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Improving productivity: the case for employee voice and inclusive workplace practices

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Key points

- In recent years, the dismantling of labour market institutions has been promoted as a policy to improve productivity in EU Member States. However, the evidence in favour of a positive relationship between deregulation/decentralisation and productivity is inconclusive.
- Recent studies suggest that labour market institutions are not associated with worse productivity performance. In fact, evidence suggests that workplace practices that enhance the capability, efficiency, and motivation of the workforce actually improve productivity.
- Furthermore, these practices yield beneficial effects when trade unions or other employee representation bodies are involved in their formulation and implementation. Therefore, the aim of improving productivity in Europe should rely on socially inclusive and economically sustainable policies that promote the development of trust between the social partners to foster win-win outcomes.

Introduction

How effective are the policies that seek to dismantle labour market institutions across the European Union (EU) with the aim of improving productivity? Dismantling labour market institutions includes policies to decentralise collective bargaining, with an increasing focus on company-level bargaining that deviates from the minimum standards set in sectoral agreements. Other policies focus on relaxing employment protection legislation to enable easier hiring and firing. Either way, the evidence about the positive link between deregulation and productivity is, at best, inconclusive. On the other hand, the negative consequences of deregulation, especially regarding the redistribution of power among the social actors, quality of work, and wage and income inequality, cast doubt on the desirability of these policies as tools for the achievement of smart, inclusive and sustainable growth with 'more and better jobs' in the labour market. A major problem with these policies is that they perceive improving competitiveness solely as a cost-cutting exercise. The idea is that decentralising collective bargaining will help adjust wages (usually downwards) to better reflect the conditions of the market. This rationale, however, exposes workers to 'the full force of global labour market competition, requiring [countries] to compete in low prices alone' (Crouch 2014: 13).

Yet cost reduction is not the only way to improve the alignment of productivity growth with labour costs. This can also take place if companies invest in their human capital, to increase its skills and capabilities, or if they redesign work organisation to better respond to the changing competitive environment. Such considerations imply that policymakers need to perceive productivity improvements more as a 'value-adding' exercise rather than a 'cost-cutting' one.

This brief presents recent evidence on the relationship between deregulation and improvements in productivity. It also discusses the role trade unions and employee representation bodies can have in improving productivity through their intervention in workplace practices that create added value for everyone involved.

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Dismantling labour market institutions 'in the name of competitiveness'

Since the launch of the Lisbon Strategy in March 2000, improving the productivity of Europe's labour markets has been a central concern of European policymakers. This objective was reiterated in the Europe 2020 strategy, which aimed at improving competitiveness through higher productivity as part of the agenda for smart, sustainable and inclusive growth. Although the discourse of the European Commission is cautious, and 'deregulation' is not explicitly prescribed, the general policy direction is towards more flexible employment relations in EU Member States.

In their country-specific recommendations (CSRs), issued to each Member State, the EU required the reform of national collective bargaining systems to improve competitiveness (Clauwaert 2014). The Eurozone sovereign debt crisis significantly accelerated this process of transformation, and bailed-out countries – such as Greece and Portugal – were obliged to abruptly adapt their labour market institutions 'in the name of competitiveness'. Even without strict conditionality, other countries, such as Italy, Spain, France and Belgium, had to adjust their labour market institutional frameworks along similar lines (Clauwaert 2014).

Various studies examining the relationship between trade unions and productivity (or national/firm performance more generally) have produced mixed evidence, with certain cases pointing to a positive impact of employee representation institutions on productivity. In theory, there are indeed reasons to expect that stronger unions and coordinated bargaining between different unions and employers' associations can lead to better outcomes than uncoordinated bargaining. One line of this argument emphasises the imperfect nature of labour markets and market failures, and points to the efficiency-enhancing effects of institutions related to pay determination and employee representation. Inefficiencies arising from monopsonistic or oligopsonistic situations (where one or a few firms are the sole employers in a certain local or sectoral labour market), transaction costs, and public goods provision, mean that the monopoly status of trade unions, as well as their different functions of voice and agency, can have a positive impact on firm performance and particularly firm productivity (Bryson et al. 2005).

