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Labour 'flexibility' – Securing management's right to manage badly?

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10 Labour 'flexibility' – Securing management's right to manage badly?

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Introduction

Frank Wilkinson's classic piece on 'Productive Systems' opens with a warning against the 'increasingly dogmatic reassertion by a growing proportion of economists of the beneficial effects of the invisible hand of market forces'. These reassertions, Wilkinson argues, 'are based not on a careful examination of how economies actually work and have developed but on abstract, a priori reasoning about how they should operate' (Wilkinson, 1983, p. 413). The attempt by the Thatcher Governments in Britain to shift the balance of forces in favour of the market – in other words, in favour of those who have the upper hand in 'free market' processes – was best illustrated, indeed justified, by the 'need to reassert management's right to manage'. The idea was that managers in British firms were constrained by trade unions, by Government regulations and by other institutional arrangements. Given a freer reign – that is, more power – they would do a better job at managing. This begs a number of questions, the most obvious one being whether it is true that the weaker the constraints within which management manages, the better the outcomes? In other words, if managers are given a greater freedom to manage, how will their behaviour change, and will any such change be to the benefit or detriment of the organisations that they manage and the economy more generally?

The above deregulatory argument has been made in particular regarding the need for labour 'flexibility' in order to allow a dynamic and innovative economy. We have attempted to shed light on these issues through two research projects, both still running at the time of writing, which have been investigating what links there are, if any, between on the one hand different approaches by management to so-called 'human resource' practices, including the use of 'flexible' labour, and on the other hand corporate outcomes, and in particular the likelihood or otherwise of firms being innovative, whether in new processes or products.

The 1990 Workplace Industrial Relations Survey (WIRS3)

Labour market deregulation has been seen by the UK's Department of Trade and Industry as playing a key role in the drive for an innovative economy: 'excessive

regulation stifles growth, destroys jobs, raises prices and drives companies elsewhere' (DTI, 1995: 18). On the other hand, it has been suggested that the sort of labour market deregulation pursued in Britain during the 1980s and 1990s may risk being detrimental to long-run economic performance by leading to a neglect or undervaluing of assets and processes such as training and innovative activity, which are vital to long-term development and economic progress (Michie and Wilkinson, 1995).

To test these alternative views of how the productive system operates we first analysed the existing data, from the British Workplace Industrial Relations Survey (WIRS). This is a major nationally-funded survey which has been undertaken four times over a twenty-year period.[2] Further details of the latest of these surveys (carried out in 1998) is given in the section on 'Workplace Employment Relations Survey'. However, the issue of innovation was given particular attention in the previous survey, carried out in 1990, and we first therefore used these data to analyse in particular the above argument regarding the need for labour flexibility by firms that are actively innovating. WIRS is the largest interview-based survey of industrial relations practices in the world.[3] The survey was sponsored by the UK Government's Employment Department, the Economic and Social Research Council, the Policy Studies Institute (with funds from the Leverhulme Trust) and the Advisory, Conciliation and Arbitration Service. The 1990 survey was the third (hereafter referred to as WIRS3) and contained information on 2061 establishments with twenty five or more employees in the manufacturing and service industries and the public and private sectors.[4] Describing the survey, Millward (1994) emphasised that:

> ... the surveys cover around 70 per cent of employees in Great Britain. The surveys consist of large, nationally representative samples of workplaces. The design incorporates rigorous statistical sampling and there is no clustering in the sample selection, since this might lead to under-representation of particular types of workplace ... The surveys use role holders as key informants about their workplace. The main respondent in each case is the senior management responsible for personnel or industrial relations matters, broadly defined. Other role-holders (worker representatives and other managers) provide additional information ...
>
> (Millward, 1994: 5)

Michie and Sheehan[5] (1999a) use evidence from WIRS3 to examine how the type of labour demanded by firms and the way in which labour is organized within firms – in other words, the management of human resources and work practices – is correlated with a firms' innovative activities. We investigated the relationship between a firms' human resource management practices on the one hand, and the levels of research and development (R&D) expenditure of those firms and the probability of these firms introducing innovative investment on the other.

