

# **Smoke, Mirrors and the Employment Relationship**

A PROVOCATION PAPER FOR THE GOOD WORK COMMISSION

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## Introduction

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The philosopher Sydney Morgenbesser once remarked that “what’s ‘obvious’ is not obvious.” Each day, for example, the sun moves across the sky, and so, quite obviously, rotates around the earth. Except it doesn’t. Often, we can use scientific instruments and gather evidence to show what is *really* going on. Sometimes, however, even the evidence confounds. A sundial, for example, is able to *measure* the apparent movement of the sun around the earth.

Everyone knows the employment relationship is rapidly changing. In the media and in popular understandings, we have become familiar with a host of repeated messages: work is more insecure with the end of the “job-for-life”, exacerbated by the recent recession; it is more individual with collective bargaining becoming less prominent; work is an economic exchange between roughly equal partners conducted in a market for labour. Morgenbesser’s remark does not, of course, suggest the obvious is always untrue, but it does counsel us to look with greater care. In fact, when we inspect the we confront a variety of competing claims and a range of contradictory evidence.

This paper sorts through the smoke and mirrors that surround the current state of the employment relationship. It examines the evidence for commonly held views, and it questions the veracity of that evidence. What emerges is a view of the employment relationship as a kind of “junction box”, shot through with contradictions, social forces from wider society, personal and collective expectations, myths, fears and tensions. It is not changing in the ways that are commonly supposed. It is not free-standing, isolated from wider social and cultural forces, and it certainly not equal.

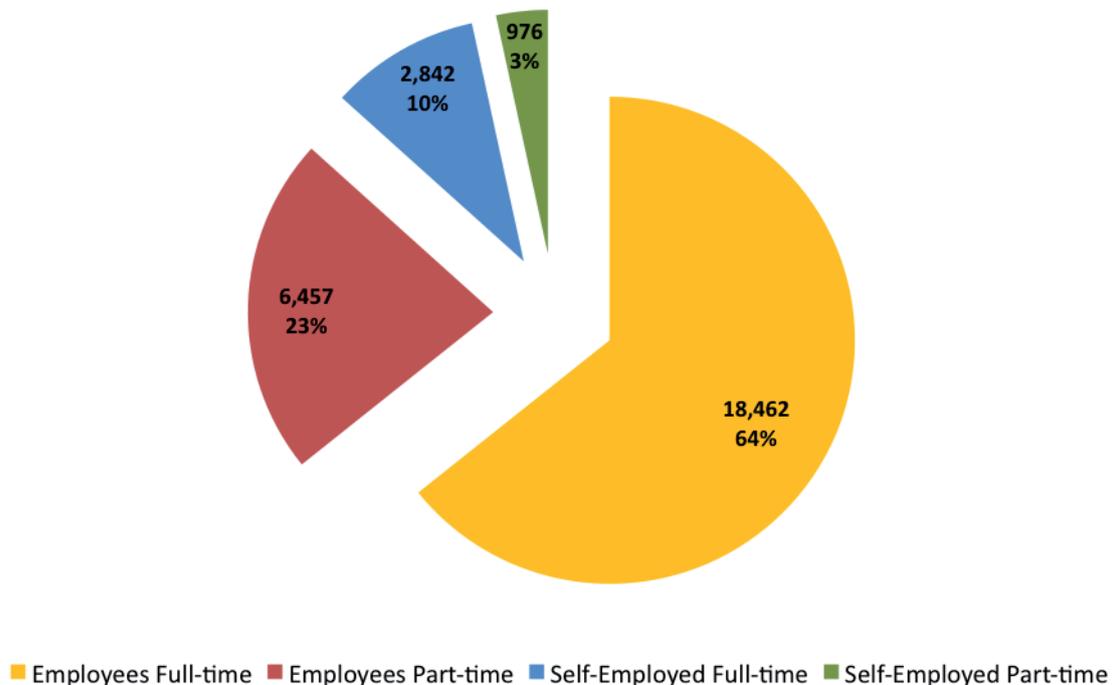
The paper begins with an examination of the nature of the employment relationship and an exploration of its inherent tensions. It then critically discusses a series of apparent changes to the world of work before turning to how best to manage the evolving employment relationship. Here, notions of the “psychological contract” and “high-trust” workplaces are explored.

The paper concludes that the employment relationship, when properly understood, works best when mutual trust is high, negotiation avoids “bargaining” type interactions and workers take responsibility for organisational goals. As we shall see, however, even these conclusions are by no means obvious.

# 1. The Nature of the Employment Relationship

The employment relationship is usually conceived as involving “full time work, under a contract of employment for unlimited duration with a single employer, and protected against unjustified dismissal” (ILO). This remains the dominant conception of the employment relationship in advanced industrial societies: we remain job-holding societies. Yet it is important not to assume that this is the only model. The shift towards service and knowledge production, and the expansion of part-time work, fixed-term contracts and agency working imply departures from the norm. In these changes, we must acknowledge the influence of wider developments in politics and society, including, for example, the increased number of women entering the labour market and changing patterns of family life. In turn, relationships between employees and organisations themselves influence broader societal issues, and we see this in areas such as health and wellbeing, the quality of life, personal development and individual and corporate citizenship. It would be a mistake, therefore, to conceive the employment relationship as an isolated economic encounter between employers and employees. It is deeply embedded in the very fabric of our society.

