

# What's New In Employment Relations? Insights from WERS and Elsewhere

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# What's New?

- Big decline in labour productivity
- Large fall in real wages
  - Not seen since 19<sup>th</sup> Century
- Probably linked
- But today I'll focus on labour productivity and what management can do about it

# Themes

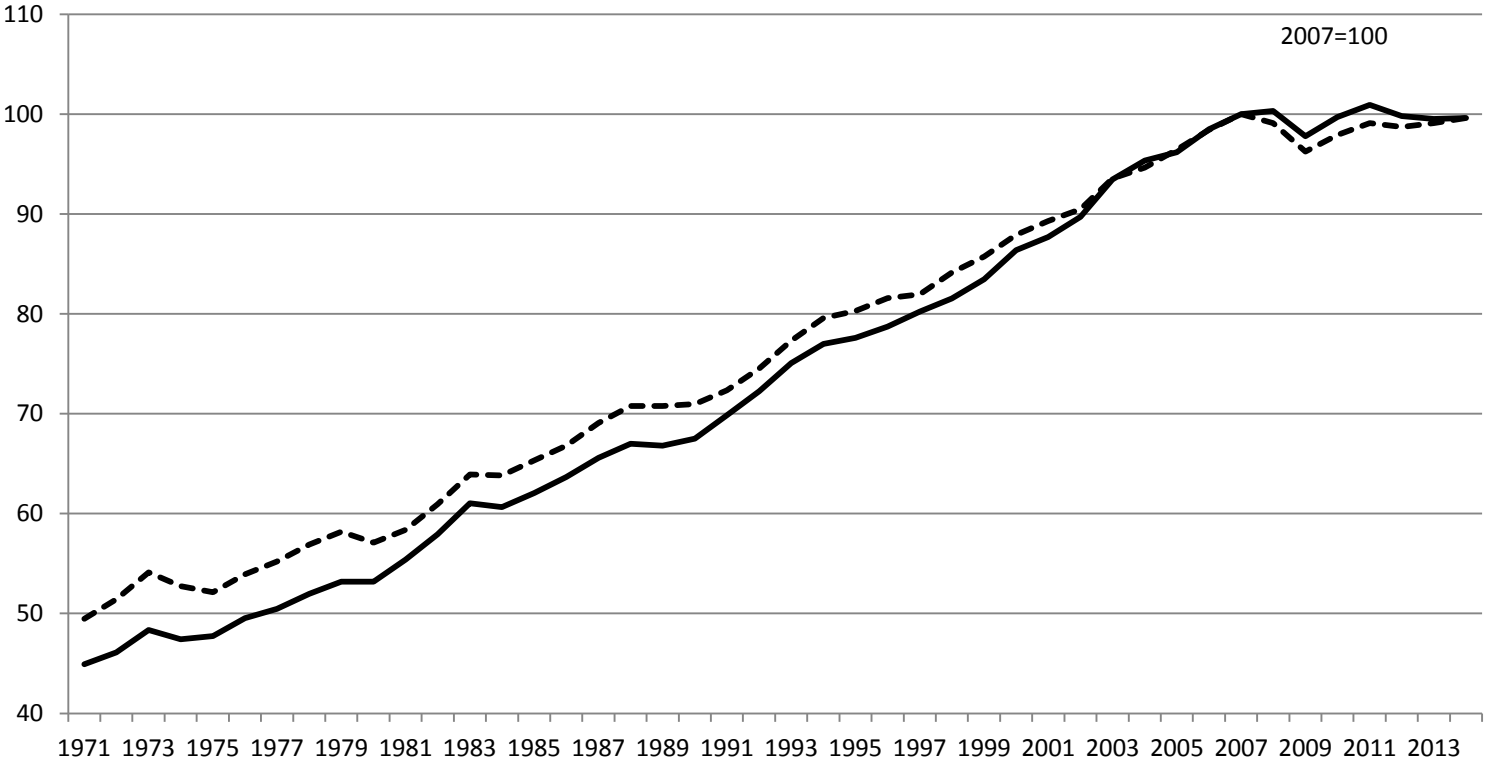
- The quality of management
- Managerial practices
- Innovation at the workplace
- Worker wellbeing
- Wages
- Policy: role of Social Dialogue