Trade union recognition was found to be positively correlated with the probability of the firm innovating. Using evidence from the 1984 WIRS, Machin and

Wadhwani (1991) also found a positive and significant relation between trade unionism on the one hand and investment and the introduction of 'advanced technical change' on the other. Both sets of results are consistent with Daniel's (1987) widely cited finding that unionised establishments were more likely to invest and/or to introduce new technology.

We also found that the use of innovative work practices was positively correlated with the probability of the firm innovating. These innovative work practices were the precise opposite of those encouraged by labour market deregulation, such as the use of short-term contracts, temporary labour and so on. We found that this 'low road' sort of flexibility had no positive correlation whatsoever with the likelihood of innovating. The innovative work practices that were correlated with innovating, far from using 'flexibile' labour in the hire and fire sense, actually included an implicit employment security pledge. Similar results regarding the effect of HRM systems on firm productivity were found by Ichniowski *et al.* (1997).

Using the WIRS3 data, then, we found that the presence of a trade union and the use of innovative work practices were positively correlated with the probability of 'innovating'. In contrast, the use of seasonal, temporary, casual and fixed-term contracts were if anything negatively correlated with the probability of innovating. We are not suggesting that these correlations represent simple, one-way causal processes. Indeed, we found that the labour market flexibility variables were endogenous, thereby implying that the relationships involved were two-way ones. However, our results clearly suggested that promoting what we would characterise as a 'low road' approach to labour market flexibility – in particular encouraging the use of marginal types of employment contracts, for which we tested – is unlikely to be associated with an innovative and dynamic economy.

Worker participation and representation

One problem with the work reported above is that many of the 'progressive' human resource management practices can be used – or misused – in a variety of ways. Quality circles may, for example, allow workers a chance to make suggestions as to how their own work environment could be improved. But if such suggestions are not acted on, then such practices may be worthless. And they may be worse than useless from the employee's point of view if they are simply used by management as a means to continually seek to increase the intensity of work. Similarly, it is in principle better that employees be allowed to make suggestions than not; but when as in some firms there are quotas for suggestions to be made then such schemes may take on an altogether different character. The obvious suggestion would be to scrap the quota for suggestions.

We, therefore, also used WIRS3 to focus explicitly on issues of worker participation and representation. The effect that employee participation and representation has on economic performance at the level of the firm, and nationally, has of course been the subject of economic analysis for some time, having spawned a large number of related literatures.[6] Black and Lynch (1997) find that 'simply

introducing high performance workplace practices is not enough to increase establishment productivity'; in line with our findings reported below, they found that increased employee voice was a necessary condition for making such practices actually effective. In their study, almost three-quarters of all establishments had some form of Total Quality Management (TQM) system, but by itself these were not associated with higher productivity. The percentage of workers involved in regular\decision-making meetings was, though, positively associated to labour productivity.

In Michie and Sheehan (1999b) we examined not only employee participation and representation mechanisms, including contingent pay schemes, but also included an analysis of the relation between these practices on the one hand and on the other, firstly, flexible job assignment and, secondly, the relation of all this to the firm's innovative activity. We found that for a firm to be innovative:

- i Contingent pay variables were *not* significant;
- ii With increased employee involvement over the previous three years, the sharing of information and consultation with employees about change *did* prove significant;
- iii While Joint Consultative Committee (JCC) representation was *not* itself significant, trade union recognition *was* significant; and
- iv An increase in the flexibility of job assignments either through reduced job demarcation and/or a redistribution of tasks amongst manual employees *was* significant.

The likelihood of firms innovating was thus found to be positively correlated with employee representation at work. It may be true that firms can profit in the short term from cost-cutting strategies and work intensification. But over the longer term, it appears likely that developing such participatory and representative mechanisms will prove increasingly important to those firms that wish to compete on the high road of innovation.