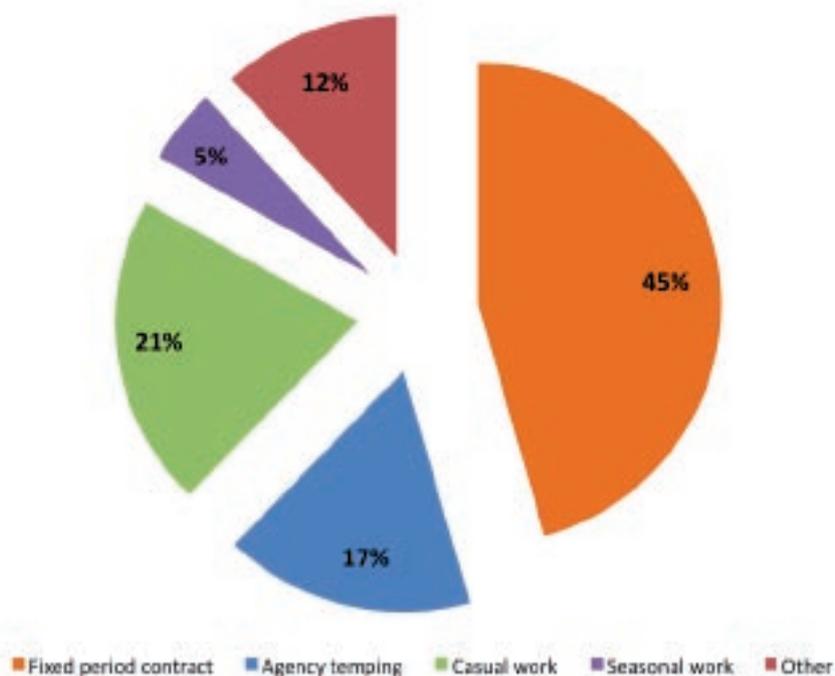
Figure 1: Breakdown of all employment by type in the UK, Q2 2009 ('000s)



Source: Labour Force Survey

Some 5.8% of the UK workforce (some 1,415,000 people) are in temporary employment, broken down as follows:

Figure 2: Breakdown of temporary employment by type in the UK, Q2 2009



Source: Labour Force Survey

The employment relationship is also one of interdependency. Within it, a degree of cooperation from both employers and employees is required in order to secure their respective goals. While employers may provide investment in the capacity to deliver goods and services, it is employees that must deliver them. Equally, employees can only secure material reward for their efforts if they enable employers to meet their commercial and/or organisational goals.

For the employee, the relationship provides a range of benefits, including the predictability of life-sustaining reward. Yet it is the employer's investment that enables employees to further develop their potential, perhaps through the acquisition of new skills and responsibilities. For the employer, the relationship (and its legal codification) must retain a certain flexibility. Without this, it would be necessary to spell out, in stifling detail, every element of the job. The nature of the work to be exchanged for monetary reward is thus to be determined by the employer, yet executed by a willing and problem-solving employee. Through this complex and interdependent transaction, the employer gains the right to direct and control the employee towards particular ends.

The complex nature of the employment relationship becomes still more apparent when we identify the many tensions that run through it. Here, the image of that relationship as a junction box of often conflicting processes and expectations begins to emerge. The tensions inherent in the relationship include the following:

- The employment relationship involves a market transaction (the buying and selling of the capacity to labour). Yet employment law concerns itself with both ensuring labour markets operate smoothly *and*

with the need to protect employees from unfair practices. The employment relationship thus treats labour as a commodity and at the same time contains elements intended to protect those who sell their labour power from the brute logic of the market.

- In democratic societies, citizens are encouraged to express their preferences about who controls them and how they are controlled. Such encouragement is typically lacking in the workplace, where the distinction between those who manage and those who do not remains entrenched in the everyday life of organisations. Irrespective of the merits of this situation, the distinction between the role of individuals in civil life as active participants in a process of collective self-management and their role in the workplace is notable for its apparently contradictory nature.
- The orientation of the stakeholders in the employment relationship will often diverge widely. This does not mean there are necessary and immutable conflicts of interest, but it does indicate that employers, employees and society more broadly may seek distinct ends from the employment relationship, and that this will give rise to tensions and conflicts. So, for example, while employers primarily orient to the need for efficiency, labour may instead orient to the demand for equality and having one's voice heard (Budd, 2004). The rising number of employment tribunal claims in the UK – which stands at 189,000 in 2007/08 – suggests that conflict remains very much a reality within the British workplace (Sisson, 2008).
- In part, tensions around the appropriate role of management reflect the ever-present conflict between the imperative for employers to control their employees (they are an expensive investment, after all) and releasing innovation and creativity amongst those employees (which is why they were hired in the first place). As Edwards (2003) makes clear, imposing control and releasing creativity involve very different approaches. While tight control is costly and reduces the capacity for innovation and creativity, relinquishing control carries with it the danger that incompatible objectives be pursued within different parts of the organisation (Sisson, 2008).
- Embedding improved ways of working that benefit the needs of both employers and employees requires a degree of stability and predictability if they are not to become the latest strategic fad. However, as Sisson again suggests, few managers have the luxury of stability (let alone predictability). Rather, the immediate demand of share price or the latest commands of executive authority mean that disruption is a commonplace feature of many modern workplaces.

