



WORKPLACE INNOVATION: LISBON'S MISSING DIMENSION

UKWON's Response to the Consultation on the Future "EU 2020" Strategy

Background

The *UK Work Organisation Network* (UKWON) is a not-for-profit coalition of employers' organisations, trade unions, universities and business support organisations committed to developing and disseminating new ways of working through research, the creation of actionable knowledge and policy advocacy (see www.ukwon.net). UKWON has extensive experience of working with partners across the EU and beyond.

Introduction

In March 2000 the European Council's seminal Lisbon Declaration committed the EU to a heroic new vision:

"The Union has today set itself a new strategic goal for the next decade: to become the most competitive and dynamic knowledge-based economy in the world, capable of sustainable economic growth with more and better jobs and greater social cohesion."

A decade later it is clear that the European Union has failed to achieve this goal. Productivity and innovation levels continue to lag far behind those of US and Asian competitors; employment levels showed gains during the decade but these proved to be largely cyclical; older workers continue to leave the workforce prematurely despite Europe's ageing demographic profile and the looming pensions crisis while many younger workers are marginalised in low-skill and insecure jobs; healthy working continues to be an elusive vision for many workers throughout the labour market; organisations are belatedly realising that disengaged or only partially engaged employees represent a substantial business cost. Meanwhile, notwithstanding the shock of worldwide recession, strategic challenges appear to grow stronger by the day: globalisation and the growth of China, climate change, and the continuous emergence of disruptive technologies to name but a few.

Policy responses to this increasingly volatile global environment have, across Europe as a whole, been largely fragmented. Predominant policy interventions both at EU level and in the majority of Member States have focused on the macro-system level, for example by increasing public subsidies for skills enhancement, reforming benefit systems and pensions to encourage greater labour market participation, and tax subsidies for R&D. With a few notable exceptions the workplace has been largely invisible in this debate.

Policymakers tend not to understand workplaces or the organisation of work. Work organisation is regarded as a private matter for employers, at best involving consultation and participation involving employees or trade unions but this is only sporadically reinforced by regulation or active policy. In consequence work organisation has become an underused resource for European public policy. The design of work processes and the extent to which organisational practices facilitate or inhibit employee participation actively influences the ability of organisations to compete, innovate in products and services or address environmental issues. These factors exercise a major influence on the extent to which employees can utilise their skills and develop them further, and therefore on the return which employers and the state realise from their investment in vocational training. Work organisation is also a determinant of employees' quality of working life, shaping the extent to which they gain satisfaction and personal growth from their working lives; it therefore shapes their level of engagement, their ambition, their retention by the organisation (not least in the case of older workers able to retire or mothers considering whether to return to work after the birth of children), and their mental and physical health. Yet the evidence suggests that only a small proportion of workplaces, public or private, are deploying participative working methods systemically across the whole organisation. Several obstacles to the dissemination of participative approaches have been identified including lack of managerial awareness and understanding, poor access to actionable knowledge, and the tendency to embark on partial change.

Within the 27 EU member states a small number of countries have developed exemplary programmes to support workplace innovation; typically they promote workplace changes that seek simultaneous gains in productivity and quality of working life, and have generated a growing body of evidence that such convergence is achievable. Over four decades these programmes have generated considerable evidence of how targeted intervention can produce tangible gains for business and employees alike, and their outcomes have enhanced collective understanding of 'what works' in terms of effective and sustainable approaches to work organisation. Yet these policy measures remain relatively unknown outside their own countries, and are rarely emulated elsewhere.

Such a significant policy lacuna extends to the EU itself which, despite token recognition of the well-documented need to modernise work organisation across Europe, demonstrates little policy leadership either amongst member states or within its own portfolio of programmes.

The policy rationale for work organisation and workplace innovation

As far back as 1995 the EU's *Expert Group on Flexibility and Work Organisation* argued that:

"Models for the future shaping of company structures and organisational competence have become one of the determining factors for the future competitive strength of European enterprises" (*Social Europe Supplement 1/95:5*).

Since then many researchers, social partners and policymakers in different parts of Europe have come to recognise that workplace innovation is a crucial factor in determining the health and vitality of socio-economic systems. In increasingly competitive global markets there is continuous pressure to deliver faster and better products and services at lower prices. But quality, speed and flexibility will, in the long term, not be enough to create growth and employment. They have become entrance factors in the market place: conditions which must be met simply in order to stay in the game. While the fulfilment of these conditions remains the dominant concern of most managers and policy makers this strategy will not ultimately prove sufficient to realise growth and employment. Rather it can only be regarded as a defensive answer to competition.

From this perspective the real source of Europe's competitive advantage lies elsewhere. It is to be found in the capacity:

"to do things differently, in a way that cannot be easily imitated by our competitors outside the European Union. During the last years we have come to understand that this challenge can be realised by using the rich European potential of knowledge, skills and experience in a more effective way" (Andreasen et al. 1995).

