Building Productivity in the UK

Disclaimer

The views expressed in this paper are those of the Acas Strategy Unit and contributing authors and not the Acas Council.

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Foreword from Brendan Barber, Acas Chair

As UK productivity levels continue to lag behind our competitors, we need to take a long hard look at all the factors that might have a part to play in addressing the problem. The UK's productivity challenge is an agenda shared by employers, trade unions, commentators, policy makers and Government. Failure to take action poses considerable threats for growth, for jobs and for sustainable increases in real wages.

Acas believes that there is real benefit to be gained from addressing this question through the prism of the workplace: to identify opportunities for workplaces to become more effective and, in turn, contribute to the bigger challenge.

Workplaces are key to productivity. The long term success of high level solutions such as better physical infrastructure or capital investment and investment in skills depends on workplaces being efficient, responsive and innovative. The way workplaces are organised, the part played by managers and leaders, and the role and involvement of employees and their representatives provide the means for things to change and improve. This message applies across sectors and industries – it's hardly possible to conceive of a business or organisation that can look at itself and conclude there is no room for improvement.

As experts in the dynamics of the workplace, Acas stands ready to promote and support this agenda. We have been working with others who share these concerns to assemble the arguments for change, and identify strategies for action. This report aims to stimulate debate amongst policy makers and those with an interest in UK productivity and offers Acas' insights into the features that can make a difference to workplace effectiveness. It contains contributions from a number of bodies Acas has been working with and we welcome their thoughts on the productivity challenge based on their own specialist perspectives.

The report concludes with an agenda for change, and options for future consideration.

June 2015

Building Productivity: What Part Does The Workplace Play?

The small details in the big picture

Asking what part the workplace plays in boosting productivity in the UK is a bit like questioning the value of the engine in a car. As Keith Sisson, Emeritus Professor of Industrial Relations at Warwick University, said in his recent Acas paper, "any attempt to re-balance the economy or develop an industrial strategy without taking into account the workplace will almost certainly end in failure" (Sisson, 2014).

The workplace is where the elements of productivity come together to deliver goods and services. How businesses manage and organise their workforce has a huge influence on delivering the improvements that the country needs. Of course, high level, cross-economy solutions to improving productivity also need to be tackled – like access to financial investment, the development of new technologies and skills and improvements in infrastructure. But what goes on inside the workplace is important in ensuring that such solutions have maximum impact.

Good workplace relations really can make a difference. The most recent Workplace Employment Relations Study (WERS) found that businesses which reported good employment relations and high trust relationships in 2004 were less likely in 2011 to report themselves weakened by economic downturns (Van Wanrooy et al, 2013).

Moreover research carried out by Bloom and Van Reenan (2010) estimates that around a quarter of the UK's productivity gap with the US is down to poor workplace management. This research looks at the question of 'workplace management' using a perspective which covers everything from job design to communication channels and management skills.

Although there has been less focus on the workplace in current debates on the UK's productivity puzzle, it has not been absent from wider commentary. For instance, advocates of 'high performance workplaces'[1] have encouraged the adoption of 'bundles' of human resource practices that stimulate employee commitment, improve performance and contribute to growth (BIS, 2012). And there has been no shortage of advice to employers and managers about how to lead, to motivate and to set out their vision for the future, with a view to improving business outcomes. Here we revisit some of these arguments to show how the workplace, and what goes on inside it, can make a difference to individual organisations and the economy as a whole.

[1] "High Performance Working" is defined by the UKCES as a general approach to managing organisations that aims to stimulate more effective employee involvement and commitment in order to achieve high levels of performance (Belt and Giles, 2009).

UK Productivity: The Facts

- Since the onset of the 2007-2008 financial crisis labour productivity in the United Kingdom overall has been exceptionally weak.
- Despite some modest improvements in 2013, UK whole economy output per hour remains around 16 per cent below the level implied by its pre-crisis trend.
- In 2013, UK productivity was an estimated 17 per cent lower than the G7 average.
- Bank of England statistics show a dramatic change in the factors contributing to productivity pre and post-recession: compared with Q4 in 2007, in Q4 2014 a majority of growth is derived from hours worked rather than efficiency.

"On average private sector employees are producing no more per hour worked than six years ago. If normal rates of productivity growth had pertained we would be producing at least 15 per cent more. That's a huge loss. Recent figures suggest we have lost all the gains we made in 15 years prior to the crisis in catching up with countries like the US, Germany and France."

Paul Johnson, Director of the Institute for Fiscal Studies, 2015.

Workplace Inputs And Outputs – Discrepancy

In a series of Acas' discussion papers on productivity, commentators argue that in the UK we have the curious dynamic where much more goes into the workplace than comes out. (www.acas.org.uk/productivity)

Coming in:

- High investment in 'intangible knowledge-based assets' such as training, software and research and development.
- Above average share of well-educated people.
- Above average share of 'good jobs' compared to the rest of the EU.

Going out:

- Low labour productivity rate.
- High levels of overtime and long working hours.
- Underused skills – with the second highest level of over-qualification in the OECD.
- Slow wage growth.

Broadening the focus

What is needed is a renewed focus on the effectiveness of organisations, not just amongst policy makers and commentators but more importantly amongst those inside the workplace.

The way policy makers refer to productivity, in terms of outputs per hour or per person, is not always easy to envisage (or to measure) and tends to be the domain of economists rather than managers. In some sectors, such as manufacturing, the number of goods produced is readily quantifiable, but envisaging output in the service or public sector, for example, or in the creative industries requires a different mind set.

There are also those who argue that the country's poor productivity record is partly tied up with low pay and job insecurity. The most recent WERS found a rise from 15 to 18 per cent in people feeling concerned about job security, whilst there is a growing acceptance that the UK scores badly on low pay when it comes to international comparisons, with between 20 and 25 per cent of UK employment in low paid work. Tackling low pay and job insecurity will certainly be an important part of improving productivity. And, conversely, improved productivity is a key to improved economic wellbeing for working people.

However, as Acas knows from its own experience, the way that work is organised and employees are managed is critically important. What is needed is a way of working that delivers mutual gains:

- **for employers**: a sustainable productivity model that benefits the bottom line, improves customer service, and facilitates innovation.
- **for employees**: workplaces that value employee inputs, offer more fulfilling work and secure employee engagement.

This balanced approach can also lead to a constructive employment relations climate.

This short overview of the part that the workplace plays in boosting productivity draws heavily on evidence 'from the field'. It is based on Acas' experience. Every year Acas has over nine million interactions with employers and employees which take place each year through its face to face, telephone and on-line services. These offer us a unique insight into what is happening inside the workplace and its relationship with the changing external world.

Businesses of all sizes, industries and sectors approach Acas for help with a wide range of questions. For some it is purely a question of legislative compliance, while others are looking for help to tackle change and build a richer employment relationship – a relationship that harnesses the engagement and commitment of their employees. From all of these interactions it is clear that although improving productivity in workplaces across the country will not be easy, it is possible to come up with a plan of action.

Improving productivity through effective workplaces

We have identified seven 'levers' of workplace productivity:

- **Well designed work:** jobs and work organised in a way that increases efficiency and makes the most of people's skills.
- **Skilled line managers:** managers with the confidence and training to manage and lead effectively.
- **Managing conflict effectively:** systems in place to reduce the likelihood of problems arising and to deal with problems at every stage.
- **Clarity about rights and responsibilities:** a working environment where everyone understands their rights and responsibilities.
- **Fairness:** employees who feel valued and treated fairly.
- **Strong employee voice:** informed employees who can contribute to decisions and are listened to.
- **High trust:** relationships based on trust, with employers sharing information at the earliest opportunity.

These seven levers are not described in order of their importance. Many of them overlap and are interdependent. Nor do we assume that all employers will need to 'pull' all seven levers to improve their productivity. Building an effective and productive workplace that engages everyone takes time and priorities vary between organisations.