The employment relationship is therefore characterised by interdependence, embeddedness within society and apparently conflicting perspectives. We should not be surprised, therefore, that there is so much debate about how the relationship is currently changing.

## 2. The Changing Employment Relationship

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It is widely held that globalisation and technological advance are rapidly changing the nature of work and the relationships through which it is undertaken. An indicative (but by no means exhaustive) list might include: a shift away from manufacturing to the service industries, and from a predominantly “blue-collar” to a “white-collar” workforce; the ebbing influence of trade unions; the profound increase in women entering the workforce; the outsourcing of many jobs to cheaper, globally accessible labour markets; increased efforts by firms to downsize, specialise and decentralise their operations; and the growing importance of knowledge in securing competitive advantage.

These changes have prompted debate, and a range of pronouncements, on the future of work. So, for example, it is widely claimed that we are at the end of the “job-for-life”, as organisations have discarded long-term employment commitments in favour of greater flexibility and that non-standard forms of employment will increasingly become the norm. As the management guru Charles Handy confidently declared in his 1994 book *The Empty Raincoat*:

“Before very long, having a proper job inside an organisation will be a minority occupation. What was a way of life for most of us will have disappeared. Organisations will still be critically important in the world, but as organisers not employers”.

In this emerging global business environment, employees are told to accept that employers must be flexible in their employment commitments. The obligations of the employer are said to relate not to providing employment, but to enabling *employability* through the development of employee skills and experience. It is thus “obvious” that the inescapable demand for flexibility (for the employer) trumps the need for security (for the employee). Indeed, responding to this emerging employer need, employees are advised to become as flexible as possible in order to respond to the intensification of insecurity in the workplace. Much has been made, for example, of the so-called Generation Y born after 1980, who it is suggested are better equipped to deal with the realities of the modern workplace. Generation Y approach their careers in short chapters, and see flexibility as an empowering mechanism that increases the quality of their lives. The job has allegedly been replaced - for some - by “the gig” – an ethic of work that is transitory, playful, cynical and more directly linked to the ups and downs of markets.

But how confident can we be in the accuracy of these views of the new world of work? According to the political scientist Kevin Doogan, not very. In his recent book, *New Capitalism?: the transformation of work*, Doogan argues that the move towards flexible labour has not, in fact, been nearly as profound as commonly assumed. In the West, he asserts, job stability has not diminished; nor has long-term employment declined. Indeed, the opposite is true on both counts, suggesting that employers continue to value labour retention despite changes in the organisation of production. Doogan argues that long-term employment has grown in both the public and private sectors and in both high and low-turnover industries. He also argues that flexibility in the UK labour market, far from being a response to greater insecurity, has in fact facilitated the entry (particularly of part-time women workers) into long-term employment.

## ***Workplace insecurity... rather more fiction than fact?***

### **Has there been a significant decline in the length of time that workers remain with their employer (job tenure)?**

In fact, evidence on job tenure in the UK flies in the face of claims that we have entered a new age of workplace insecurity. Macaulay (2003) suggests that job tenure has modestly declined in recent years, though acknowledges this might be due to the last decade's economic growth and resulting increase in labour market fluidity (i.e. people are more inclined to change jobs when economic times are good). Another study of the period 1975-2000 shows little overall change, but highlights the quite different developments in job tenures for women and men – with the former's tenure increasing and the latter's decreasing by around 20% (Gregg and Wadsworth 2002). More recent research holds the proportion of employees with job tenure of between 10 and 20 years remained stable between 1996 and 2001. Macaulay (2003) confirms this relative stability, showing that one in ten employees had enjoyed job tenure of more than 20 years. Burgess and Rees (1997) are, it seems, justified in their claim that '[a]ll the evidence suggests that jobs last about as long now as they have done for the last 20 years'. Green, in his more recent review of the data, suggests relative declines for men and gains for women have roughly balanced, so "the view that global and structural changes in the economy have undermined job stability by reducing average tenure is difficult to sustain" (Green, 2006:177). Finally, Doogan's (2009) analysis of international comparative data on tenure for the EU12 (covering 1992-2002) shows that long term employment of ten years or more (LTE) in fact rose more rapidly than total employment for both men and women.

### **Are workers more insecure today than in the past?**

Green's (2006) review of existing data, shows that UK worker perceptions of job insecurity rose from the 1970s to the 1980s, but did not significantly change between 1986 and 1997. There was even a reduction in perceived insecurity between 1997 and 2001.

### **Are workers more likely to resign from their jobs today than in the past?**

There is little evidence, either in the UK or the OECD, for the claim that workers are more likely to resign their jobs now that the job for life has "disappeared." (Coats, 2008). Such resignations have been relatively stable over the past 25 years (10.0% over 1992-97; 10.1% over 1982-86).