The 1998 Workplace Employment Relations Survey (WERS)

The fourth workplace survey – renamed from the Workplace Industrial Relations Survey (WIRS) to the Workplace Employee Relations Survey (WERS) – was undertaken in 1998. Working on the results of this latest survey we found that for private sector firms there was a clear link between the use of more human resource practices and greater employee involvement on the one hand, and positive employee satisfaction and commitment, higher productivity and better financial performance on the other (Guest *et al.*, 2000).[7] Although the results confirmed the positive link between the greater use of human resource practices and a range of outcomes that has been found by other studies on both sides of the Atlantic, the adoption of such practices in the private sector was found to be low. More than half the practices were reported in only 41 per cent of private sector workplaces and in 70 per cent of public sector workplaces. (We return to the reasons for this low take-up in the section on 'Corporate governance'.) We also found that they were more likely to be reported at workplaces where there is a more sophisticated personnel department and a strong trade union presence.

A separate analysis of WERS (Brown *et al.*, 2000) also found that where trade unions are present, employers are more likely to comply with the law regulating employment contracts than they are in the absence of trade union organizations. They are also more likely to improve on those minimum conditions that are required by law.

The WERS asked employees to report their attitudes – on job satisfaction and organizational commitment, on their perceptions of autonomy and discretion, and on the extent of involvement and consultation. Employees were found to display moderate levels of satisfaction and commitment. However, employees reported generally low levels of influence over their work tasks and low levels of consultation by management. WERS suggested that while specific communication practices have no direct association with employee attitudes, an informal climate of involvement and consultation is associated with employee satisfaction and commitment. This reinforces the point made above that it is not whether specific practices are adopted or used that is important, it is *how* they are used, what the *motive* for their use is, and whether their use contributes to a positive climate of involvement and consultation or not, that are the key factors.

HRM and corporate performance

We followed up this analysis of WERS with our own survey. Our aim was to talk with managers responsible for human resource management and also with the Chief Executive Officer (CEO) from the same company. We conducted interviews with 610 managers responsible for human resource management and 462 CEOs from a cross-section of companies in the United Kingdom. The matched pairs were achieved in 237 companies. This is probably the largest company-level survey of this subject to have been undertaken in the United Kingdom to date.[8]

Our analysis of the HR managers' responses indicated a clear association between the number of HR practices adopted and the effectiveness of these practices. Both, in turn, were significantly associated with the HR managers' perceptions of positive employee attitudes and behaviour – which were in turn found to be linked to higher productivity, quality of goods and services and financial results (Guest *et al.*, 2000).

The CEOs' responses indicated a similar set of links except that they gave more emphasis to the effectiveness (i.e. the quality) rather than the number (i.e. the quantity) of human resource practices. The emphasis in our work on the *effectiveness* of practices rather than simply whether they are adopted or not is, we think, an important aspect that deserves to be taken seriously in all such work. Again, this supports the above point that the motivation behind the adoption of practices is the key.

Despite these 'positive' findings, our survey indicated a generally low use of human resource practices. We covered nine areas of HR practice to reflect high commitment/high performance management, namely recruitment and selection, training and development, appraisal, financial flexibility, job design, concern with quality, communication and consultation, employment security, and single status and harmonization. From these areas, we concentrated on a key list of eighteen typical practices. For example, the area of appraisal included two practices: firstly, the percentage of non-managerial employees who have their performance regularly (e.g. quarterly or annually) and formally appraised, and secondly, the percentage of non-managerial employees regularly receiving feedback on job performance from multiple sources (such as line managers, customers and so on).

We found that only one per cent of companies had more than three-quarters of the eighteen measures in place and applying to most workers. Only 26 per cent of companies apply more than half of them. At the other extreme, 20 per cent of organizations make extensive use of less than a quarter of these practices. These results – based on the descriptions and judgements of a large group of senior managers in British industry – support the view that the effective use of a wide range of progressive human resource practices is linked to superior performance. This link includes taking seriously into account employee attitudes and behaviour.

Labour market dynamics and innovation

We undertook a separate survey of firms designed to allow us to examine the following issues in particular:

i What are the relationships between the various forms of labour market flexibility on the one hand and firms' innovative activities on the other?
ii Are innovating firms more likely to use high performance/innovative work practices?
iii Are there complementarities between practices and, if so, are the firms that use complementary work practices more likely to innovate?
iv How do different aspects of industrial relations affect innovative activities?