Lever 1: Well designed work

Job design is often described as "the structure, content and configuration of a person's work tasks and roles". Whether the objective is achieving better customer care, improving operational efficiency, more innovation, or greater flexibility in the way resources are used, good job design is always a key component. From an Acas perspective, it is vital that *people* are at the centre of the design process.

Two key ingredients of well designed jobs are discretion and autonomy – the opportunity for employees to have some control over the way in which jobs are carried out. This means, wherever possible, designing jobs to provide individuals and teams with all or some of the following features:

- The chance to use existing skills and develop new ones
- The right tools to do the job
- Variety of work
- A degree of interdependence with other roles and other people
- Flexibility over hours worked and working patterns
- Good use of physical space.

Psychologists have long argued that giving employees discretion about how they organise their work leads to better use of technical skills and tacit knowledge as well as more creativity in problem solving. Allowing employees some discretion can also lead to greater job satisfaction and commitment and, ultimately, improved workplace productivity.

Closely linked with job design is the bigger question of the way work as a whole is organised, influencing not just the quality of work but perhaps more importantly the efficiency of its delivery.

Job design and productivity: the evidence

Research has established the positive relationship between forms of work organisation, good management practice and organisational performance outcomes, including job satisfaction and productivity.

According to the 2011 WERS:

- Employees reporting higher levels of control over their work had high levels of job related contentment, enthusiasm and satisfaction.
- Where there were formally designated teams there was also increased contentment and enthusiasm.
- Training and development: whether employees feel managers at their workplace encourage skills development is positively associated with employee commitment.

Van Wanrooy et al, 2013
Forth and Metcalf, 2014

Take something like shift working or rostering. If these are not carefully handled, it can be difficult for employees to manage their work–life commitments which can in turn result in tensions in the workplace and disruptions in operational efficiency. For example, Acas worked with an NHS ambulance trust where a new arrangement for shift rostering had failed to gain the commitment of staff, and as a result, patient care was suffering. The trust undertook a root and branch review including consulting staff to get their views on what worked and what did not. This led to a newly designed rostering system that improved staff engagement and client care.

"While low road companies will put the emphasis on measures like 'just-in-time', process control or total quality control, high road organisations are more likely to stress the importance of an enhanced use of human skills and knowledge, the decentralisation of decision making, a holistic approach to the shaping of work tasks, and the use of technology as a tool for the enhancement of workforce skills."

Professor Peter Totterdill, UK Work Organisation Network

Team working can be an important part of the solution. Acas was approached to assist with a relationship breakdown in a team in a social care organisation: there was duplication of effort and some tasks were not getting done. The commitment of staff was not in question, but the working atmosphere had become tense and this affected productivity. The Acas adviser interviewed all team members and found that the real problem was not 'the people' but 'the process': it was taking thirty separate stages to get a client placed into care. Acas worked with the parties to pool their ideas on how to streamline processes, get rid of bottlenecks and, importantly, make better use of everyone's skills.

Playing to people's strengths includes making good use of existing skills, but encouraging a culture of ongoing learning is an equally important part of productive and well designed work. In a small design company, Acas helped managers to create a skills matrix to map existing skills and identify the gaps. The result was increased workforce flexibility and the introduction of more formal learning. The design company also developed a more consultative approach to decision making. As one manager said: "We're encouraging the guys on the shop floor to come forward and have their input into how machines are designed and built in the first place - they know how things go together."

The Acas markers of well designed work:

- ✓ Managers and leaders are clear about the value of people when it comes to designing jobs and organising work as a whole.
- ✓ Employees feel clear about their job role and have scope to innovate, and to influence the way their job is done and how work is organised.
- ✓ Employers place a high premium on using and developing the skills of their workforce and recognise that continual learning and training is an investment for the business and the individual.

Lever 2: Skilled line managers

Line managers play a critical role in specifying task and job requirements and making sure individuals and teams help the organisation to deliver. But being a 'skilled line manager' is not only about technical expertise in managing work. It is also about managing people. This involves being able to:

- **Motivate and lead** by understanding what makes each individual tick and how teams can work independently and efficiently.
- **Act as a translator**, making organisational messages clear for all employees, and feeding back employees' views to senior managers.
- **Handle 'difficult conversations'** on anything from performance and conduct to mental health and work-life balance.

Line managers are the gatekeepers not only of organisational policies and procedures, but of employee motivation and business performance. They provide the most important point of connection between individuals and the organisation. As workplaces have moved from arenas in which there is less emphasis on collectivism and more on individualism, so the pressure on line managers has increased.

Line managers and productivity

× Ineffective management is estimated to be costing UK businesses over £19 billion per year in lost working hours.
× 43 per cent of UK managers rate their own line manager as ineffective.

BUT…

✓ Best-practice management development can result in a 23 per cent increase in organisational performance.
✓ Effective management significantly improves levels of employee engagement.
✓ A single point improvement in management practices is associated with the same increase in output as a 25 per cent increase in the labour force or a 65 per cent percent increase in invested capital.

BIS, 2012

Organisations need to value their line managers, select them carefully, develop and support them. Influential research by Hutchinson and Purcell back in 2008 was one of the first studies to report on the so-called 'dumping ground syndrome' where line managers are expected to take on more tasks than they can cope with. The research showed that managers in the NHS, for example, often "experience considerable role conflict, high workload, resource constraints, plus pressure to deliver trust targets".

From an Acas perspective we know that the challenges facing line mangers can be greatest during organisational change. This was brought home during a recent piece of Acas work with a logistics company. The company had undertaken a wholesale review of procedures and operations resulting in more stringent systems for measuring and monitoring delivery times. But the change programme resulted in a decline in relations between staff and management. Managers felt staff were being uncooperative and staff resented being watched doing their jobs by "the clipboard brigade". With Acas' assistance line managers were encouraged to go back to basics and focus as much on their people management skills as on changing procedures. They looked at how best to communicate the change programme to ensure staff understood the case for change so they could buy into the new systems. This involved exploring the impact of different mechanisms for communicating – whether it be one to ones, team meetings or written communications.

The line manager challenge

James is the team leader in a small hi-tech design company. Every day brings new challenges in meeting deadlines for his design work. But he also wants to be a good team leader. This involves a different set of skills:

- Arran is disappointed that he didn't make the promotion list and wants feedback
- Kita is upset about comments she has overheard in the staff kitchen – she feels a colleague is behaving in a sexist manner
- Bank holiday cover is proving difficult to manage.

How line managers deal with these kinds of issues can have a huge impact on workplace effectiveness.

For line managers to be successful they not only need the right skills and training, but also support when their confidence falls. Research commissioned by Acas found that back up from a supportive, well informed HR team can provide a safety-net when important decisions loom, particularly those involving employment law (Saundry et al, 2015). Line managers also need to be proactive in supporting the skills and career development of their teams in creating a learning culture drawing on coaching and on the job training (BIS, 2012).

When employees feel positive about their relationship with their manager, research has shown that they are more likely to have higher levels of job satisfaction, commitment and loyalty: attitudes that are all directly associated with job performance (Purcell and Hutchinson, 2007).

The Acas markers of skilled line managers:

- ✓ Line managers have the skills and confidence to manage workplace policies and procedures and to bring them to life in dealing with individuals.
- ✓ Change is recognised as an everyday feature of organisational life and is managed effectively.
- ✓ Managing 'difficult conversations' is a core management competence.

Lever 3: Managing conflict effectively

As in other relationships, conflict is a feature of workplace relations. It can take the form of disagreements between individuals and their peers or managers, and between managers and the people they manage. It can also involve collective disagreements where the concerns of some or all of the workforce are represented.

It can be uncomfortable to accept that conflict exists, but turning your back on it often proves costly for both individuals and the way organisations perform. Even in the best run organisations, conflict can occur at times. But disagreements at work don't all have to end badly – sometimes conflict can be the start of an organisation making change and progress, and it can open the door to innovation and better ways of working.