Doogan's analysis is also supported by research on the future of work by Robert Taylor, formerly employment editor at the Financial Times. According to Taylor (2002):

"A disturbingly wide gulf exists between the over-familiar rhetoric and hyperbole we hear daily about our flexible and dynamic labour market and the realities of workplace life. The evidence simply does not sustain the view that we are witnessing the emergence of a 'new' kind of employment relations, defined by the 'end of the career' and 'the death of the permanent job for life'."

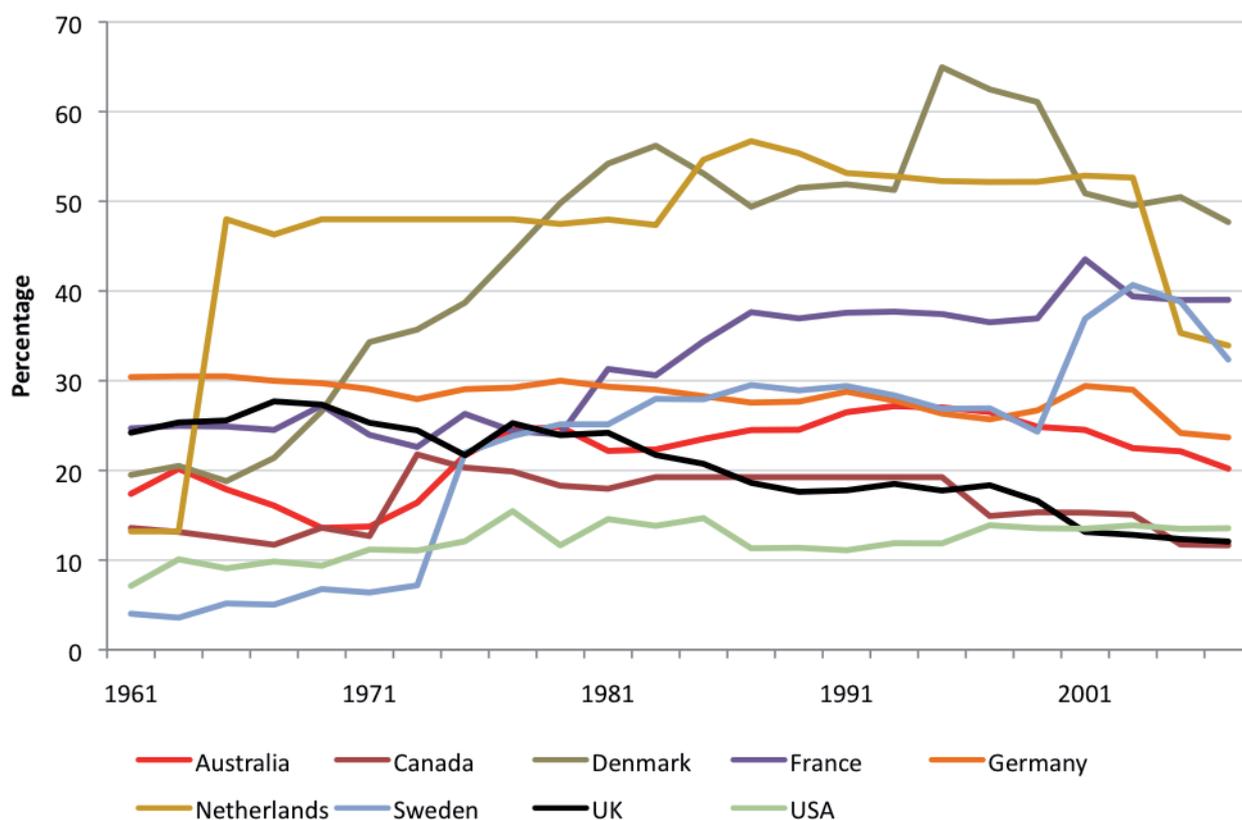
If this is the case, however, why have fears about the future security of jobs had so much purchase on our collective thinking over the past decade and more? Doogan argues that growing perceptions of job insecurity are the result of "manufactured uncertainty". Its purpose is to further the subordination of workers to the demands of their employers. Furthermore, in what he calls "an extraordinary own goal", Doogan suggests that trade unions - particularly in the US and the UK - have accepted that framework and so campaigned against (largely illusory) competition from cheaper workers abroad rather than focusing on

corporate mismanagement as the source of their growing insecurity.

But is it really the case that all our uncertainties around work are manufactured by villainous employers seeking to ensure compliant employees accept the inevitability of change? It is perhaps more likely that other factors – beyond any purported decline in job tenures – might here be in play. The insecurity felt by workers may, for example, also be accounted for by the demonstrable and rising personal costs of unemployment. To see how these rising costs promote feelings of insecurity, it is necessary to carefully distinguish employment instability from income instability. Employment may indeed be relatively stable, yet income inequalities have risen markedly since the 1970s. This suggests that even if people change their jobs with no greater frequency when they do, the impact is potentially calamitous.