**PRODUCTIVITY**

# Recent decline in productivity

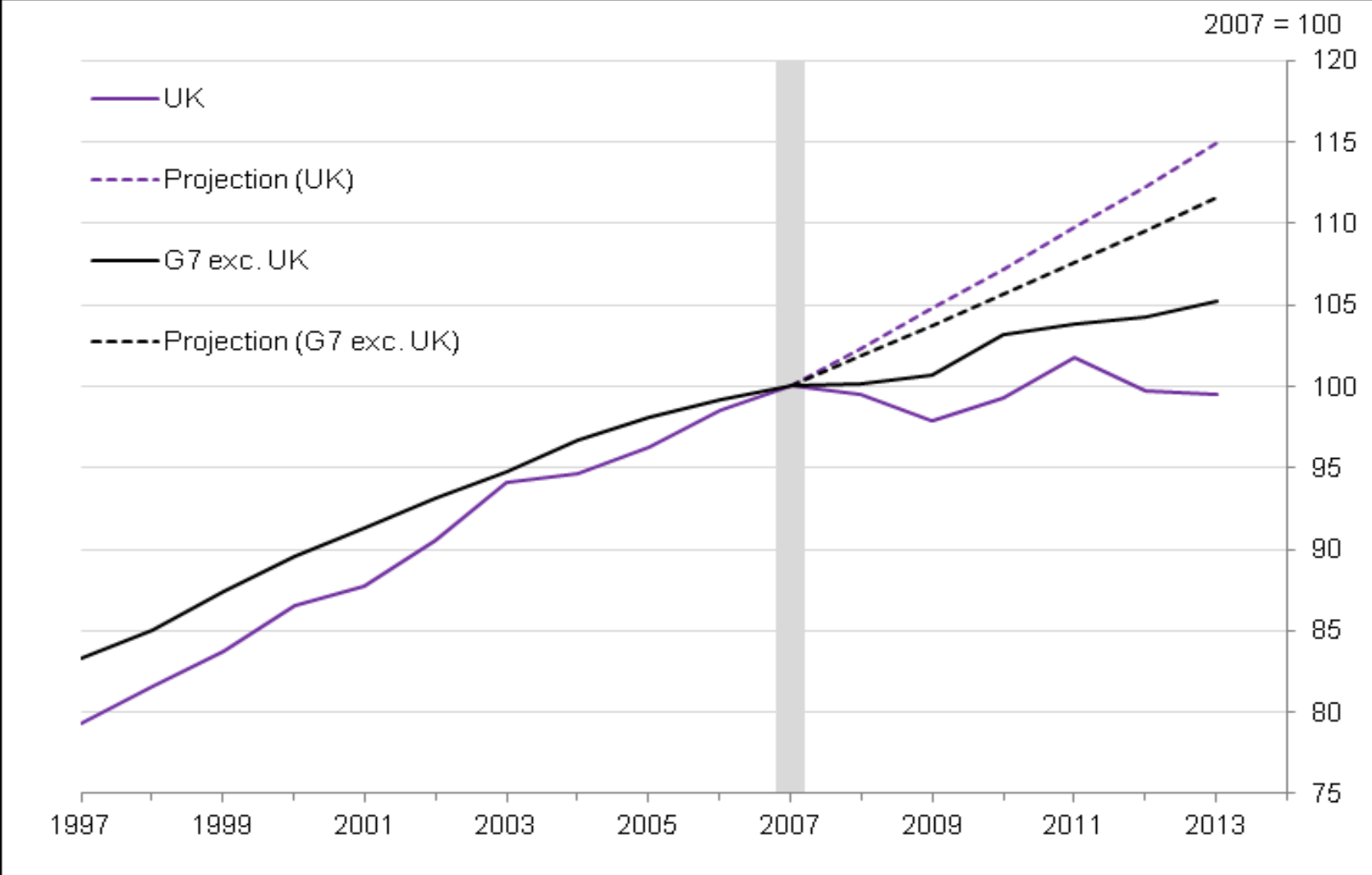
- Big decline of 15-16 percentage points compared to pre-recession trend
- Bad by international standards
- No single major culprit. Happening everywhere
  - <http://www.niesr.ac.uk/publications/uks-productivity-puzzle-1#.VfKLOBG6eWg>
- Strongly linked to fall in efficiency with which capital and labour are deployed (TFP)
- Partly victims of own success in labour market
- Uncertain future though fundamentals in place
  - Education, workforce not ageing quite as much as elsewhere etc.