This survey was also designed to enable comparisons to be drawn between our results and other studies that examine, to varying degrees, these issues. A further objective of the survey was to extend and test our own previous work reported in the sections on 'Workplace Industrial Relations Survey' and 'Worker participation and representation', which used WIRS3 to examine the relations between HRM practices, labour market flexibility, industrial relations and innovation, and which applied Ichniowski *et al.'s* (1997) methodology of grouping individual work practices into HRM systems. We surveyed a stratified sample of publicly quoted UK manufacturing and service sector firms with more than fifty employees. Interviews were conducted with the Director of Human Resources/Personnel/Employee Relations.[9]

In total, 934 individuals were asked to complete the survey. Of these, 559 declined, nineteen agreed but subsequently failed to complete the interview, and 369 interviews were completed successfully. As a result of missing data, 361 of the total number of responses were usable – a response rate of 39 per cent.

Manufacturing companies were more likely to agree to participate in the survey (with 55 per cent agreeing) compared to service sector companies (with only 24 per cent agreeing). The analysis of firms' innovative behaviour reported in this section was therefore restricted to the 242 manufacturing sector establishments only.[10]

We found a particularly significant relation between product innovation and market share, suggesting a strong relationship between market demand and product innovation (Michie and Sheehan, forthcoming). In relation to our labour flexibility variables, our results indicated that increased *functional* flexibility was significantly positively correlated with all categories of innovation, and in particular with process innovation. High labour turnover was found to be significantly *negatively* correlated with all categories of innovation, and in particular with process innovation. In other words, there appeared to be a strong relation between a high level of functional flexibility and low labour turnover on the one hand, and the probability of introducing a process innovation on the other hand. The use of 'non-traditional' types of contract – temporary, fixed-term, casual or seasonal contracts – was found to be *negatively* correlated with all categories of innovation combined, although not significantly so with product innovation taken alone. The use of part-time employees was found to be negatively correlated with all categories of innovation, significantly so for process innovation.

Labour market deregulation may have 'restored management's right to manage', but it is only some managers who have sought to take advantage of this newfound ease of using 'flexible' labour through part-time and temporary contracts and the like, and these firms have proved to be less innovative than those firms that declined to take such a route. The more innovative firms have been those that have passed up the use of these newly – or at least more readily – available 'flexible' labour practices, resulting from labour market deregulation, and instead have pursued the sort of functional flexibility associated not with short-term and temporary contracts but on the contrary with employment security.

Trade union recognition was found to be *positively* correlated with all categories of innovation, significantly so for the general category of having innovated, and particularly so for product innovation. The difference we find in the significance in the relation between trade unionism on the one hand and either product or process innovation on the other, may reflect the following. We might expect a positive impact from trade unions on product innovation, both proactively through trade unions encouraging management to invest in new product design and models, and also more structurally, by cutting off the 'low road' option of management getting by in the short term with the existing product range through squeezing wage costs. To some extent, the same mechanisms would operate to also encourage process innovation. But process innovation also includes a range of different workplace changes some of which may be quite harmful to, and therefore resisted by, trade union members. The 'process innovation' measure will thus include some developments that would be encouraged by trade unions and others that would be resisted, leading to no overall correlation either way.

We repeated the same sort of exercise as reported in the section on 'WIRS3', of testing for 'bundles' of human resource practices, and found that the use of such bundles of innovative work practices was significantly positively correlated

with all categories of innovation, especially process innovation. Firms that incorporated at least one component from each of our HRM policy areas were found to be 34 per cent more likely to innovate compared to firms that used no innovative work practices.

Overall, this survey of firms demonstrated that functionally flexible employees, low labour turnover, the presence of a trade union and the use of progressive work practices are significantly positively correlated with innovation. In contrast, the use of 'flexible' work practices (proxied by contract type) was found to be significantly negatively correlated with overall innovation (and particularly so with process innovation). The use of part-time employees was also negatively correlated with innovation, significantly so for process innovation. This survey of firms thus reinforces our initial results from WIRS3 reported in the sections on 'Workplace Industrial Relations Survey' and 'Worker participation and representation', that there is no evidence whatsoever that the sort of 'flexibility' that results from labour market deregulation leads to a more innovative economy. Far from the creation of such 'flexibility' causing increased innovation, the correlation between the two is found to be negative.