Prevention is a better option than cure

Early resolution of conflict can help save organisations time and money. A CIPD study (2011) found an average 18 days of management time were spent on a disciplinary case and 14 on a grievance.

The Survey of Tribunal Applications (BIS, 2014) found that claims absorbed an average (median) 5 days of employer time with legal costs of £3000. The equivalent legal costs for the claimant were £2000.

Making sure conflict is well managed in organisations involves:

- **Keeping an open mind** about why and how disagreements occur.
- **Responding early** to conflict as it begins to emerge. Line managers with the skills and confidence are essential to this – they need access to the training, support and the right tools.
- **Getting the culture right -** make tackling conflict everyone's responsibility and make sure everyone knows what is expected of them.
- Having in place **fair and transparent procedures** for when conflict does occur, for example for disciplinary and grievance handling.
- Acknowledging the role **employee representatives** can play as facilitators in resolving conflict.
- Considering **third party intervention**, such as mediation, to help identify shared interests and solutions.
- **Being creative** – there is increasing evidence of the value of using alternative ways to manage conflict including conflict coaching, fair treatment advisers or bullying and harassment support officers.

In one social care organisation Acas worked with, people felt that their bullying and harassment procedure was just a 'bottom drawer policy' and incidents were tackled in an ad hoc fashion, or escalated straight to grievances. After a series of Acas facilitated workshops, a new 'Dignity at Work Policy' was adopted. This introduced Fair Treatment Advisers to support individuals at an early stage and in a consistent way. Using role play, people were given help with the language to use when tackling situations informally and, according to a manager, "much of the pain was taken out of the problem".

Transforming approaches to conflict handling

An Acas case study in a health trust found that the use of formal grievance procedures had become the default in responding to employee concerns. The trust wanted a new approach. A mediation scheme proved to be a useful solution. It provided a route to tackling conflict early and resulted in a reduction in the number of disciplinary and grievance hearings with significant savings to the organisation.

But it had wider benefits. The trade union representative became one of the architects of the mediation scheme and trained as a mediator. This gave the union, as well as managers, a significant sense of ownership over the scheme and encouraged its wider use. The joint mediation training and running of the scheme, with unions and managers involved on equal terms, was also a catalyst for improved workplace relations.

The Acas markers of effective conflict management

- ✓ Organisations encourage a climate of informal and early conflict resolution and regularly revisit their overall approach to reducing the likelihood of conflict.
- ✓ Managing conflict is a responsibility shared between line managers, HR, employees, employee representatives and senior management.
- ✓ There are established, clearly understood and trusted procedures for handling disciplinary and grievance matters when more informal approaches haven't worked.
- ✓ Organisations should review their culture when it comes to handling conflict, and keep an open mind to new approaches that offer win-win solutions.

Lever 4: Clarity about rights and responsibilities

Contracts of employment, coupled with workplace policies, provide a formal framework for productive workplace relations. Policies should cover the main stages of the workplace journey from beginning to end. These need not be complex, but should at least reflect:

- What the law requires on issues such as pay, holidays and time off.
- What is expected in terms of rights and responsibilities.

Lack of clarity around employment contracts can create challenges for both employers and employees. Analysis of calls to the Acas helpline - where around 200,000 calls a year are to do with contracts – reveals that problems with understanding are all too common.

If employees are unclear about the basis of their employment and their rights and responsibilities they are likely to feel more insecure – particularly if this directly affects their earnings or the likelihood of getting work. Acas analysis of calls to its helpline has found for example that:

- Workers on **zero-hours contracts** can sometimes be unclear about their contractual rights which can lead to feelings of insecurity (Wakeling, 2014).
- **Agency workers** and their employers can be unaware of which rights apply under the Agency Worker Regulations, introduced in 2010, or the implications of agreements to pay workers between assignments (Acas, 2015).

Similar confusion can apply in any type of employment contract. In these sorts of situations, when people start feeling unsure and frustrated, workplaces run the risk of a fall in motivation or a loss in discretionary effort - either with the person concerned or with colleagues observing from the sidelines as a point of uncertainty turns into a disagreement.

For employers the challenge is often understanding and explaining regulation and how it fits into individual contracts or applies to situations in the workplace. Research from Professor Robert Blackburn, Director of the Small Business Centre at Kingston University, suggests that small firms often find it particularly difficult to accommodate *changes in the law* especially large scale changes, sometimes referred to as "regulatory shocks" (Blackburn, 2012). Some small firms respond by doing nothing and running the risk of getting into legal trouble; but many more take the wise step of seeking advice. This is why Acas has developed a series of 'step by step' guides specially designed for small firms.

Having good policies and procedures is not simply about making sure that organisations comply with the law. If they are embedded in the values and behavioural expectations of the organisations they can also have a positive effect on employee motivation and morale. And contracts and policies are of course only part of the story. Productive workplace relations are as much about what is not said as what is said – they rely as much on

the unwritten expectations that can be said to form the 'psychological contract' between people at work.

Take attendance management for instance. Although one aim of any attendance policy will be to set down rules and procedures, in many ways the more fundamental aim is to positively influence the way people behave and approach the issue of attendance. So policies should ideally go beyond the basics. It makes sense to hold 'return to work interviews', for example, to find out if there are any underlying issues affecting the employee. Only by having this one-to-one interaction can a manager work together with employees to put in place preventative measures or address potential problems. Clear and widely understood policies provide the foundation on which to build expectations and develop norms of behaviour.

The Acas markers of clear rights and responsibilities

- ✓ Organisations have clear and accessible written statements of rights and responsibilities for employers and employees.
- ✓ All policies and procedures are openly communicated and reflect the culture, values and expectations of the organisation.
- ✓ Employers and employees have access to good quality, straightforward advice and information.
- ✓ Organisations are clear on their written and unwritten expectations and values, particularly relating to behaviours.

Lever 5: Fairness

What constitutes workplace fairness may be difficult to define. What 'feels fair' will vary from person to person, and from one workplace to another. And what may seem unfair to an employee may seem essential to delivering business outcomes for an employer.

'A fair days pay for a fair days work' is certainly one element of workplace fairness but so are values such as honesty and respect. Perhaps at the core of fairness is a sense of all employees being valued and treated in a consistent and even handed way – this is particularly important during times of greatest organisational change.

Some aspects of fairness are captured in the law, for instance around equality and diversity. But other aspects are reflected in how organisations deal with issues such as managing individuals that allow for a healthy work-life balance, or appropriate progression opportunities.

Fair treatment also involves tackling the challenges posed by relationships at work. This might involve:

- Seeking strategies to change the organisational culture so that it does more to tackle unfair treatment and promote diversity.
- Responding to those individuals who feel unfairly treated to ensure that their problems are taken seriously.
- Tackling underlying triggers of poor workplace relationships such as stress caused by workloads or lack of management support.
- Reflecting on management styles and the way relationships are conducted day to day. (Illing et al, 2013)

Fair treatment is also inextricably bound up with employees feeling that their wellbeing is taken into account. We know from recent research that wellbeing can have an important impact on organisational productivity.

Fairness, wellbeing and productivity: making the links

A recent and comprehensive study suggests that improvements in wellbeing will result in improved workplace performance: in profitability (financial performance), labour productivity and the quality of outputs or services. Job satisfaction – including satisfaction with training, skills development opportunities, how much autonomy employees have in their role, and how much scope they have to use their own initiative and influence decisions – shows a strong and positive link with workplace performance.

Bryson et al, 2014

In his report *Wellbeing and Policy* (2014), Gus O'Donnell, Chair of the Commission on Wellbeing and Policy, asks the question "why would an employer take the wellbeing of the employees into account?" The answer he gives is: "because it affects their performance". The report cites evidence from De Neve and Oswald (2012) that shows that 'positive mood states' have repeatedly been found to boost productivity and creativity, reduce sickness absence and increase customer satisfaction.