One way to observe this impact is by looking at the drop in income employees face when they leave work and move onto benefits. This is commonly referred to as the “replacement rate” and represents the ratio of average unemployment benefits to average earnings. As Figure 3 below suggests, UK employees face a bigger drop in income when they leave work and move onto benefits than in almost every other OECD economy. In the UK the replacement rate stands at 14% compared to Denmark and the Netherland where it is at or above 50%. Indeed, as the figure also suggests, the impact of losing one’s job in the UK is potentially far more calamitous today than during, for example, the 1960s when the replacement rate was double what it is today. This is not the case for most other OECD where replacement rates have either increased or declined far less rapidly than is the case in the UK.

**Figure 3: Income/Benefit Replacement Rates for Select OECD Countries, 1961-2007**



Of course, low replacement rates (i.e. low unemployment benefits relative to average wages) have tended

to underpin the UK's shift to a flexible labour market providing an incentive for those workers who do lose their jobs to find new jobs quickly. However, it should be noted that the loss of employment often has a "scarring" impact on future prospects for work and income. For example, Nickell et.al (2000) suggest that the average worker returning to the workplace after a period of unemployment is likely to suffer a loss of income of 10-20% during their first year. Moreover, Gregg and Tominey (2005) find that unemployment experienced when young has a causal (and permanent) impact on the wages of workers in their early forties of anything up to 20%.

The story is similar in the US. According to research by the University of California, the odds that a US family will have its income slashed in half when exposed to job loss have almost doubled since the 1970s, and now run at more than 20 per cent. By the 1990s, the odds of a period of poverty had doubled for all ages. While in the 1980s, 13% of Americans in their forties spent a year below the poverty line, the corresponding figure for the 1990s was 36% (Rank, 2004). According to the Centre for American Progress, up to 10 million more Americans could fall into poverty during the present recession (Kvaal and Furnas, 2009)– a process that is only likely to exacerbate already intense feelings of insecurity across the workforce.

### **3. The Impact of the Knowledge Economy**

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Concurrent with many of the ideas mentioned above about the changing nature of the workplace are those that focus on the emergence of the knowledge economy, knowledge work and most importantly the knowledge worker. According to John Knell (2000), knowledge workers constitute something of a vanguard in a new era of more equitable employment relations because they are involved in an historic shift in capital relation. The employment relation has historically favoured the role of the employer over the employee because of the former's exclusive ownership of physical capital. In the knowledge economy, capital increasingly takes the form of 'intellectual capital', which – in the head's of individuals – cannot readily be claimed as the exclusive property of employers or shareholders. Rather, 'intellectual capital' is, in part at least, worker-owned (Robertson and Swan, 2004). Thus, the balance of the employer-employee relationship is said to have shifted towards the latter, which enables knowledge workers to advance different and greater demands to their employers, such as flexibility, time sovereignty and autonomy. These workers are, in Knell's view, "the expert pollen of the new economy, moving quickly between jobs and assignments, transferring ideas, skills and attitudes."

However, while knowledge workers clearly pose a new and innovative challenge to those tackling the modern employment relationship, the extent of the shift to knowledge work may be less profound than is often suggested. Recent research by the Work Foundation (Fauth et al, 2008), has sought to develop an understanding of the role of knowledge work in the labour market. It finds that roughly a third of employees can be described as occupying a broadly defined "knowledge work" category. However, within that group, only a third were employed in jobs that involved a heavy concentration on "cognitively complex work" – employees who might quite properly be described as knowledge workers. In other words, only one in ten employees is working in the "knowledge economy" strictly so called (Coats, 2008). Thus, while knowledge workers in this truest sense have been at the forefront of debates about the changing world of work, they remain very much atypical of the vast majority of employees in the modern workplace and a misleading model for any conception of a "new deal" at work. As the labour economist and knowledge economy sceptic, Ewart Keep (2009) suggests:

"In reality, the much-vaunted knowledge-driven economy is, and is liable to remain, in part a mirage. There are knowledge driven sectors, occupations and firms, but the effect has not been uniform or general across

the entire labour market and while there has been, and will continue to be, growth at the top end of the labour market in the professions and managerial work, large swathes of low paid employment remain (and are set to remain) in areas such as personal services, cleaning, retail and wholesaling (which now employs about 15% of the workforce), and hotels and restaurants.”

## 4. The Impact of the Recession

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Unsurprisingly, the recession that began in mid-2008 continues to have a profound effect on employment relationships. However, how we interpret those effects is the subject of considerable dispute.

According to the Confederation of British Industry (CBI), the way in which employers and employees have responded to this recession indicates a more cooperative approach to employment relations in the UK than pertained in the past. As evidence, it highlights how companies have sought to remain viable without cutting jobs. According to John Cridland, the CBI’s deputy director-general, measures such as pay freezes, flexible working, temporary shut-downs, and unpaid leave are all examples of the (apparent) “commitment of many businesses and their staff to work together to trim costs and save jobs”.

Whether this is really evidence of cooperation, however, is not entirely clear. Given the threat of job losses across the economy, employees are likely to accept these sorts of measures not because they are entering into a new phase of cooperation with their employer but rather because the alternative – of losing one’s job – is likely to be a far more calamitous outcome. Indeed, recent high profile industrial sit-ins and walkouts suggest that conflict remains an ever-present possibility during a downturn.