The key to genuinely sustainable competitive advantage, it is argued, depends on the core capacity of the organisation to learn and to develop and utilise all its resources to the full (Barney, 1995; Priem and Butler, 2001). Successful and sustainable organisations create workplace environments which enable employees at all levels to use their entire range of knowledge, competencies and creativity (Totterdill, Dhondt and Milsome, 2002). This view looks beyond standard economic models with their emphasis on factors that can be measured – machinery, investment, labour costs, depreciation, qualification levels and so on. Rather it is important to recognise the contribution of those intangible, qualitative resources and

relationships that are often hard to measure: for instance the role and value of trust, cooperation, tradition, tacit skills, innovative capacity, teamworking and networking. Such a perspective fits well within the long European tradition of seeking convergence between market-oriented policies and a healthy socio-economic environment. Competitiveness is seen as the outcome of wider social processes in which work is an essential part of human life and individual identity.

The concept of a 'high road' of work organisation has, in recent years, enabled policymakers and others to give meaning and shape to this model of competitiveness. It has no prescriptive form but does distinguish between organisational strategies based on sustained innovation and those based on short-term cost-driven factors. Above all, the idea of a high road suggests the possibility of convergence between values and objectives previously seen as being in opposition to each other. Can developed countries achieve sustainable competitiveness and high levels of employment through the enrichment of working life? In short can customer satisfaction and job satisfaction be united?

The importance of the 'high road' approach is that it seeks to identify the potential for 'win-win' outcomes - the scope for convergence between organisational performance, employment and quality of working life. This stands in stark contrast to 'low road' approaches driven by short-term contingency and/or cost considerations which undermine the prospects for such convergence and reduce the capacity for sustainable competitiveness.

However Europe is facing a difficult paradox. On the one hand it is well recognised that innovation in products and services is crucial to create competitive advantage, growth and employment. It is also acknowledged that workplace innovation is crucial to create the conditions within which product and service innovation can be sustained.

But successive studies have made clear that the spread of high road workplace innovation is limited in Europe. This can be explained by a number of mutually reinforcing factors (Totterdill, Dhondt and Milsome, 2002; Business Decisions Limited, 2002) including:

- low levels of awareness of innovative practice and its benefits amongst managers, social partners and business support organisations;
- poor access to evidence-based methods and resources capable of supporting organisational learning and innovation;
- uneven provision across Europe of knowledge-based business services and other publicly provided forms of support;
- the failure of vocational education and training to provide knowledge and skills relevant to new forms of work organisation.

UKWON's study on *Workplace Innovation Programmes in European Countries* (2009) demonstrated that targeted public programmes in some EU countries had begun to address these constraints. Such programmes typically include:

- accumulating, analysing and distributing knowledge of leading-edge practice and evidence-based approaches to change
- the establishment of closer links between researchers and practitioners
- action research to promote workplace innovation
- the development of new learning resources to support workplace change
- the provision of knowledge-based business support
- the creation of inter-company learning networks.

The practical challenge for policymakers is multidimensional. The task is not to discover "what works" because there is ample evidence of this from research and practice across Europe. Rather the priority is to discover how to resource and support sustainable workplace innovation on a large scale.

Across Europe the policy response has been uneven. In France, Germany and some of the Nordic countries, for example, the provision of support for workplace innovation has been a constant though evolving feature of the policy landscape for some four decades. Elsewhere however such support has been either occasional or non-existent.

Work organisation and workplace innovation in current EU policy

Workplace innovation and the modernisation of work organisation do appear as recurrent themes in successive EU policy documents and communications. Odile Quintin, the Commission's then Director General for Employment & Social Affairs, told a Dublin EU Presidency Conference in February 2004 that the modernisation of work is at the heart of the Lisbon strategy and that member states need to use all the means at their disposal to accelerate the pace of workplace change (European Commission, 2004). This echoes the conclusions reached at the Danish Presidency Conference on work organisation in Roskilde during November 2002. Later "the design and dissemination of innovative and sustainable forms of work organisation" (European Commission, 2003) are cited as a means of enhancing productivity, responsiveness and quality, as well as improving working life and the retention of older employees. Yet there remains little sense from the policy documentation of how the "positive management of change" (European Commission, 2002) is achieved in practice, or therefore of the types of intervention needed to resource and sustain it.

Recent EU policy outputs relevant to the workplace read like a checklist of fashionable ideas of good practice, for example, *Corporate Social Responsibility, Financial Participation, Anticipating and Managing Change* and *Work-Related Stress*. There are also clear cross-cutting priorities for action, notably:

- the balance between flexibility and security (“flexicurity”),
- the positive management of change,
- investment in research and the distribution of knowledge, especially at enterprise level).

Each of these policy interventions makes a potentially significant contribution in its own right to European economic and social policy objectives but collectively they offer an insufficiently integrated vision of the sustainable workplace.