Acas in action: fair treatment at work

Acas advisers worked with a large NHS trust to tackle a culture of perceived bullying, harassment and intimidation. Some of the symptoms the advisers encountered were:

- High stress, absence and exit levels.
- A lack of understanding about what constituted bullying behaviour.
- Low levels of trust.

These symptoms were part of the explanation for falling NHS employee engagement scores, and a poor report from the Care Quality Commission. Following Acas' involvement the trust introduced a number of initiatives for change and Acas' work was recognised in Sir Robert Francis' report *Freedom To Speak Up* which made reference to the need for improvements in "strategic management, complaints handling, management of staff and communication and engagement" (Francis, 2015).

Wellbeing at work has traditionally been linked closely with the framework of health and safety. But we are increasingly seeing a much richer interpretation including general physical as well as mental wellbeing. On the latter, research evidence shows that wellbeing is strongly correlated with job satisfaction, commitment and loyalty and many employers are beginning to recognise that getting the best out of their staff also means thinking about the whole person and not just their working life.

The Acas markers of fairness at work:

- ✓ Employees feel safe and valued at work, and employers recognise and support their wider wellbeing.
- ✓ Employers promote a culture that recognises diversity, addresses equality and tackles discrimination.
- ✓ Pay levels and systems are transparent, comply with the law and reward employees fairly.

Lever 6: Employee voice

Employee voice is about providing information to people at work, enabling them to stay informed, have their say and be involved in the decision making process. It is also about employers benefiting from the technical and tacit knowledge of their employees to improve productivity and contribute to innovation.

Employee voice can be either direct – communicating with individual employees one-to-one or in team meetings – or indirect – via formal and informal consultation groups with representatives or full collective bargaining with recognised trade unions. Most organisations use a combination of both direct and indirect methods. But whatever arrangement is used, employee voice:

- Provides a source of creativity and innovation, tapping into the knowledge and experience of people who know what works.
- Allows people to feel a stronger sense of commitment to their work and to the wider organisation.
- Contributes to a feeling of worth and fair treatment.

Voice and productivity

The presence of voice arrangements is associated with higher levels of organisational commitment (Forth and Metcalf, 2014); and lower levels of voluntary quits (Bryson et al, 2013).

The European Company Survey of 30,000 establishments (Eurofound, 2015) found a clear relationship between involving employees in day-to-day decision-making, participative working practices and better business outcomes: "supporting the notion that 'win win' arrangements need to include measures to enable optimal use of employees' tacit knowledge".

What makes for good employee voice will vary from organisation to organisation but it is important that:

- Managers at all levels are committed to employees having their say.
- Union representatives, where appropriate, are involved and all representatives are trained in their role.
- Awareness of employees' needs is established but issues addressed are of significance to the wider business.
- Communications are two-way and employees' views are genuinely considered before decisions are taken.
- Communication and consultation with employees is both systematic and regular.

Employee voice can make a big difference to the bottom line. Acas worked with a distribution company when they found themselves having to respond to market pressure and increase sales. Poor internal communications were preventing them from responding quickly to customer insights. Acas advisers helped set up opportunities for employee participation so that, as one manager said, "everyone could get back to talking and listening." This improvement in communication soon led to better designed jobs and more responsive line managers and, critically, in the words of the Operations Director, "everyone working together to steal a march on our competitors".

And effective channels for employee voice can lead to better use of employees' existing skills as well as a better awareness of their training needs. Working with a local health authority, Acas helped strengthen the operation of its employee forum. The result was that the forum contributed to better running of the authority, generating ideas for improvement of systems, and in particular, reshaping the training programme to target skills gaps.

Communicating with employees and allowing them to have their say can also be especially advantageous at times of change. It can help to ensure that innovative approaches are not overlooked and can also help maintain good workplace relationships during and after the change process.

The Acas markers of strong employee voice:

- ✓ Employees are involved in decision-making and managing change through effective communication and consultation.
- ✓ Collective voice through trade unions or other workplace representative arrangements are facilitators of workplace consultation and negotiation.
- ✓ Leaders place as much emphasis on listening as talking. They seek views, take account on what they hear from employees, and communicate regularly about employees' contribution to driving the organisation forward.

Lever 7: High trust

Trust is a prized commodity because it is consistently linked with high levels of problem solving, operational efficiency, information-sharing, turnover, performance and productivity (Dietz and Gillespie, 2011; Searle and Skinner, 2011). But what does high trust at work look like, and how is it engendered?

For many people trust and employee engagement are linked. If engagement is a precursor of discretionary effort amongst employees, then trust is the glue which holds workplaces together, creating the right environment for positive productive relationships.

Trust and managing conflict

Recent Acas reports on managing individual conflict show that resolving conflict is often undermined by a lack of trust:

- Line managers often don't trust their own ability to manage difficult conversations with their staff.
- There can be a lack of a supporting and trusting relationship between HR and managers: this has partly been caused by the increasing centralisation of the HR function.
- There are fewer channels for employee representation in workplaces than was once the case. Employee representatives can often act as a conduit of trust, being both sounding boards for managers and providing early warning of emerging problems, as well as sharing information both upwards and downwards in an organisation.

Saundry et al, 2014 and Saundry et al, 2015

The values and behaviours that promote trust - including effective communication, employee participation, fair treatment, and competent line managers – have been described in the preceding six levers. These values and behaviours are re-enforced by trusting relationships.

A recent Acas blog set out three top tips for making trust come to life in a workplace context.

First, organisations need to be open and honest, and share as much information as they can with their employees as soon as they can. This includes bad or difficult news – the plain fact is that people hate being kept in the dark, it just makes the rebuilding relationships process much harder. Developments in social media have undoubtedly aided communications but such platforms also provide an easy outlet for gossip and rumour where there is an information gap. Don't hide behind the curtain of confidentiality - is it really confidential or is it just difficult to say?

Second, there is often much work to be done with the way leaders lead – how they communicate their strategy and vision. Research suggests that leaders who regularly "walk the floor" and deliver regular face to face, future focused, briefings contribute much to levels of employee engagement and trust.

Third, organisations can gain much from taking the approach that the people who know most about the job are those who do the work. When it comes to resolving problems around the way work is done, involving and collaborating with employees can ensure that organisations find the best way forward. Asking people what options there are to resolve the problem, genuinely taking suggestions on board, and feeding back on decisions taken, are all critical to establishing and maintaining trust and finding better, smarter ways of working.

Trust: a question of perception?

What trust looks and feels like may depend on where you are standing and can't be taken for granted.

> From the managers' perspective: WERS found that 80 per cent of workplace managers either strongly agreed or agreed that union representatives at their workplace could be trusted to act with honesty and integrity.
>
> From the union reps' perspective: WERS found that 66 per cent of senior union representatives judged that they could trust managers at their workplace.

These differing perceptions show that trust can not be taken for granted and takes real effort to build.

Van Wanrooy, 2013

There is an old saying: 'trust arrives on foot, and leaves on horseback'. Much of Acas' work involves helping organisations rebuild trust. But it is much easier, and makes business sense, to make sure that once trust arrives, it stays with you.

The Acas markers of trusting relationships

- ✓ Employers are as open and honest as they can be and share as much information as possible in a timely fashion with employees.
- ✓ Leaders know how to communicate their vision and 'walk the floor'.
- ✓ Joint problem solving taps into staff ideas.

Productivity: what part can HR play?

Ben Willmott, CIPD

In 2003, the Department for Trade and Industry published a major report exploring the reasons for the UK's productivity gap with its international peers and how to improve the nation's competitiveness. In the report, American economist Professor Michael Porter argued that there needed to be a consensus on economic strategy to enable and encourage companies, both individually and jointly, to upgrade their strategies and invest in the business environment in terms of skills, technology and innovative capacity.

Unfortunately, the Porter report was quietly shelved and the strategic choices to which it pointed were largely ignored. Fast forward over a decade and the problem of the UK's poor productivity is firmly back in the public policy spotlight. So can we make any more progress this time around?