# Labour Productivity growth in the UK, 1971-2014

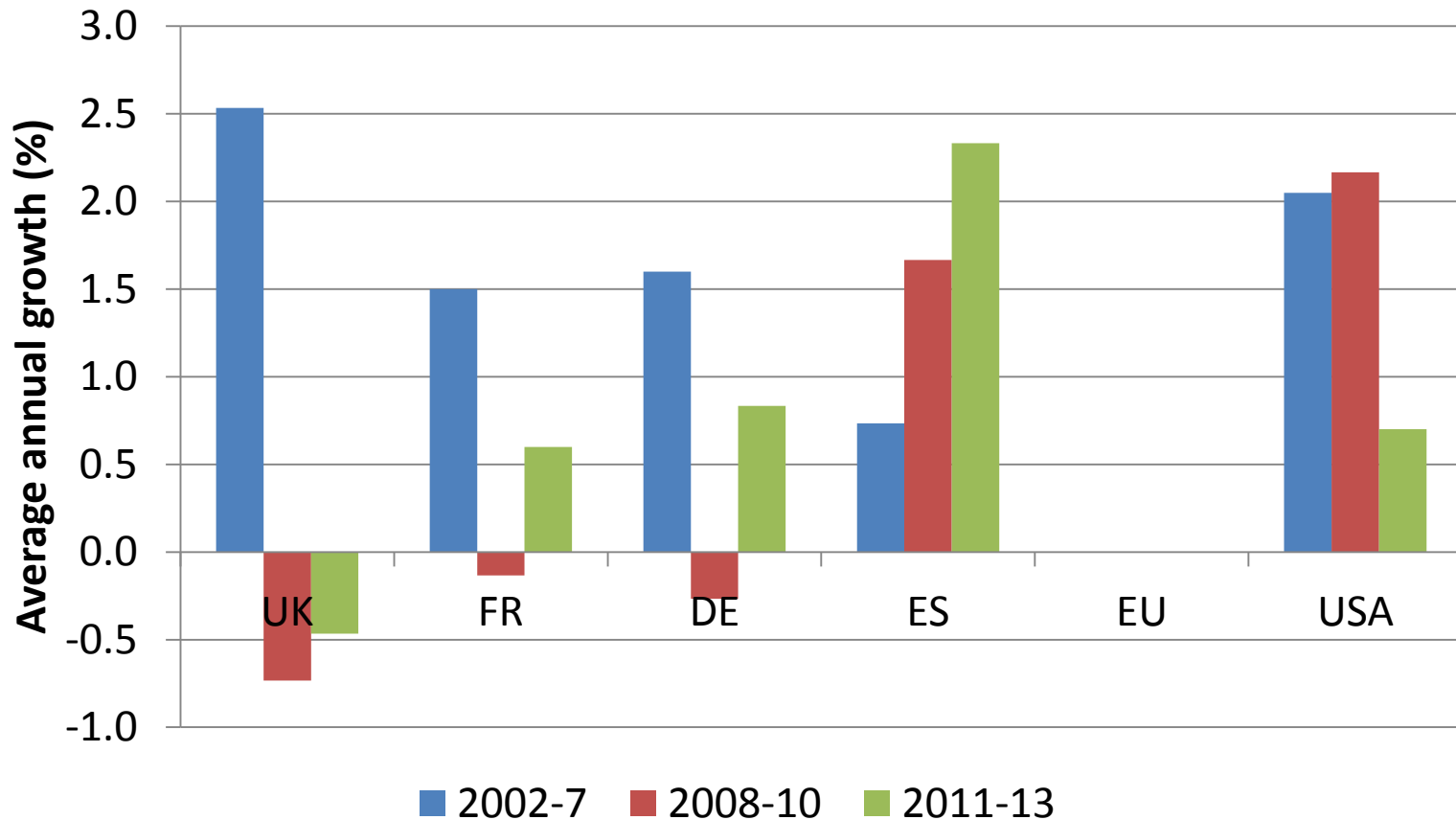


-- Output per worker    — Output per hour

# Labour Productivity growth in the UK and the rest of the G7, 1997-2013



# Growth in GDP per hour



Source: OECD



# The Much Older Productivity Problem

- Lower productivity levels in the UK relative to the US go back a century and have persisted for many decades relative to Fr and Gr
- <http://www2.warwick.ac.uk/fac/soc/economics/staff/sbroadberry/wp/labmkt5.pdf>
- Management as part of the problem
  - Michael Porter's review for BIS on managerial skills [http://www.esrc.ac.uk/\\_images/UK\\_competitiveness\\_tcm8-13559.pdf](http://www.esrc.ac.uk/_images/UK_competitiveness_tcm8-13559.pdf)
- Management as part of the solution?

# MANAGEMENT PRACTICES

# Theme 1: Managerial Practices

- Productivity differences across firms/countries strongly linked to managerial practices
  - Britain in the middle/lower ranks with a long tail of poorly managed firms. Bloom and Van Reenen  
<http://cep.lse.ac.uk/pubs/download/dp0716.pdf>
  - Barriers are managerial human capital, worker human capital, information  
[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/32097/11-1377-constraints-on-developing-uk-management-practices.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/32097/11-1377-constraints-on-developing-uk-management-practices.pdf)
- But what works? BVR only concentrate on a small set of practices and tend to have a universalist view whereas management literature stresses contingent

## Share of employment in private sector workplaces with specific HR practices, 1998-2011

	1998	2004	2011	2004 v 1998	2011 v 2004	2011 v 1998
	%	%	%	Signif.	Signif.	Signif.
<b>Work organization:</b>						
Semi-autonomous team-working <sup>+</sup>	44	35	48	***	***	
Functional flexibility <sup>+</sup>	79	78	82		**	
Training for 80%+ experienced employees <sup>+</sup>	21	41	49	***	***	***
<b>Quality management:</b>						