In a recessionary environment, the issue of preserving employee motivation becomes crucially important. The danger of redundancy, freezes on pay and bonuses, and the damage to workplace morale that follows, pose significant challenges to all organisations. Initially of course, fear is a great motivator. However, fear also breeds distrust, anxiety and stress – all of which serve to inhibit employee performance. Without a coherent motivational strategy in these most testing of times, employers risk not only the debilitating effects of greater job insecurity, but also the likely disengagement of employees whose commitment will waver if their prospects are unsure.

Studies of employee experiences of downsizing show that the debilitating psychological impact of this process can last for anything up to 5 years (Kivimaki et al, 2003). This undoubtedly contributed to the persistence of workplace insecurity after the recession of the early 1990s, and is likely to have a similar impact on the workforce this time round.

## 5. Managing the Tensions

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At the centre of employment relationship is the contract of employment. This contract mediates diverse requirements, fixes the terms of interdependence and balances inherent tensions. The contract itself is, of course, inescapably incomplete, for not every detail of so complex an interaction can be codified. In addition, the employment contract has, historically been underpinned by collective bargaining agreements. These were agreed to and communicated through representatives, including trade unions, professional associations, and others. Perhaps surprisingly, such agreements still cover almost a third of all workers in the UK (including 6 million in the public sector). However, union representation in the private sector has declined dramatically over the past 30 years and today 20% of private sector employees are covered by collective agreements compared to more than 70% of those working in the public sector. Consequently,

most managers today can no longer rely on 'joint regulation' procedures to manage the employment relationship and secure the cooperation of their employees but must instead engage in direct dialogue with them. The importance of interactions between employers and individual employees has then increased significantly.

Attempts to understand and manage the employment relationship have thus increasingly turned to conceptions that see it as a framework of expectations built up between the individual and the employer in day-to-day practice – the “way things are done round here”. The so-called “psychological contract” seeks to examine the reality of the situation as perceived by both parties. For example, evidence suggests that beside the explicit promises made to employees by their employers - such as pay deals or holiday packages - that are often formalised in official contracts, the employment contract is in fact buttressed by an array of *implicit* promises entertained by both employers and employees. These implicit signals can prove much more important in the management of the employment relationship than any piece of paper.

Notions of the psychological contract have the additional advantage of bringing to the fore the often neglected socio-cognitive processes involved in forging the employment relationship (Herriot, 2001). So, for example, with the development of the knowledge economy, “human capital” is increasingly important and the psychological contract enables employers to better understand – and manage – employees with developed portfolios of skills who are highly “marketable” and flexible and are crucial to the organisation. HR departments can thus target individual expectations in order to drive strategic priorities. The psychological contract here accords with the view that people are the future drivers of businesses – and orients organisations to focus the employment relationship so as to reflect and enable employee flexibility in the workplace.

#### **What makes for a successful psychological contract?**

In a recent study, McInnis et al (2009) examined the link between employee commitment and how employees perceive the psychological contract. They found that, across two very different groups of employees, there were clear correlations between levels of commitment (positive and negative) and the ways in which the psychological contract was perceived. In particular, they suggest that psychological contracts that correlate positively with employee commitment are based on:

- mutual trust rather than formal agreements
- collective well-being of the employer and other employees rather than more narrowly defined individual interests
- equality of partnership rather than the assumption that the employers interest must come first
- forging a long- rather than short-term relationship
- negotiation with the employee rather than imposition by the employer

The psychological contract approach is therefore intended to help employers negotiate change whilst maintaining the support and cooperation of employees along the way. It is also useful when applied to perceived breaches of contract. If employees perceive an implicit promise to have been broken, they will reconsider their relationship. In extreme cases, this might lead them to withdraw from the relationship altogether, but, more often than not, they may continue undertaking their “core” activities while withdrawing levels of discretionary effort elsewhere.

Yet the enormous purchase enjoyed by the notion of the psychological contract within mainstream HR practice cannot conceal the fact that the employment relationship is not reducible to any specific interaction between an employer and employee. As noted earlier, the employment relationship unfolds within a broader set of representative structures, national frameworks and state legislation, etc. It reflects

wider societal changes and itself changes society. It is a junction box of competing agendas. Certainly, the employment relationship is changing, and has an individual psychological element that cannot be adequately captured in a written contract. But the notion of the psychological contract is, in many ways, a placeholder for what we do not understand. The employment relationship is so complex, and so embedded in society, that it cannot be surgically removed by social scientists, dissected by human resource managers nor decisively evidenced by accountants.

## 6. Trust

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In recent years there has been a growing interest in the importance of trust in enabling effective employment relationships. In part this is a result of transformations in the organisation of business. Where, historically, bureaucratic and hierarchical forms of organisation predominated, there was little incentive to focus on issues related to trust (or lack of it) in the workplace. Rather, monitoring and control remained the dominant and effective means of ensuring employee performance.