Recent evidence suggests that in national settings where industrial unionism predominates, stronger trade unions are associated with higher productivity growth at the national level (Vernon and Rogers 2013). Moreover, coordinated bargaining systems can also lead to significant productivity gains for individual firms/workplaces (Braakman and Brandl 2016). In one of our studies (Kornelakis et al. 2017), we did not find evidence of a harmful effect of either employee representation bodies (trade unions and/or works councils) or collective bargaining on workplace productivity in Europe. Instead, the results indicate that attention needs to be shifted to workplace practices, which can have a greater impact on boosting productivity. This is in line with recent research, which suggests that growth in within-firm productivity seems to be accounting for the largest part of aggregate productivity growth (Martin and Scarpetta 2012). The importance of employee representation institutions in facilitating the adoption, as well as the beneficial effects, of workplace practices also needs to be stressed.

Enhancing inclusive workplace practices to boost productivity

Both theory and empirical evidence suggest that certain inclusive workplace practices can have positive effects on productivity because they improve the organisational climate and employee motivation, empowerment, loyalty and commitment, while also reducing turnover rates. These factors are in line with a value-added interpretation of productivity. Instead of focusing solely on cost reduction, through wage cuts or the use of precarious employment contracts for instance, companies could aim to improve working conditions and enhance employee skills and work experience. Here, we focus on three key practices for which we found evidence that they are associated with productivity increases: training, teamwork and group-based performance-related pay.

Training is typically expected to improve productivity. Evidence from the European Company Survey 2013 suggests that around 71% of private sector establishments across the EU-15 provided some paid time off for training activities. This means a substantial proportion of European firms are missing out on a potentially important lever of productivity. Training fills skills gaps or updates skills through formal processes of analysis of training needs. It normally has a positive impact on the development of employees' knowledge, skills and ability to perform in their jobs. Another way to enhance productivity is through the development of problem-solving skills. Overall, this upgrading in human capital is expected to have a positive impact on productivity.

The figures for teamwork are the same, with evidence from the European Company Survey 2013 suggesting that 71% of private sector establishments across the EU-15 incorporated some type of teamwork. Teamwork, and particularly autonomous teamwork, can enhance productivity since employees work more effectively by combining different problem-solving skills. Additionally, self-directed teams can be more efficient as some layers of supervision and middle management are eliminated. Employees are also expected to voluntarily work harder, due to peer-pressure norms.

Finally, group-based performance-related pay (PRP) systems are broadly underutilised compared to other practices. Evidence from the European Company Survey 2013 suggests that only 46% of private sector establishments across the EU-15 included some type of performance-related pay. Group-based PRP can directly increase employees' productivity by altering their incentive structures and elicit more effort to meet targets; or it can indirectly act as a sorting mechanism and attract the more able employees in these workplaces that have a reputation to reward employees with variable pay, creating a climate of encouragement and greater engagement with the work, which can be rewarding for all parties.

What is the relationship between labour market institutions, workplace practices, and productivity?

Interestingly, the aforementioned practices seem to be working better in unionised settings (Bryson et al. 2005). Across the EU, there is a wide range of examples where trade unions work together with

employers to develop and facilitate practices that enhance human capital development. In the more structured 'apprenticeship systems' of Central Europe (e.g. in Germany, Belgium or the Netherlands), trade unions administer the curriculum of training programmes jointly with employers' associations. More generally, training programmes can be within the scope of the collective bargaining agenda. For instance, a Spanish transport company employing 140 employees introduced training initiatives that were negotiated as part of a joint commission with management and employees' representatives and which contributed to higher efficiency (Eurofound 2016: 66).

As far as teamwork in work organisation is concerned, Scandinavian trade unions have been a crucial actor in the development and functioning of socio-technical, autonomous teams. Furthermore, works councils can use their information-sharing and consultation powers to improve work organisation towards the re-designing of jobs and tasks so that a teamwork approach is more prominent.