Labour markets and corporate performance

We also used this survey of firms to test for corporate performance more generally. The most common measures of performance in this literature are labour productivity; measures of quality and financial performance; employee turnover; absenteeism; and industrial disputes. Our survey looked at relative financial performance, labour productivity and quality of product (as well as innovation, reported on in the previous section) as indicators of performance outcomes.

The results from analysing the survey returns indicated, in line with the findings for innovation, that 'low road' practices – short-term contracts, a lack of employer commitment to job security, low levels of training and so on – are *negatively* correlated to good corporate performance. In contrast, we found that 'high road' work practices – 'high commitment' organizations or 'transformed' workplaces – were *positively* correlated with good corporate performance.

The coefficient on trade union density from our regression results was negative for financial performance and positive for productivity and product quality (although none of these coefficients proved to be statistically significant). High levels of labour turnover were found to be significantly *negatively* correlated to labour productivity. The percentage of employees on temporary contracts and on fixed-term, casual or seasonal contracts was found to be significantly *negatively* correlated with labour productivity and product quality. The use of part-time employees was found to be significantly negatively correlated to labour productivity. In contrast, the use of fixed-term, casual or seasonal contracts and part-time employees was found to be positively correlated with *financial* performance. Thus, productivity and product quality suffer when firms make greater use of 'flexible' types of employment, although firms still profit from using two of the four types of flexibility, despite the other corporate outcomes being poorer (Michie and Sheehan, 2001).

This link to short-term financial gain may explain the use by some employers of these types of flexible work practices, particularly if under short-term financial pressure. But our results suggest two things. Firstly, following such a course of action is not a 'win win' situation. The gains that the companies can make in short-term profitability are not generated from improved productivity. Rather, they represent a shift to profits, given productivity – a shift, that is, away from employee earnings.

Secondly, while it is thus understandable why firms might resort to such practices, succumbing to such temptation is likely to prove to be self-defeating short-termist behaviour, to the detriment of all the other aspects of corporate performance – productivity, product quality and innovation – on which the firm's financial success itself is ultimately dependent.

Any view of deregulated labour markets creating an innovative and dynamic economy is thus found to be dangerously simplistic. Creating the right sort of flexibility can indeed pay dividends. Allow the wrong sort of flexibility and firms are tempted down a cul-de-sac that allows some short-term pay off by shifting the bargaining power in their favour against a more insecure workforce. But this is the wrong route to go down for improved productivity and competitiveness based on quality and high value added. In short, the sort of labour flexibility that the Government should be encouraging requires investment in people.

The real danger that simple minded policies for labour market deregulation pose is in undermining the confidence of firms to invest in their own workforce, for fear that increased labour turnover may lead to the returns on such investment being lost. Labour deregulation may thus inadvertently lead to a lower level of the sort of labour flexibility that is associated with innovation and good corporate performance. A regulated labour market on the other hand can actually underpin the sort of investment by firms in their own workforce that creates the 'win win' outcome of positive human resource management practices such as high levels of training and involvement, along with improved corporate outcomes in terms of productivity and profitability.

Corporate governance

Given the clear benefits in terms of corporate outcomes from investing in progressive human resource practices, why do more firms not do so? There are no doubt a number of factors, not least is the fact that in the United Kingdom at least, successive Governments have called – and legislated – for greater employee flexibility and have included within this the factors associated with labour market deregulation that lead in precisely the opposite direction, from the sort of investment in progressive human resource practices required. While the survey work reported above finds trade union organizations to be positively correlated with innovation and product quality, labour market deregulation has undermined the ability of trade unions to organize. While progressive human resource practices include employment security pledges, labour market deregulation has pushed in the opposite direction.

In addition, as argued by Sue Konzelmann and Bob Forrant (Ch. 8), corporate governance structures may be biased towards Boards focussing on the short-term costs involved in these progressive human resource practices, and the short-term financial gains that our own survey results did indeed indicate were available via the low-road option, and against a proper appreciation of the potential gains over the longer term from investing in the high road option of high commitment work practices, involving training, consultation, employee participation, employment security pledges and so on.