First of all, if we are going to adopt an over-arching economic strategy we will have to decide whether we are going to take the high road or the low road to 'competitive advantage'. Keep and Mayhew (2013) have summarised this dilemma as a choice between:

- A **high road model** where skilled workers deliver sophisticated high specification goods and services that are sold on the basis of their quality rather than their price, and where firms come to the UK because this is our model.

- A **low road model** where a disposable workforce produces relatively standardised goods and services that are primarily sold on the basis of price, and where firms come to the UK because it is a cheap place to do business and taxes are low.

Recent policy development suggests that there seems little consensus on the best route to take. For example, the Beecroft Report (2011) appeared to favour a low road approach through its recommendations to make it easier for firms to fire staff and thus arguably reduce the incentive for employers to invest in workforce development. In contrast the government-supported Engage for Success movement alludes to the high road – with its belief that leaders and managers must be equipped with the right skills to understand how to get the best out of their people.

A further challenge is that industrial strategy in recent years has also had a relatively narrow 'vertical' focus on specific sectors. The 'chosen sectors', such as the automotive and aerospace industries, may have the potential to generate large amount of exports but they are not likely to create more or better jobs on the same scale, for example, as the retail, hospitality and care sectors which employ many more people.

One over-arching element of UK industrial policy over the last thirty years has been the focus on improving the quality of the supply of skills to the labour market. However, despite serial reforms to schools, colleges, universities, and funding systems, the UK still finds itself languishing in the various international tables of qualifications and skills achievement (UKCES, 2010; OECD, 2012; OECD, 2013). In addition, the UK generates a high proportion of jobs that, by international standards, require low educational requirements and also has the second highest proportion of over-qualification in the OECD.

This has led the UKCES to conclude that the UK has a 'demand side' weakness*:* "The UK has too few high performance workplaces, too few employees producing high quality goods and services, too few businesses in high value added sectors" (UKCES, 2009). The recent UKCES report *Growth Through People* recognises the need to address this, calling for the need to equip people with the right skills and give them the best opportunity to use them in order to create more better-paid jobs (UKCES, 2014).

It concludes that to achieve this "we need better leadership and management of people and organisations, increased employee engagement and more transparency about the value of people to business success".

This analysis is very much in line with the CIPD's view on the skills challenges facing the UK. We are working with the UKCES to help build organisations' leadership, management and HR capability through the professional development of our 135,000 members at the sharp end of recruiting, managing and developing a large proportion of the UK workforce.

An important part of this work is the *Valuing your Talent* research programme which is a collaboration between UKCES, CIPD, Chartered Institute of Management Accountants (CIMA) and the Chartered Management Institute (CMI) (CIPD, 2014). This research and engagement programme is exploring best practice in the use of human resource metrics and analysis to improve employers' understanding of the value of their workforce and the benefit to the business of the investment they make in their people. Improved data and evidence on the value of people can help increase investment in leadership and management capability and broader workforce skills development and, over time, make a significant contribution to helping to improve workplace productivity.

The new industrial partnerships are another positive development supported by the UKCES. For example, the automotive industrial partnership is bringing together major automotive businesses to ensure future skills needs are met for UK vehicle manufacturers and supply chain companies. Small and medium-sized enterprises (SMEs) will also be supported in gaining access to industry standard skills development.

However much more still needs to be done to engage with and support SMEs, responsible for 60 per cent of private sector employment in the UK,

in building their people management capability. Most will never have been involved in any government skills initiative and will lie outside formal supply chains and existing SME networks. There needs to be much greater emphasis on the provision of high-quality HR support, advice and guidance at a local level, driven by clear leadership from bodies such as Local Enterprise Partnerships and local authorities. More local business support hubs need to be created to provide hard-to-reach SMEs with cost effective and easy to find advice and support to improve their people management capability, as well as to access available public skills funding and high quality training to get the most from their people and grow.

Agreement over the need to take action to address these issues at a local level will not be easy, particularly with the move towards further devolution of skills policy and funding to cities and regions. This is one reason why the CIPD believes we need a fundamental review of skills policy. The landscape has changed massively since the last major overhaul of overall skills policy (Leitch, 2006) and policy makers at national and local levels need to be on the same page if we are to see meaningful progress in addressing our productivity deficit.

Ben Wilmott is Head of Public Policy at the CIPD

Productivity: what part can business play?

Lena Levy, CBI

Productivity – how much value each worker adds in every hour he or she works – is a key element in how fast our economy grows. It is also an important driver of living standards as it determines what companies can afford to pay their staff. This explains, in large part, why weak productivity growth has resulted in slow wage growth since the downturn - and why pay rises can only follow improvements.

But productivity itself is an amorphous concept. Data on productivity trends reflect a diverse range of factors influencing both output and employment. The experience across the economy is that we are racing ahead in some areas, but doing less well in others. In the service sector, the traditional measures of productivity may not be a great guide, as what matters is the value an employee is adding to the brand over the long-run. Whatever politicians or unions claim, there is also not a silver bullet for certain improvement – whether that is skills, something that the CBI says is a crucial ingredient, or a pay rise, as the TUC claims.

Because of this variance in performance and definition by firm and sector, macro-economic, Government-driven interventions tend not to be the best approach. Instead productivity improvements need to be driven by businesses themselves, with Government providing an enabling environment around skills, financial and physical infrastructure and networks that support peer learning.

For businesses, investment and innovation are the places to start. Between 2000 and 2008, these two factors alone accounted for most of the UK's productivity growth. But measures of technological improvements and management efficiency – indicative of these factors – have declined in recent years. Such investment and innovation relies on harnessing the right technology, and doing it well. Our 2014 publication *A Better off Britain* identified that while UK companies often invest similar amounts in new IT as US colleagues, for instance, returns can be constrained by management practice once it is in place (CBI, 2014).

With this in mind, thinking about design of production processes, effective management and well-targeted investment will be key to making progress on productivity – as will having the right skills in place. All these factors must be led within and relevant to individual businesses.

They also require firms to be thinking of their people plans on a par with their financial plans. This is not about making people work harder, or cutting the number of employees. It's about managing the process of change, how jobs are done and developing skills levels – working smarter. The gains are that firms become more effective and employees can reap the financial rewards from it through better paths to higher pay. Simply raising pay first would fail to tackle underlying problems. And for

businesses to get this right, they need a commitment from the very top of their organisation, which then needs to ripple through the organisation.

What does this mean? Well, between 1998 and 2007 improvements in labour productivity were responsible for almost three-quarters of the UK's economic growth. And management quality explains 10 per cent to 15 per cent of the productivity gap between the US and the UK.

If we get it right, however, the pay-off could be significant. In *A Better off Britain*, the CBI argued that raising productivity in four high employment sectors characterised by low productivity could be worth up to £144bn to the UK economy.

However, none of this is an overnight job, and businesses need to make it a long-term priority. What might government do that helps, aside from avoiding policies that restrict the innovation firms need to do?

Helping mid-size firms innovate is key. Generally, productivity increases with firm size so, as a priority, the Government can help by helping smaller and especially mid-sized firms grow and gain a deeper understanding of innovating for productivity. In particular, simplifying the support network around procurement, skills, exports and access to finance would encourage firms to invest in the changes they need to make real progress.

While ultimately it is only businesses that can drive improvements forward, mid-sized firms have particular challenges which are distinct from smaller firms. As the CBI has argued consistently since 2011, the huge potential of this UK Mittelstand is held back by a lack of focus on their needs, despite the fact that a huge slice of the UK's upside potential on growth, productivity and employment (CBI, 2011). It is time to move on from the ineffective label "SME" to address the real needs of our 'gazelle' companies.

Secondly, **more co-ordinated action and sharing of expertise would amplify benefits**. In particular, large businesses can act as anchors in supply chains by taking the lead in raising capability. There is real value in supply chain, sectoral or regional discussions on what improvement might look like and what business and Government action is needed.