Problem-solving groups	49	34	30	***	*	***
Quality targets	55	58	63			
Appraisals for 80%+ non-managerial employees	53	69	78	***	***	***
<b>Incentives:</b>						
Profit-related pay	53	44	43	***		***
Share-ownership scheme	32	33	28		**	
<b>Voice:</b>						
Representative + Direct	26	31	33	**		***
Representative only	43	28	24	***	*	***
Direct only	11	21	23	***		***
Neither	20	20	19			

# Managerial Practices and Productivity?

- Strong correlation between number of HR practices and labour productivity
- But less robust evidence on specific individual practices
  - no “silver bullet”
  - <http://www.niesr.ac.uk/publications/uks-productivity-puzzle-1#.VfKLOBG6eWg>
- However, in on-going comparative study for Britain and France using WERS and REPONSE we find positive association between use of incentives and labour productivity in both countries

**Ordered probit regression of labour productivity on count of HR practices private sector, 1998-2011**

	1998	2004	2011	1998	2004	2011
<i>Controls?</i>	<i>No</i>	<i>No</i>	<i>No</i>	<i>Yes</i>	<i>Yes</i>	<i>Yes</i>
Count of HR practices	0.11*** [2.77]	0.10*** [2.75]	0.05 [1.53]	0.11*** [2.92]	0.09** [2.32]	0.06 [1.60]
<i>N</i>	<i>1259</i>	<i>1210</i>	<i>1337</i>	<i>1258</i>	<i>1210</i>	<i>1337</i>

**INNOVATION**

# Incentives to Innovate?

- Opportunity costs v uncertainty

## *Evidence:*

- Decline in product and process innovation in firms though real R&D expenditure constant (ONS; Barnett et al)
- BoE estimated fall in product innovators accounted for 1pp of productivity shortfall between 2008 and 2012 (Barnett et al)



## WERS evidence on workplace innovation

- Little change in rate of workplace innovation
  - Exception: increase in “changes to work organization” (2004: 32%; 2011: 37%)
  - Similar to early 90s (Geroski and Gregg)
- However N innovations lower where workplace faced “declining” or “turbulent” market conditions
- N innovations lowered likelihood of “weaker as a result of recent recession”

