

Theme 3: Pay, performance and employment relations

The organisational roots of productivity

This project is being carried out within the programme of the ESRC/EPSRC Advanced Institute of Management Research. It involves Paul Edwards, Sukanya Sen-Gupta and Chin-ju Tsai, together with Associate Fellow Monder Ram (de Montfort University). It began in mid-2004, and continues to early 2007. The research focuses on small firms. There are two main reasons. The amount of critical employment relations research on such firms remains limited. And these firms offer a distinctive basis to assess the linkages between firms' employment relations policy, practice on the ground, and outcomes. In large firms, the connections between policy at the centre and experience in any particular work unit will be relatively indirect, as will further links to outcomes.

The project builds both analytically and empirically on a stream of work by Edwards and Ram that locates small firms in their product and labour market contexts (see 'regulation and employment relations in small firms', below). In analytical terms, it is making a particular effort to identify firms that operate in similar market segments. This will permit the distinct influence of market conditions to be charted, as well as strengthening comparisons between firms. Empirically, the previous work addressed specifically the employment relations practices of small firms and the impact of the external 'shock' of legislation. It identified a potentially important role for local business support networks, in encouraging firms to seek out the benefits of shocks and minimize the negative effects. The present study develops this approach. It strengthens the focus on different types of context in which small firms are embedded. It addresses the 'advanced' as well as a 'traditional' small firm sector. And it uses a systematic questionnaire of employees, a design that remains unusual in research on small firms.

Three sectors are the focus. Two are those identified in last year's report. One is the 'traditional' sector of food manufacturing. The other is the more 'advanced' IT sector, where wages are much higher and where distinct issues of skills and training can be expected. The third sector initially identified was that of design, but preliminary inquiry and debates in the research team suggested that it has too many similarities with IT. The creative and media industries were identified as an alternative, for it is also an advanced sector in which the UK has some leading firms and it has some distinct features, such as the employment of freelance professional staff. It will enable the project to address such issues as 'knowledge work'. Choice of this sector has been fully justified, for the research has identified some distinct processes in an important and under-studied part of the economy.

In each sector, the research design calls for interviews with managers (ideally, at least two) in a selection of about 15 firms, together with a total of about 100 employee questionnaires. More detailed qualitative case studies are also sought in two or three firms per sector. During the year, the bulk of the fieldwork was carried out. In IT, a population of firms was identified, and 14 firms were studied, which embraced a total of 180 (as opposed to a target of 100) questionnaires. In the creative sector, rapid progress was made, again based on identification of a distinct population of firms. A total of 20 companies were studied, with completion of 95 questionnaires at the time of writing. In food, progress has been relatively slow, since firms in this sector are less attuned to research than those in the other two sectors. Interviews have been

conducted in 20 firms, and 72 questionnaires have been completed. In addition, in three food firms a number of research visits have been made, and good qualitative information has been obtained. The researchers have also conducted contextual interviews with representatives of industry bodies, trade associations, and so on. It is planned to complete the main phases of fieldwork early in 2006. Remaining qualitative information will be gathered up to the summer. The main future need is to analyse and write up the results.

Variable payments systems

This 30-month study, which runs until the end of 2006, involves a cross-sector, cross-country analysis of the relationship between variable payments systems and collective bargaining. Funded by ESRC under a European Science Foundation initiative, Jim Arrowsmith, Molly Gray and Paul Marginson are working in collaboration with the University of Vienna (Institute of Sociology), the FAFO research institute in Oslo and – since late 2005 – a team based at the Autonomous University of Barcelona and the University of Barcelona. The research is focusing on the forms of variable pay utilised; management's goals in introducing such schemes; problems of implementation; and the impact of (differing) collective bargaining arrangements on the introduction, forms and operation of variable pay schemes. The cross-national comparison aims to test the impact of different collective bargaining systems on the diffusion of different types of variable pay scheme and the extent to which the introduction, implementation and ongoing operation of variable pay are the subject of collective regulation.

The research involves sector-level studies and company case studies in two sectors: manufacture of equipment and machinery and retail banking. The sector-level field research was completed in early 2005. The company case studies involved reaching agreement on selection criteria to facilitate cross-national comparisons, which had to be reviewed in the light of some access difficulties. Initial case studies had been completed in one company in each sector by the end of the year, and the fieldwork will continue through the first half of 2006. Findings from the banking sector study suggest that: change in payments systems arrangements has accelerated amongst large banks in the face of pressures on costs in an increasingly competitive domestic market and the associated shift from 'tellers to sellers'; these pressures have led to growing emphasis on 'market' pay rates together with performance-related elements in which sizeable groups within the workforce risk a low or no annual pay rise; amongst smaller banks, such pressures are more attenuated and traditional merit-based systems remain widespread; and that in a context of low-wage inflation trade unions tend to take a pragmatic approach towards variable pay, with much dependent on its ability to generate increases in pay for the bulk of their membership and their assessment of the procedural fairness of the schemes. The findings from the machinery and equipment sector indicate that: growing emphasis on product quality as distinct from product volume is leading firms to move away from traditional piecework and PBR systems; nonetheless, amongst smaller firms traditional variable payments arrangements remain reasonably widespread; that a wide variety of newer schemes are being introduced perhaps experimentally, with no overall pattern; and that trade union responses are very variable, being much determined by local circumstances.

Workplace change

In 2004 we reported on a paper by Paul Edwards and Martyn Wright, together with Associate Fellow Jacques Bélanger, which develops a new framework for the analysis

of workplace co-operation and conflict. The paper was further revised this year, and accepted for publication. It lays out a framework, develops a matrix of possibilities and illustrates it with cases of workplace industrial relations. The next task is to address the causal mechanisms placing workplaces in different places in the matrix. The researchers have begun work on this, which they intend to complete next year.