For example, manufacturing businesses were responsible for 11 per cent of productivity growth between 1998 and 2013, and 11 per cent of the UK's gross value added. But mid-sized manufacturing firms are only two-thirds as productive as their larger counterparts. If these firms were as productive, manufacturing's share of productivity growth could have been much larger.

Sharing in Growth is example of an innovative and ambitious programme, led by Rolls-Royce with industrial knowledge and support from across the aerospace industry. It seeks to raise the capability of firms in the UK's aerospace supply chain so that they can share in the anticipated growth of this global market. It provides intensive, high-impact training to diagnose

and address weak business processes, and equip managers and workers alike with the skills they need in order to update and expand their operations (CBI, 2014). As a result, businesses, including anchor firms, have increased their potential to grow and compete internationally.

Finally, **better action will be driven by better understanding across Government**. The data on productivity is muddy. The concept is difficult to define and productivity trends have been very different across different sectors of the economy. For example, the shifting sectoral make-up of the UK towards services has changed the picture on how employees add value. Measuring the value of 'service with a smile' is not easily captured by a traditional 'widgets per hour' approach. A better understanding of the barriers to productivity growth facing firms in individual sectors would help government understand which of the levers it has will make a real difference. Such analysis can be reasonably delivered by the Office of Budget of Responsibility, with sense-checking from business leaders. This is something the CBI would like to see the new Government kick off.

Lena Levy is Head of Group, Labour Markets & Agility Policy at the CBI

Productivity: what part can skills play?

Katherine Chapman, UKCES

The UK workforce is getting better educated. By 2020 nearly half of the workforce will be qualified to degree level and above, overtaking the USA. At the same time the number of highly skilled jobs – for managers, professionals, associate professionals and technicians – has grown. In 2006-2013, the UK contributed 2.2 million high-skilled jobs to the 5.1 million created across the EU, more than any other member state. The UK now has one of the largest graduate workforces in the EU and one of the largest shares of high-skilled jobs. We know increased investment in education and training improves a country's economic performance (UKCES, 2010), so why is the UK's productivity growth so low?

There are a number of skills challenges that contribute to this 'productivity puzzle'. Firstly, whilst there has been impressive growth in the supply of high level skills, there are pockets of skills shortages in the UK where businesses can't get the skills they need. Secondly, and perhaps more importantly, there is evidence that skills are not being used effectively in the workplace due to poor management capability, which hinders innovation and growth; and too many businesses continue to base their market strategies on low value products.

Globalisation, technology and demographic change are changing the nature of work, and putting a premium on the ability of businesses and employees to adapt. Ultimately, we can continue to improve the supply of high level skills but unless we have the capability and ambition to make use of those skills, the impact on productivity will be muted.

Skills shortages and skills gaps

The UK suffers from persistent and growing skills shortages. The UK Commission's Employer Skills Surveys reported that skill-shortage vacancies – where vacancies can't be filled due to a lack of applicants with suitable skills or experience - increased by 60 per cent from 2011 to 2013 (UKCES, 2012, 2014a). These shortages cover nearly a quarter of all vacancies and are concentrated in sectors critical to growth such as manufacturing and business services.

A far greater number of the existing workforce also have gaps in the skills they need to be proficient in their jobs. The good news is that significant proportions of employers do train, and cite a desire to do more training, but the recession has created a challenging environment. There are signs of decline in training and development activity, and although the picture is mixed, there is certainly room for employers to be doing more if we are to have a fully productive workforce.

Under-utilisation of skills

At the same time, there is widespread evidence of skills under-utilisation. Nearly half of UK employers report having employees with skills that are not being fully used. This equates to 4.3 million workers, or 16 per cent of all employees (UKCES, 2014a). And this affects employees across the board at all skill levels. Amongst our international competitors, only Spain has more employees that regard their job as requiring a primary education or less[1] and we now have the second highest (after Japan) levels of over-qualification in the OECD, at 30 per cent of the adult workforce.

Effective use of skills in the workplace matters. Added productivity comes from the ability of employees to innovate and turn investment in new technologies and equipment into better products and services. This brings competitive advantage and allows businesses to grow and move up the value chain, creating more and better jobs and progression opportunities for employees (UKCES, 2014b).

Although the UK has a healthy proportion of world class businesses, it has a 'long tail' of weakly managed businesses and we are seeing the consequences – with valuable skills left underemployed. The UK has a higher share of managerial employees than many other countries, but compared to other advanced economies our managers are less qualified than the rest of the workforce. Managers in the UK are also the occupational group least likely to receive training. Recent increases in self-employed and freelance working also pose a new set of challenges about how to train, develop and manage increasingly flexible and virtual teams.

High performance working and job quality

So what can UK businesses do to make the most of their employees' skills? UKCES believes that High Performance Working (HPW) offers a route map for employers. HPW practices cover four domains:

- Access (recruitment and resourcing)
- Ability (workforce skills and training)
- Attitude (engagement and motivation), and
- Application (opportunities for individuals to deploy their skills).

Sounds simple enough, yet in 2013, just 12 per cent of organisations were regarded as high performing[2]. So why do so few businesses adopt these practices, when all the evidence suggests it can help boost their productivity?

Recent UKCES research indicates that declining 'competitive churn' means that many companies in the UK can stagnate without pressure to raise their game (UKCES, 2015). Analysis of small firms, for example, found

[1] OECD, Survey of Adult Skills (PIACC) www.oecd.org/site/piacc.
[2] Adopting at least 14 of the 21 identified HPW practices (UKCES, 2014a).

that although some firms do not embrace high performance working practices they are also unlikely to report skills issues. So there seems limited incentive for employers to change their behaviour and limited opportunity for employees to develop their skills.

Towards a high skill, high productive future

There has been a lot of focus in the UK on experimenting and learning from new technology and R&D, but arguably our real weakness is in turning our skills and knowledge base into world class innovation businesses with high value jobs. As UKCES highlighted in its recent report *Growth through People*, business leaders, employees and policy makers need to recognise the importance of the workplace and how skills are developed and deployed within it. This means thinking differently about job design, use of technology, work organisation and effective leadership and management.

Firm level initiatives such as Investors in People have supported businesses to improve performance through better development and use of people. UKCES is also supporting the development of human capital analytics to help firms better understand how people contribute to business performance and so make better decisions about investing in and managing people.

Firm level activity also needs to be supported by a wider innovation eco-system that encourages employers, trade unions, colleges and universities to work together to cluster expertise and stimulate new forms of work organisation and job design that improve skills use and productivity in the workplace. We need stronger employer networks and knowledge transfer in sectors, local areas and supply chains that can support businesses to adapt to future opportunities that arise from technological advancements and globalisation.

Katherine Chapman is Assistant Director at the UK Commission for Employment and Skills

Productivity: what part can small firms play?

Mike Cherry, FSB

Much of the debate on the UK's poor productivity performance has explored macro-economic causes and consequences. There has been far less focus on firm-level productivity and its drivers, and even less consideration of small business productivity. This is in spite of the fact that small businesses are essential to driving productivity growth, both through the supply of entrepreneurship and innovation to the economy, and their overall contribution to economic output.

In response to this lack of evidence, the all-party parliamentary group for small businesses – to which the FSB provides the Secretariat - recently undertook an inquiry into the drivers of small business productivity. The final report identifies ways in which the private sector itself can boost its own productivity, but also highlights the critical role Government policy has to play in improving the productivity performance of small businesses. This includes:

- Boosting access to diverse forms of finance to facilitate higher levels of business investment.
- Using the tax system to incentivise innovation in new products, processes and services.
- Improving business support schemes to meet the needs of businesses whatever their stage in the growth cycle.

At a macro level, policymakers must ensure that the 'framework' conditions for business growth are in place, without crowding out private sector activity.

Within the workplace, there are important barriers to higher productivity. Skills shortages is a well-rehearsed area of the productivity debate. We know firms that have access to the right skills for their business are more likely to generate higher economic returns, innovate and grow. The education and skills system is still too often falling short of delivering the skilled workforce businesses need. There needs to be a concerted effort from the private sector, the government and education providers to forge better links between businesses and local schools, higher education colleges and universities to make the skills and education system more responsive to business and economic needs.