# Unions Positively Associated with Innovation in Britain and Norway WERS 2011

## Do Unions Kill Innovation?

Alex Bryson Harald Dale-Olsen and Erling Barth

	BRITAIN			NORWAY			
	All	Not union	Union	All	Not union	Local union	Multi-employer union
<b>Innovation measures</b>							
Innovation	0.571	0.562	0.645	0.657	0.627	0.708	0.621
New product (P)	0.336	0.319	0.466	0.606	0.576	0.649	0.562
New prod. techno.(T)	0.483	0.477	0.548	0.310	0.277	0.354	0.273
New P AND new T	0.250	0.235	0.369	0.258	0.255	0.295	0.211

## Unions and Innovation

- Our findings challenge older literature indicating unions were bad for innovation but consistent with other recent studies
- May help explain why union/non-union gap in productivity observed in 1980s/90s has largely disappeared
  - Bryson A and Blanchflower D (2009) “Trade union decline and the economics of the workplace”, pp.48-73 in W Brown et al (eds) *The Evolution of the Modern Workplace*, CUP
- Also tied into positive association between unions and adoption of high-commitment work practices and their effectiveness
  - Bryson A, Gomez R, Willman P and Kretschmer T (2007) “The diffusion of workplace voice and high-commitment human resource management practices in Britain: 1984-1998”, *Industrial and Corporate Change*, 16, 3: 395-426
  - Bryson A, Forth J and Kirby S (2006) “High involvement management practices, trade union representation and workplace performance in Britain”, *Scottish Journal of Political Economy*, 52, 3: 451-491.

# WORKER WELLBEING

## Nice to Have But Does It Really Matter?

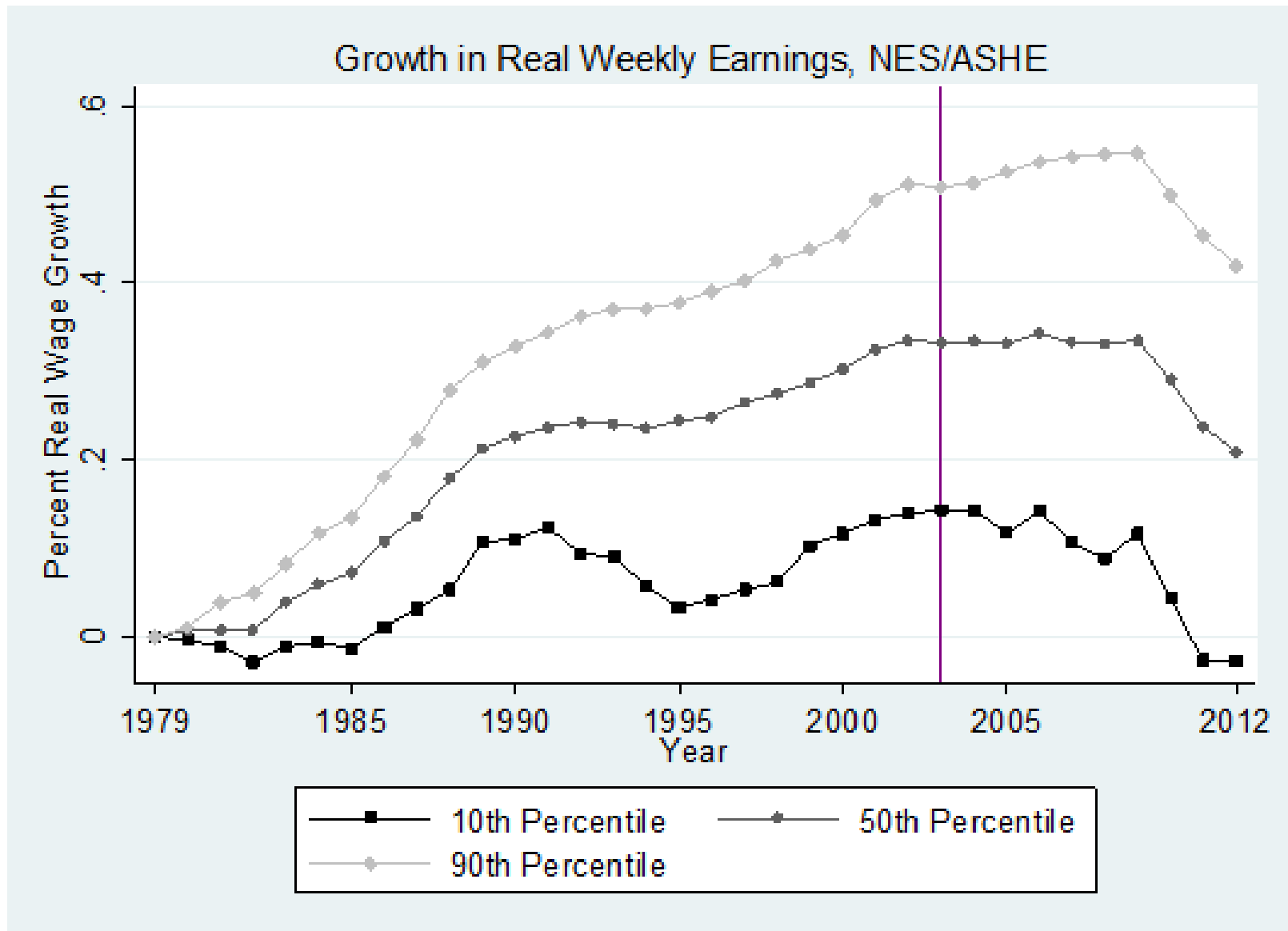
- Wellbeing linked to higher productivity via health, motivation etc
- Evidence in laboratory experiments and at individual level but workplace?
- And even if improves productivity may cost £s
- Our new study for BIS is first clear evidence that improvements in worker job satisfaction linked to improvements in financial performance, labour productivity and quality of output/service. **VERY ROBUST (PANEL)**