Interestingly, the UK government has accepted that there are performance benefits to be gained from increasing employee commitment. Tax incentives were introduced in the 2000 Budget to encourage the formation of approved employee shareholder trusts. The idea is that if employees receive shares in the firm, this will increase their commitment to the organization. This initiative needs to be developed, though, along three additional lines.

Firstly, the results reported above demonstrate that what is needed for improved corporate outcomes are not single measures but rather self-reinforcing bundles of measures. Thus, employee share ownership needs to be accompanied by other progressive human resource measures if the desired organizational commitment effects are to be generated.

Secondly, the important factor in influencing outcomes is not whether a certain measure is introduced or not introduced, but rather the way in which it is introduced, the degree of commitment behind it and so on. In the case of employee shareholder trusts, the positive organizational commitment effects that the Government hope will be generated will be more likely to the extent that employees feel that their shareholder trust has an effective voice within the company. For this to happen, these trusts need to be democratised. At present they are a top–down mechanism for rewarding employees in a tax efficient way. The trustees can be appointed by the firm's management and can be removed by the management at any time. The trustees should instead be elected by the employee members of the trust.

This then links, thirdly, to the issue of corporate governance. It has long been acknowledged that corporate governance in the United Kingdom is unsatisfactory. There have been repeated Commissions of enquiry to investigate and report on this. One of the key problems is that the majority shareholders – the financial institutions – show little interest in how the companies that they collectively own are governed. What is needed are institutional shareholders that do have an interest. Democratic employee shareholder trusts could well play just such a role.[11]

Conclusions

This chapter has examined the complex links between labour markets, human resource management, industrial relations and corporate performance. As reported above (sections on 'Workplace Industrial Relation Survey' and 'Worker participation and representation'), we first investigated these issues utilising the existing data sources. This work suggested that the links between what is often broadly referred to as labour 'flexibility' on the one hand, and corporate innovation and performance on the other, depended crucially on the *nature* of this flexibility. Specifically, the sort of 'hire-and-fire' flexibility that firms might be tempted to resort to given a deregulated labour market – particularly if put under short term pressure (by, e.g. an uncompetitive exchange rate) – was found to be negatively correlated with innovative activity. These results led us to want to investigate the issue in greater detail than the existing data sources have hitherto allowed. We therefore designed our own survey questionnaire, albeit attempting to keep this as comparable as possible with previous empirical work in the area (which has mostly been on US data).

We thus undertook a relatively large-scale survey of firms to collect the data necessary to properly test these links between labour market and human resource factors on the one hand, and corporate outcomes on the other. Analysing the data from this survey, our results suggest that policies aimed at increasing labour market 'flexibility' (proxied by contract type and part-time employment), while in some cases having a positive effect on short-term financial performance, invariably have a *negative* effect on labour productivity, product quality and innovation.

Consistent with a growing body of evidence, our results indicate that firms that use 'high commitment' HRM systems perform better than those that do not.[12] This effect was particularly strong in relation to innovation. Moreover, the correlation between performance and work practices was greatest where complementarities amongst practices were greatest. These results, using the data from our own survey which was designed both to test these relations and to be consistent with the work undertaken by others on US data, finds that the results of that US work are consistent with the relationships for firms in Britain, whereby investment in what we have termed 'high road' labour practices do bring a payoff in terms of improved corporate outcomes.

Finally, testing for the effects of competitive pressure on the firms we sampled finds different effects depending on the source of this competition, and in particular on whether it comes from domestic competitors or overseas. This underlines the importance of looking behind general categories – whether they be the degree of competition, or the degree of labour flexibility – to analyse the *qualitative* aspects of such phenomena. The different 'HRM Systems' analysed above all contain practices which might be encouraged through public policy aimed either at explicitly encouraging flexibility or else through a general deregulation of the labour market. This latter approach may reduce a firms' commitment to employment security. But in terms of creating an innovative economy, such an outcome of labour market deregulation would most certainly be creating a low road cul-de-sac. As reported above, firms characterised by such a system are 34 per cent *less* likely to innovate than are firms that follow what we characterise as a 'high road' approach to investing in flexibility.