Improving the supply of skills is not the only answer. Currently there is a widespread under-use of skills across all employers, meaning that they are not maximising the productivity of their workforce. Employers of all sizes can do much more in identifying and utilising existing skills effectively, and taking appropriate steps to up-skill their staff. Small firms should be supported to review their training needs on an annual basis to help them identify training opportunities and maximise the productivity of their staff.

There are well-practised arguments why many firms do not undertake training, with a fear of 'poaching' by rival businesses often cited. In many small firms, up-skilling can happen organically 'on the job', but where formal training is the better option there seems a worrying lack of activity – with the UK still lagging behind other countries when comparing levels of investment in the workforce (UKCES, 2014c).

Re-evaluating skills sets and up-skilling existing workers is all the more important against the backdrop of rapid technological advancements. More needs to be done to ensure small businesses and their staff have access to, and the skills to use, productivity-boosting technology. This includes harnessing digital skills, building on the digital inclusion strategy set out by the Government. Of course this can only happen if small businesses have access to high quality super fast broadband. We know from our own research that the provision of broadband coverage varies substantially across the country and in many areas, particularly in rural locations, is not fit for purpose. Addressing this digital deficit facing business is essential if the UK is to compete in high-value global markets and close the productivity gap with our competitors.

It is not just harnessing the skills of the workforce that matters for business productivity. There are also structural weaknesses in the running of many firms themselves. The UK has a long-standing weakness in this regard, with studies pointing out the existence of a 'long tail' of British companies lacking adequate leadership and management capabilities, including shop floor management and basic monitoring of people and processes.[1]

Better management practices are strongly associated with higher levels of competitiveness and effective workforce planning can also help mitigate the effects of skills shortages. Furthermore, well-being at work has been linked to higher performance, creativity and productivity. Indeed, there is significant body of evidence showing poor management and leadership skills is associated with lower levels of well-being and higher risks of workplace stress (Podro, 2012).

Policymakers can do more to address this problem and provide existing businesses and start-ups with access to leadership and management capabilities and training so that they can get the most out of their workforce. To some extent, this is about promoting and strengthening the support that is already out there. For instance, finance providers – including angel and equity investors – are well placed to provide management advice and expertise to firms. However, in other areas more action is needed. Mentoring such as through the 'Mentorsme' scheme is an important source of support and can be invaluable in helping to develop management skills. Local Enterprise Partnerships could play a greater role in developing mentor networks and signposting to existing mentoring support developed within the private sector.

[1] See for instance, http://cep.lse.ac.uk/pubs/download/dp0716.pdf

There are currently a plethora of business support schemes, particularly at the local level where the current landscape remains fragmented. This makes it difficult for firms to identify and access support services suitable for their business and in practice, means that many schemes are underused. A more joined up business support offer is required. At a regional level, LEPs should consult their local small business community when designing business support programmes and their accountability mechanisms should be strengthened. At the national level a US-style Small Business Administration would provide the structure for a more coherent business support offer, and would provide much greater co-ordination and coherence in the day-to-day management of schemes.

Small and medium sized businesses today employ 15.2 million or 60 per cent of the private sector workforce and generate £1.6 trillion or 33 per cent of turnover. In view of the sheer size of their economic contribution, improving the productivity levels of small businesses is certain to have a beneficial impact on the overall productivity growth of the UK economy. For the long term success of the UK economy, this must be a core priority for the next Government and for policymakers in the years to come if the UK's performance is to improve.

Mike Cherry LIWSc FRSA is Policy Director at the Federation of Small Businesses

Productivity: what part can employee engagement play?

David MacLeod OBE, Nita Clarke OBE, Employee Engagement Task Force

Why has productivity stalled? Our view is that what actually happens on a day to day basis in our workplaces, public and private, may provide a compelling insight. Put simply, too many employees find their abilities and skills underutilised at work; they may be working extremely hard, but ineffective business organisation and processes means much of this effort is wasted. Ineffective or positively dysfunctional managers add to the problem; and organisations that fail to explain their purpose find it unsurprisingly hard to motivate staff. Resistance to change is endemic across organisations, and most employees characterise their organisations as low trust. Very few organisations really listen to their employees and consequently have little idea about life on the ground, and fail to invite or follow up on employees' ideas about product or process improvement.

A recent survey of thousands of employees across 20 countries found the UK had the third lowest levels of engagement, 10 per cent behind the global average. What a waste of people's potential, what a loss of productivity and what a cost to the nation (ORC, 2014).

So better employee engagement may offer part of the answer and part of the solution. Employee engagement, according to the Institute of Employment Studies, is "*a positive attitude held by the employee towards the organisation and its values. An engaged employee is aware of the business context, and works with colleagues to improve performance within the job for the benefit of the organisation.*"

There is increasing evidence of the link between engagement and productivity – on an individual and an organisational level. There is a strong relationship between engagement and both employee advocacy and customer satisfaction and loyalty. In a massive survey of over 23,000 business units, Gallup found that those with engagement scores in the highest quartile were 18 per cent more productive than those in the lowest quartile (Harter et al, 2012).

How are we to explain this link? Innovation may be central to this. Engaged employees are more innovative; they seek to continuously improve processes, look for new ways of adding value to their work and are more likely to suggest and follow through on new ideas. In 2007 Gallup found that 59 per cent of the more engaged employees said that work brings out their most creative ideas, compared to just 3 per cent of the less engaged (Kruger and Killham, 2007).

So what are we to do? It may be worth looking back at the four enablers of engagement - a strategic narrative, engaging managers, employee voice and integrity – identified in our report *Engaging for Success* (2009).

Strategic Narrative

The strategic narrative is about having "*a strong, transparent and explicit organisational culture which gives employees a line of sight between their job and the vision and aims of their organisation."* Employees need to find meaning and purpose in their work. They need to see how their individual graft and toil contributes to something greater, something that they can buy in to and believe in. Otherwise work becomes merely contractual and transactional – you come to work and do what you're told just because you have to.

Looking at the latest Workplace Employee Relations Study (WERS) – a large survey of the UK workforce – there seems to be some way to go here. Two in three employees (65 per cent) agree or strongly agree that they share the same values as their organisation. But just 16 per cent strongly agree, indicating some room for improvement (Dromey, 2014).

Engaging Managers

Line managers are absolutely crucial to employee engagement. We identified the importance of having engaging managers who offer clarity, appreciation of employees' effort and contribution, who treat their people as individuals and who ensure that work is organised efficiently and effectively so that employees feel they are valued, and equipped and supported to do their job (Dromey, 2014).

Again, while the headline figure from WERS is reassuring – with two third (64 per cent) saying that relationships with managers are good/very good – just one in five (21 per cent) believe they are very good.

Employee Voice

Voice is central to employee engagement. We defined voice as having a situation whereby "Employees' views are sought out; they are listened to and see that their opinions count and make a difference. They speak out and challenge when appropriate. A strong sense of listening and responsiveness permeates the organisation, enabled by effective communication." (MacLeod and Clarke, 2009)

There is evidence of a voice deficit. ETUI rate the UK as second bottom of the league in the EU in terms of employee participation – beaten into last place only by Lithuania. Evidence from WERS shows that just one employee in two (52 per cent) says that managers are good or very good at seeking their views. Fewer still – just one in three (32 per cent) – say that managers are good or very good at allowing employees to influence decision making (Dromey, 2014).

This is a significant cause for concern. If employers are to benefit from the expertise and experience, the ideas and innovation of their employees, they need to allow and indeed encourage them to speak up.

Many of our most productive industries tend to buck the trend of low voice and low involvement. Take the automotive industry or the aerospace sector, where high levels of union membership and high levels of employee involvement go alongside incredibly high levels of productivity.