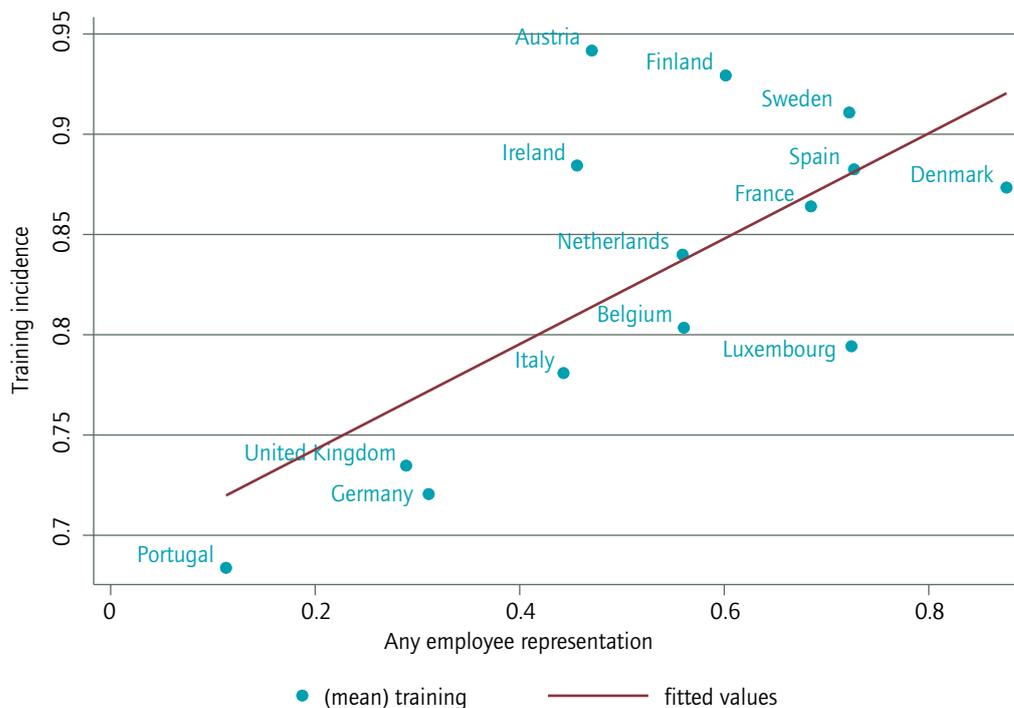
Finally, group-based PRP can be part of collective agreements. Trade unions have agreed with employers at higher levels the broad lines of the implementation of such systems (especially group-based schemes), which can then be further customised in individual companies as part of company-level agreements. For example, an Italian energy company employing 600 employees introduced variable pay for all staff based on annual assessment and as part of the sectoral agreement, and this contributed to increased productivity (Eurofound 2016: 64).

Survey evidence in favour of the above links is provided in the following two figures, which show that countries with more extensive employee representation institutions (trade unions and/or works councils) are also associated with a more extensive use of training and autonomous team working.

It should also be noted that the beneficial impact of such practices on productivity, described in the previous section, is not automatic. Instead, there is abundant evidence that employee representation institutions facilitate this effect (Black and Lynch 2001, Bryson et al. 2005, Kochan 2012, Rizov and Croucher 2009). Trade unions and works councils can ensure that employees are fairly remunerated, reduce information asymmetries between management and employees, and reduce the occurrence of costly resignations through their voice-enhancing role (Bryson et al. 2005).

Obviously, for the above (indirect) effects of employee representation to materialise certain conditions must be in place. Apart from a strong trade union movement able to mobilise the necessary resources, employers (or their associations) need to work together with employees and their representatives to produce mutually beneficial 'win-win' outcomes. Since these parameters, however, are not always guaranteed, an institutional setting must be in place that can empower unions to engage in such activities, promote mutual trust, and compel employers to take unions seriously and treat them as legitimate partners in the process. Unfortunately, the wave of deregulation that has taken over Europe in the name

Figure 1 The incidence of employee representation and training in EU-15 private sector workplaces



Notes: Authors' analysis of the European Company Survey 2013. 'Any employee representation' is defined as the existence of any trade union or works council-type official form of employee representation in the establishment. Both axes measure the percentage of establishments in each country where the relevant characteristic is observed. Greece is excluded due to its 'outlier' status. The inclusion of Greece in the figure does not affect the positive relationship observed. The regression line coefficient is 0.26, with an associated t-statistic of 3.18, p<0.01.

Figure 2 The incidence of employee representation and autonomous teams in EU-15 private sector workplaces



Notes: Authors' analysis of the European Company Survey 2013. 'Any employee representation' is defined as the existence of any trade union or works council-type official form of employee representation in the establishment. Both axes measure the percentage of establishments in each country where the relevant characteristic is observed. The regression line coefficient is 0.29, with an associated t-statistic of 2.07, $p < 0.10$.

of competitiveness seems to have created an infertile ground for the development of such practices.

In sum, the policy implications of the above findings are that if firms want to improve their productivity, they should focus, among other things, on upgrading the human capital of their employees, reshaping job design towards more teamwork-oriented work organisation, and incentivise employees through group-based performance-related pay systems. These practices, however, are unlikely to yield any positive results in a policy context of dismantling of labour market institutions, which disempowers unions and provides employers with more opportunities to act unilaterally. The success of these practices largely depends on the effective involvement of employee representation institutions in the decision-making process. Trade unions and works councils have a positive role to play, since they can both facilitate the adoption and help to ensure the success of these inclusive workplace practices.

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