre of its vision of Britain's social progress. But as ever with debates about civil society, community and 'social capital', there is a bizarre assumption that these are phenomena that only exist *outside* the realms of business, workplaces and markets.

Much of what people bring to and gain from voluntary association – enthusiasm, ideas, commitment, friends and psychological wellbeing – they *could* potentially facilitate through work if organisational cultures were reconfigured in the way both evidence and logic suggest. Such a reconfiguration could be fairly straightforwardly promoted by overtly aligning the present Government's Big Society aspiration with ongoing public policy initiatives on furthering employee engagement that began under the Labour Government.

### The choice facing HR

Last, but most certainly not least, we make a plea to the human resources community. Human resources professionals face an obvious choice in the next few years. They may decide to act as the unchallenging servants of employers, softening the rhetoric and advising on best organisational best practice, but ultimately facilitating a shift towards a harsher employment landscape. Or they might instead advocate a rethink of the British way of work and adopt a far more up-front role than in recent decades, which openly challenges prevailing organisational and employee mindsets. In many ways this would restore human resources to

its once proudly held position as the truly progressive voice of British management.

We believe the latter course of action would best serve British workplaces as well as being in the best interests of human resources as a profession. The human resources function must obviously continue to respond intelligently to the immediate performance needs of organisations, but in tough times be even more rigorous in keeping organisations alert to the various factors that undermine sustainable long-term performance.

The impact of weak economic growth, unemployment and job insecurity on workplace morale and trust could be devastating and the human resources profession's authority will suffer if it is unable to prevent this happening. Human resources professionals will thus have to ensure that the substance and delivery of their people management strategies are genuinely designed to engage employees and build and deepen trust.

This requires far more than repeating the default human resources mantras of the need for wider adoption of people management practices, increased investment in leadership skills, and better human capital measurement. Instead the human resources professional should aim to become the organisation's internal social entrepreneur – fostering links across different parts of the organisation, championing transparency, and helping to create the social glue holding the organisation together. In so doing human resources would gain authority in the workplace by demonstrating it has the courage to highlight the existence of the toxic organisational culture that is the fundamental root cause of Britain's work problem.

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In the wake of the global recession, unprecedented cooperation between employers and employees helped British workplaces adjust relatively well. This led to fewer of the mass redundancies that had characterised previous recessions, but there are still severe consequences to the economic downturn: wages are stagnant, unemployment is high. One result has been a worrying shift in business rhetoric, which lobbies for lower labour costs and deregulation.

*Up to the Job* argues that policy-makers can play a key role in shaping the culture of work in the UK, first by not rolling back years of progress on employment regulation and second by highlighting why the productive workplace should be seen as an important component of the Government's civil society agenda, the Big Society. It uncovers a mixed picture, but enough to indicate that Britain has a significant 'work problem', which diminishes both economic performance and general wellbeing.

The pamphlet argues that employers must recognise that fostering insecurity is not a sustainable management tool. Labour markets cannot become simply 'hire and fire' without having a damaging effect on workplace performance. If organisations can no longer offer the level of economic security that is expected of them, this needs accommodating in some other way, through greater employee engagement. Only then will the UK have a labour market that is up to the job.

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