– [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/366637/bis-14-1120-does-worker-wellbeing-affect-workplace-performance-final.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/366637/bis-14-1120-does-worker-wellbeing-affect-workplace-performance-final.pdf).

– <http://www.voxeu.org/article/happier-workers-higher-profits>

**WAGES**

# Unprecedented fall in real wages



Source: Gregg, Machin and Salgado

# Falling Real Wages

- Which, if any, of these actions were taken by your workplace in response to the recent recession?
  - 38% wage freeze/cut = most common response to recession
  - Accompanied by other cost cutting actions in 4/5 cases
- % reporting pay freeze in last settlement doubled
  - 12% in 2004, 26% 2011
  - 36% where manager said affected “a great deal” by recession



# Still Not Sure What's Behind It

- Union bargaining power?
  - No correlation between freezes/cuts and unionisation
  - No correlation between pay freeze in last settlement and unionisation
  - Little change in union wage premium (some counter-cyclical)
  - <http://www.niesr.ac.uk/publications/trade-union-membership-and-influence-1999-2014#.VfaoG9JViko>
  - Hard to identify break point in union power
    - May have been some time ago?
- Welfare reform
  - Those using public job placement service and those drawing on unemployed for recruits no more likely to freeze/cut pay
- Immigration
  - 1 percentage point in the number of non-EEA nationals employed at a workplace raised the probability of a wage freeze or cut by roughly 0.4 of a percentage point
  - % non-UK EEA nationals was not significant

**POLICY:  
THE ROLE OF  
SOCIAL DIALOGUE**

# The Intriguing Case of France

- More unions, more strikes and conflict...more productive!
- New French Minister of Labour focusing on creation of more flexible labour market
- Recent reforms seek to tackle “legitimacy gap” faced by old 5 established unions
- But all parties value Social Dialogue between Social Partners

# The Intriguing Case of Britain

- Flexible labour markets, light regulation, union decline...less productive!
- Greater labour market participation so unambiguous in social welfare terms
- Investments in climate of employment relations pay off
  - workplaces that with good ER prior to recession managed to perform better during the recession than other workplaces (Van Wanrooy B et al *Employment Relations in the Shadow of Recession*, Palgrave 2013: 181-2).
- Is the Living Wage debate a signal of what is to come?
  - NMW did increase TFP  
[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/413418/NIESR\\_Riley\\_Rosazza\\_Final\\_Report\\_Feb2015.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/413418/NIESR_Riley_Rosazza_Final_Report_Feb2015.pdf)
- Should we be concerned about the institutions required for Social Dialogue in Britain – or not? Perhaps we should:
  - <http://www.acas.org.uk/media/pdf/7/9/Building-productivity-in-the-uk.pdf>