Integrity

The final enabler of engagement is integrity. This is defined as "a belief among employees that the organisation lives its values, and that espoused behavioural norms are adhered to, resulting in trust and a sense of integrity" (MacLeod and Clarke, 2009).

Again, there is evidence of some work to do here. WERS shows that just one in two employees (50 per cent) agree/strongly agree that managers keep their promises. Only slightly more (58 per cent) agree/strongly agree that managers deal with employees honestly (Dromey, 2014).

The UK faces a productivity puzzle. Employment relations could in part be the missing piece. If employers in the UK were better able to engage with their employees, we could both improve the quality of work for people, and drive up productivity for the benefit of all.

David MacLeod and Nita Clarke are co-chairs of the Employee Engagement Task Force

Productivity: what part can employee voice play?

Nicola Smith, TUC

The UK's recent productivity performance has been exceptionally poor, and this means there is less scope for living standards to rise

In recent years many developed economies have seen productivity falls, but the UK's performance has been by far the worst. High and rising productivity is not just a 'nice to have'. Without continual increases in the volume of output that the UK's workforce produces for every hour worked there will be fewer gains from growth for us all to share. While productivity rises do not guarantee just rewards, they are a vital starting point. As Paul Krugman now famously said: "Productivity isn't everything, but in the long run it is almost everything. A country's ability to improve its standard of living over time depends almost entirely on its ability to raise its output per worker." (Krugman, 1994)

Part of the solution is stronger economic growth

So what has gone wrong in the UK? The TUC's research[1] shows that a substantial part of the explanation for the supposed productivity puzzle is underperformance on growth – our economy is not growing as rapidly or as strongly as it could if better policy solutions were in place. With GDP per head still below where it was before the recession, and our current recovery the slowest on historic record, recent economic performance has been poor. Although we have been creating jobs, many are in low value sectors and record numbers of those in work tell researchers that they are under-employed. There is significant scope for government action to secure stronger demand, increase the output of our workforce and make our economy more productive.

But the UK had problems before the crisis, and some have become worse since it took hold

While average UK productivity growth was strong before the crash, there were significant variations between industries, with the UK's 'long tail' of low pay and low productivity businesses a real cause for concern. What's more, the extent of permanent damage the years since the great recession have caused remains uncertain. Some previously highly productive sectors, for example North Sea oil and parts of finance, seem set to remain smaller than before the crisis and in other areas, for example parts of building services, low productivity working practices appear to have become even more embedded than they were before the downturn.

[1] https://www.tuc.org.uk/economic-issues/public-spending/labour-market/economic-analysis/%E2%80%98productivity-puzzle%E2%80%99-red-herring.

That's why it makes sense to pursue an active policy approach to productivity growth, including a vital focus on employee voice

So while macroeconomic policy is key, wider 'micro' approaches to achieving higher productivity growth need to be pursued in parallel, with a focus on workplace practice vital to ensure that:

- Increased demand in the economy translates into more productive companies (rather than ever rising numbers of low paid and low productivity jobs).
- New innovations and approaches are generated to allow our potential to continue to develop in the future.

Increasing employee voice at work is a key part of the workplace change the TUC believes is needed if these higher productivity and higher growth business models are to emerge.

The term 'employee voice' is broad and encompasses both individual and collective opportunities to contribute to decision making. Both are important to ensuring effective workplace performance and need to work in tandem for the business benefits to be realised - individual opportunities to provide feedback on an organisation's approach cannot replace collective mechanisms for the voice of the workforce to be heard.

Importantly, while an effective approach to ensuring employee voice needs to include the right to negotiate over terms and conditions, it also needs to provide staff with the chance to be collectively consulted and engaged in operational and strategic planning. It is for this reason that the TUC makes the case for worker representation on company boards (TUC, 2013), for the wider application of information and collective consultation rights (TUC, 2014), as well as for the significant benefits that union recognition can bring for employers and their workforces.

Evidence shows that an increased voice for employees brings significant business benefits

So what is the evidence that voice makes a difference? Across the world countries with strong participation rights – such as board representation and collective bargaining – perform better on a wide range of key productivity enhancing measures. This means they are often better at things like R&D expenditure, educational participation among young people and educational achievement among older workers. While correlation does not prove causation, the evidence that countries with high levels of employee voice also often have high productivity is significant.

Exploring some of the reasons behind these trends, Applebaum et al (2011) summarise the evidence of a link between workers' voice and productivity. They report that in workplaces where the voice of employees actively informs decision making, the workforce are more motivated and committed and are more likely to develop higher skills. These businesses also benefit from higher levels of information sharing and better

coordinated work. Noting that organisations with mutual respect for rights and responsibilities are more likely to achieve high performance the authors conclude that "in particular, the presence of a union is positively associated with a greater number and greater effectiveness of high performance work practices."

In conclusion, engaged workforces are vital for high productivity growth, and unions can support this agenda.

A government that really wanted to improve UK productivity would think more widely about how to foster the high performance workplaces, with engaged and creative workforces, which will deliver the gains that future pay and profits rely on. A strong evidence base shows that employee voice can play an important role in boosting productivity and that there is simply no relationship between higher growth rates and lower employment protection. Policy makers need to recognise the vital productivity benefits that improved employee voice has potential to provide, rather than acting to reduce its reach.

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Building Productivity: Making It Happen

The shared concern about the UK's productivity challenge is clear. It crosses the boundaries of political parties and reflects the interests of both employers and employees. This paper provides evidence on a further area of consensus: the significant part that the workplace can play in helping provide a solution.

Productive workplace environments are the real-world settings required for macro solutions – such as financial and capital investment – to deliver better results. The case for a greater focus on the workplace is borne out in analysis of research and in the evidence from workplace interventions by Acas. And as demonstrated in this volume, it is an agenda that now enjoys the combined support of business and union perspectives, along with those representing interests in HR, skills development and employee engagement.

There is no single solution to improving the productivity of organisations. The challenge is complex and as far as the workplace goes the solution needs to be nuanced. But the proposals in this paper provide a new framework for bringing about change.

The emergence of a consensus around the centrality of the workplace is the start of a journey. Making a difference for the better will involve continuing to engage with policy makers and influencers, but crucially it must also reach directly into organisations to motivate and inspire employers, managers and employees.

Acas is uniquely placed to make a contribution to the debate and to help bring about change, given the tripartite nature of our Council and our practical expertise in helping employers and employees across the country find better ways of working together. However, as Ian Brinkley has commented in his paper in our policy discussion paper series on productivity (2015), the challenge of transforming the productivity of UK workplaces is too big a task for one organisation.

One important element of our agenda is therefore to facilitate a broader discussion on how to activate the potential for greater productivity in the UK's workplaces. Our second objective is to deliver practical interventions that can start to make a difference inside the workplace itself.

Acas' Agenda on Productivity

A lively public dialogue has begun on the issue of productivity. Acas will seek to maintain and build on this discussion to:

- Promote the benefits of improving workplace productivity – across sectors and industries and in organisations of all sizes.
- Engage with policy makers and promote to organisations the business case for improving productivity.

- Build on the material set out in this paper, working with others to develop our evidence base further and to refine our messages on the mutual benefits of productive workplace practices.
- Explore the potential for greater ongoing collaboration on productivity among social partners and specialist bodies in order to magnify the impact and reach of our work.

A programme of practical, solution focussed interventions run by Acas will:

- Build on the considerable interactions Acas already has with employers, HR, employees and their representatives, and take action to enable and support appropriate changes inside workplaces.
- Ensure Acas' practical guidance is easily accessible through continuing to develop our online information as well as delivering bespoke workplace solutions.
- Put in place a programme to build on our extensive contacts with employer and sector networks, to identify opportunities for supportive programmes of work both inside and across groups of organisations.
- Further develop the seven levers of workplace productivity to provide a new framework for workplaces to consider their current productivity profile and how to improve it. We will produce a new online tool for employers, helping them diagnose areas for development and informing them how to access the right guidance, advice and support to move forward.

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