To return to the question posed at the beginning of this chapter, of whether reducing constraints on management will improve performance, the answer is clearly, 'no – not necessarily'. It all depends on how those constraints influence firm behaviour, and how conversely managers will manage in the absence of such constraints. An early example of a Government introducing legislation to constrain 'management's right to manage' – as it would have been referred to in the 1980s – was the introduction of the Wages Councils in England at the beginning of the twentieth century. Explaining the decision, Winston Churchill did not seek to pretend that this would not act as a constraint on employers – on the contrary, this was its purpose. It was to constrain firms from going down the low road of wage cutting, to prevent, as Churchill explained, the good employer from being undercut by the bad, and the bad by the very worst. Precisely the same constraints are required today, to prevent the good employer being undercut by the bad, not only in terms of wages but also in terms of work practices. The results reported above indicate that constraining managers' right to manage badly – by which we mean taking the short-term option of boosting profits by labour practices which undermine product quality, innovation and productivity – is in the collective long-term interests not only of employees but also of the companies being managed. These necessary constraints can be provided by trade union organisation, by Government legislation, by appropriate corporate governance structures, and perhaps by employee shareholder trusts playing an active role in companies as good corporate citizens.[13] The 1980s' belief that what was needed was labour market deregulation, increased labour flexibility and the 'restoration of management's right to manage' was simply that decade's version of what Wilkinson had warned against as the 'increasingly dogmatic reassertion by a growing proportion of economists of the beneficial effects of the invisible hand of market forces'. The results of the work reported above fully supports the argument in Wilkinson (1983) quoted at the start of this chapter, that these assertions regarding the beneficial effects of the invisible hand of market forces – to which we would add the supposedly beneficial effects of labour market deregulation, labour flexibility and restoring management's right to manage – 'are based not on a careful examination of how economies actually work and have developed but on abstract, a priori reasoning about how they should operate'.

Notes

1 The work reported in this chapter was funded by the Leverhulme Trust (grant F112/AL), the University of London Central Research Fund, and the ESRC's Future of Work Programme (grant L212252040).

2 'There is unanimity among industrial relations specialists that WIRS provides the most authoritative picture of employee–management relations available' (Fernie and Metcalf).

3 See Millward *et al.* (1992) for full details of the third survey and information on the previous WIRSs conducted in 1980 and 1984. See also the special issue of the *British Journal of Industrial Relations*, June 1993.

4 The sampling frame for WIRS3 was the Employment Department's 1987 Census of Employment (CoE). A 'census unit' is an establishment-based measure of individual places of employment at a single address, covering all employees of the identified employer at that address. The CoE file contains data on just over 142,000 establishments and was broadly representative of the population of manufacturing and service sectors, and public and private sector establishments in Britain in 1987. To ensure a high response rate to WIRS, larger establishments were deliberately oversampled but it is

a straightforward matter to make WIRS3 into a nationally representative sample of workplaces in Britain by using a set of weighting factors. Such weights were applied to the data used in our analysis.

5 Maura Sheehan changed her name to Maura Sheehan Quinn in 2001, hence the change in referencing from Michie and Sheehan up to 2000, to Michie and Quinn thereafter.

6 See, for example, the various contributions to Pagano and Rowthorn (1996), and also Winter (1987).

7 This work was funded by the Chartered Institute of Personnel and Development.

8 This work was funded by the ESRC's Future of Work research programme.

9 Where this person was not available, an alternative senior manager was interviewed, namely the Company Chairperson, Managing Director, Chief Executive, Manufacturing Director or Production Director. For 73 companies, the HR person was unable to answer parts of the questionnaire (e.g. some of the questions about performance and innovation). In such cases, the name of the most appropriate person in the company was obtained from the HR person and this person was contacted. Completed questionnaires were obtained for 61 of the 73 companies concerned.

10 This survey was funded by The Leverhulme Trust with co-funding from the University of London Central Research Fund and the Royal Economic Society.

11 This is argued in detail in Michie and Oughton (2001).

12 See, for example, Appelbaum *et al.* (2000) and Baker, T. (1999).

13 'Collective shareholder trusts could signify a shared interest in the long-term success of the organization while at the same time providing a collective voice at Boardroom level for the members of such trusts – namely the employees who are generating wealth for the company.' TUC General Secretary, John Monks, Foreword to Michie and Oughton (2001).

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