Today, however, faced with rapid organisational change, the coordination of relationships (between employers and employees, between employees themselves, and between organisations) in modern economies appears to require more than power and hierarchy, or money and markets, as a basis for that coordination. Rather, as partnerships, alliances, networks and the like are embedded in everyday business practice, trust plays an increasingly important role as an emergent coordinating mechanism. This echoes broad recognition over the past quarter century that in the cases of both societies and workplaces, reciprocity is more efficient than distrust or as Robert Putnam (2001) argues, “trustworthiness lubricates” our interactions.

There has been a good deal of speculation about the precise gains to be made from pursuing trust-based strategies in the workplace. Some evidence suggests that in combination with high performance practices based on greater worker autonomy, time sovereignty and decision-making capacity, trust-based approaches can afford real gains in productivity and efficiency. More recently, detailed examination of employee data in the US suggest that even modest gains in workplace trust can have a “strikingly large” impact on quality of life measures. One paper - from the US National Bureau of Economic Research - suggests that even a 10 percent increase in employees trust in management has the same effect on general levels of satisfaction as a 36 percent increase in monetary reward (Helliwell, Huang and Putnam, 2009).

So what is the state of trust in the UK workplace? A recent survey undertaken for the Chartered Institute of Personnel and Development makes for grim reading about the state of trust (or the lack thereof) amongst employees. In the context of the current recession, the survey suggests that four out of five employees think that their senior managers need to restore and improve trust in their leadership; three out of four believe that they are not consulted in important decisions; and large numbers believe that honest communication, greater voice for employees, more meaningful consultation and a greater belief in middle and junior managers capacities to make decisions are the best ways to improve trust.

But if the demand for high-trust working environments is ‘obvious’, and evidence can be marshaled to support the proposition that trust is an effective driver of efficiency and productivity, why is the transition to a high trust environment so difficult for organisations to achieve? On this crucial question, the management literature is largely silent. Instead, we are treated to the repetition of generalities about the need to increase trust amongst employees through the development of more cooperative workings environments.

Perhaps the most systematic attempt to elaborate elements of a high-trust organisation remains that of the industrial sociologist Alan Fox. In the 1970s, Fox sought to distinguish between low and high-trust organisations in order to explain the unproductive dynamics of much of British industry. For Fox (1974), a high-trust relationship is one in which:

“The participants share certain ends or values; bear towards each other a diffuse sense of long-term obligations; offer each other spontaneous support without narrowly calculating the cost or anticipating any equivalent short-term reciprocation; communicate freely and honestly; are ready to repose their fortunes in each other’s hands; and give each other the benefit of any doubt that may arise with respect to goodwill or motivation.”

The relative dynamics of Fox’s low and high-trust environments are represented in the following table:

**Figure 4: From low-trust to high-trust dynamics (Alan Fox)**

**Table 4. Low-trust and high-trust Dynamics (Fox)**

	<b>Low-Trust Dynamics</b>	<b>Design problem</b>	<b>High-Trust Dynamics</b>
	<b>Control-Based Management</b>		<b>Trust-Based management</b>
<b>Degree of shared goals and values</b>	Leaders behave as if employees cannot be trusted and that they do not share organizational goals and values	→	Leaders behave as if employees can be trusted and have commitment to organizational goals and values
<b>Supervisory pattern and control</b>	Close supervision and bureaucratic rules generate a mutually reinforcing circle, leading to declining mutual trust	→	Self-discipline is achieved informally through pressures that colleagues exert upon one another
<b>Coordination of activities</b>	Imposed and standardized coordination calls for restricted interaction and communication patterns between lower and higher ranks	→	Coordination by mutual adjustment, involving transmission of new information, and involving communication across hierarchical lines
<b>Response to failures and inadequacies of performance</b>	Failures are regarded as due to careless indifference to job rules, calling for more rules, punishment, or intensification of supervision	→	Failures and inadequacies are regarded as due to substandard exercise of discretion and as an occasion for learning
<b>Model for handling conflicts</b>	Conflicts is handled on a group basis through a bargaining process due to perceived lack of consensus on goals	→	Since the assumption is that goals are shared conflicts are handled by either the model of 'problem solving', or that of persuasion

Source: Elaborated on the basis of Fox (1974)

Source: Jagd, 2009

Even with the direction provided by Fox’s model, we should be under no illusion that the transition from low to high-trust environments remains an enormous challenge for any organisation. While high-trust environments may increase the intensity of work by devolving responsibility to the employee, it may be precisely this devolution that stimulates management reluctance to adopt such practices. Devolved decision-making and flattened hierarchies blur the traditional distinction between management and workers. Managers, faced with the threat of a loss of power, may, therefore, be the source of organisational resistance to trust-based approaches. In addition, trust takes time to develop and embed within an organisation and maybe not be conducive to the pressing short-term demands on managers. Finally, there may be significant commercial reasons for some organisations not to pursue high-trust, irrespective of potential productivity gains that might be made. For example, many employers find it efficient to adopt high levels of control in a workplace and to offset the broader social and health costs of such conduct

## Flexicurity: embedding security and flexibility in the labour market

Now at the heart of the debate about social protection in Europe, “flexicurity” aims to enhance flexibility for employers and security for workers through labour market reform and employment policies. Central to the model is the idea that ease of hire and fire must be matched by high benefits and investment in active labour market programmes to equip the unemployed with the skills they need to find work in a rapidly changing economy. This approach is well established in Denmark and has contributed to high levels of growth and employment over the last decade. Ton Wilthagen, an expert on flexicurity and welfare reform in Europe, has identified the following as components of a flexicurity framework:

- Flexible and secure contractual arrangements and work organisations, both from the perspective of the employer and the employee, through modern labour laws and modern work organisations.
- Effective active labour Market Policies (A which effectively help people to cope with rapid change, unemployment spells, reintegration and, importantly, transitions to new jobs — i.e. the element of transition security).
- Reliable and responsive lifelong learning (LLL) systems to ensure the continuous adaptability and employability of all workers, and to enable firms to keep up productivity levels.
- Modern social security systems which provide adequate income support and facilitate labour market mobility. They will include provisions to help people combine work with private and family responsibilities, such as childcare.
- As a crucial precondition for developing flexicurity and making it work: a supportive and productive social dialogue, mutual trust and highly developed industrial relations.

*Source: The Work Foundation and Auer, 2007*

onto society more broadly. Likewise, low-trust working environments may not be optimal for productivity but the possibility of change can be too risky for employers to contemplate. This is especially the case in conditions of fierce cost competition, such as those that pertain in the UK supermarket sector (Lloyd, Mason and Mayhew, 2008).

The shift to a high-trust working environment cannot, of course, be a task for an employer alone. As noted above, the employment relationship is shaped by broader social and political forces, representative structures and legislative frameworks. Enabling high-trust in the workplace must, therefore, also be pursued by these broader institutional interests. To that end, there has been considerable and growing efforts at the European level to systematize such an enabling framework under the rubric of ‘flexicurity’ (see box below).

While much of the work on high-trust work organisations currently promises rather more than it is able to deliver, it nevertheless provides important insights into the employment relationship. In particular, it suggests that group-based bargaining processes are more appropriate to low-trust environments, where interests are assumed to diverge more than in high-trust environments. It is only in latter case, where the goals of employers and employees are assumed to be shared, that demands for transparency, engagement, recognition and the possibility of persuasion, fully emerge. Where the employment relationship is most clearly one of mutual dependence, we would expect high-trust to reap its most significant productivity gains. Here, it is not so much “bargaining” that should characterise the negotiations around the employment relationship, but “arguing”. The distinction belongs to John Elster, the American political philosopher. He argues that “to bargain is to engage in communication for the purpose of forcing or inducing the opponent to accept one’s claim. However, to “argue is to engage in communication for the purpose of persuading an opponent.” (Elster, 1991). Bargaining seeks compromise between competing and often intransigent positions. Arguing seeks mutual understanding of the best way to proceed for the good of all. The transition to a high-trust working environment demands that we argue, deliberate and

## High-trust workplaces: deliberation in practice

### *SEMCO*

Perhaps the most famous (and for some, a rather extreme) example of a high-trust workplace is that of SEMCO in Sao Paulo, Brazil, where Ricardo Semler is the 'nominal' CEO. Here, there is no official organisational structure and no monitoring of workers. SEMCO has increased its annual revenue from \$35 million a year in 1994 to \$212 million in 2003, and done so without a human resources department or any official strategy documents. All decisions are made by employees; who hire, fire and set their own salaries. Employees are trained in how to understand the company books, and meetings are voluntary and open to all. In these meetings, there is dissent and deliberation and decisions are made by a simple show of hands.

### *General Electric*

At its plant in North Carolina, GE has stripped out all middle managers and controllers. Here, the production teams are autonomous and responsible for operational and strategic decisions. North Carolina is now GE's top performing plant. Once again, production teams work deliberatively and collectively.

### *Google*

With extraordinary success, Google has sought to flatten its hierarchies, limit managerial control procedures and promote creativity among its employees. With 20% of their time allocated to 'experiment with new ideas', employees are encouraged to deliberate openly with managers and argue the case for their innovations.

discuss the nature of the employment relationship - how it is changing and how it ought to change. In "argumentation", we must establish the validity of our own claims, as opposed to whether we have the power to enforce them.

## Conclusion

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This paper has sought to explore the nature of the employment relationship as a junction box of individual and collective expectations, competing and often conflicting agendas and broader social and institutional forces. It has shown that many of its surrounding debates and claims often amount to smoke and mirrors. What is obvious, then, is not obvious. The employment relationship is changing but not in the ways that are often supposed. The latest evidence on job insecurity suggests that whilst workers feel increasingly insecure it is not because they are more likely to lose their jobs but because of the threatened consequences of doing so. Likewise, the knowledge economy is impacting upon employment relations but on a far smaller scale than leading commentators would have us believe. Finally, though it appears "obvious" that most employees still need to be monitored, managed and controlled in order to generate the best returns to the organization, this paper has argued for the benefits of high-trust in the workplace. Without trust, conflict is accentuated and legitimacy is undermined. The difficult task of rebuilding the UK's post-recession economy will surely turn on how successfully trust can be strengthened in the workplace.

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