The renewed Lisbon Strategy agreed at the Spring European Council in March 2005 put growth and jobs at the top of Europe’s political priorities and implied fresh commitment to a comprehensive approach. This commitment was given further weight by agreement on the *Integrated Guidelines for Growth and Jobs* (European Commission, 2005) which “provide a clear roadmap for the design of national reforms” and pursue economic and social modernisation “in a distinctively European way” (European Commission, 2006a).

At the macro-economic level, two reasons are cited by the *Guidelines* for the sluggish performance of the European economy since the original Lisbon agreement in 2000 – low employment participation rates amongst younger and older workers, and poor productivity growth. There a strong workplace dimension to both problems, with the organisation of work exerting a direct influence on both the attractiveness of work and on productivity. As we have argued above, low employment and low productivity are both coupled to the ‘low road’ of rationalisation and cost reduction; the task is to achieve a ‘high road’ balance between productivity and a high quality of working life.

At the micro-economic and employment levels, the importance of work organisation is directly acknowledged in the rationale accompanying the Guidelines. *Guideline 10* (“to strengthen the competitive advantage of its national base”) identifies the need to identify “the added value and competitiveness factors in key industrial sectors” and these would certainly have to include management and workplace practices.

In fact the *Integrated Guidelines*, both for 2005–8 and for 2008–10 offer some specific markers for the construction of a workplace-focused strategy for Europe. Guidelines 17-24 are directly related to such management and workplace practices, and include the following priorities:

- (1) Attracting and retaining more people in employment, increasing labour supply and modernising social protection systems. *Guidelines 17* (“implement employment policies aiming at achieving full employment, improving quality and productivity at work and strengthening social and territorial adhesion”), *18* (“promote a life-cycle approach to work”) and *19* (“ensure inclusive labour markets, enhance work attractiveness, and make work pay for job-seekers, including

disadvantaged people, and the inactive”) are directly related to the quality of working life dimensions of work organisation and their impact on motivation to enter and remain in the labour market.

- (2) Improving adaptability of workers and enterprises. *Guideline 21* (“promote flexibility combined with employment security and reduce labour market segmentation having due regard to the role of the social partners”) recognises the interrelationship of productivity and quality of working life in a global economy, specifically referring to “the promotion and dissemination of innovative and adaptable forms of work organisation, with a view to improving quality and productivity at work, including health and safety”.
- (3) Increasing investment in human capital through better education and skills. *Guideline 23* (“expand and improve investment in human capital”) argues the need for “efficient lifelong learning strategies open to all . . . with a view to enhancing participation in continuous and workplace training throughout the life cycle.” Workplace-based learning is intimately linked to job design and the organisation of work – in short, the extent to which jobs provide employees with opportunities for functional flexibility, reflection and improvement. Likewise *Guideline 24* (“adapt education and training systems in response to new competence requirements”) talks of “easing and diversifying access for all to education and training and to knowledge by means of working time organisation”.

Yet there are also significant omissions. *Guideline 8* (“to facilitate all forms of innovation”) focuses exclusively on product innovation. There is no mention of process innovation and no recognition of the role of work organisation in creating an environment conducive to product and service innovation. *Guideline 9* (“to facilitate the spread and effective use of ICT and build a fully inclusive information society”) ignores evidence cited above that the benefits of investment in ICTs are only fully realised when undertaken in tandem with innovation in work organisation.

The European Council reinforced the significance of work organisation in implementing these Guidelines at its meeting on 23rd-24th March 2006:

“Taking advantage of Europe's improved economic prospects to create more and better jobs, more effort must now be put into implementing the European Employment Strategy and the three priorities for action: attract and retain more people in employment, increase labour supply and modernise social protection systems, improve adaptability of workers and enterprises, and increase investment in human capital through better education and skills. Better organisation of work, quality of working life and continuous updating of workers' qualifications are factors which should be analysed in view of boosting labour productivity” (Council of the European Union, 2006). However the greatest danger remains that the overall

narrative becomes disjointed: a series of discrete policy fields that add up to less than the sum of the parts.

Moreover there is insufficient evidence that the Integrated Guidelines are influencing the national programmes of Member States in a systematic way. The wider dilemma for the Open Method of Co-ordination is the need to find an effective "transmission mechanism" to coordinate and help deliver effective social and economic policies. As in other areas of policy, such a mechanism has been notably absent in terms of the workplace. Workplace innovation and the modernisation of work organisation are often poorly defined and understood by policy makers, and there is a significant gap between pronouncements and practice. Successive attempts to explore the feasibility of specific EU policies for work organisation, such as the much-anticipated 1997 EU Green Paper *Partnership for a New Organisation of Work* have been largely unsuccessful.

Nowhere is the need for policy leadership illustrated more graphically than in the case of the European Social Fund. The ESF is a major EU funding instrument for the promotion of employment as well as social and economic cohesion. It accounts for some 10% of the EU's total budget amounting to €75 billion in the period 2007-13. EU and programme priorities explicitly promote the use of the Fund for the modernisation of work organisation, and examples in Belgium, Germany and Sweden demonstrate that it can be used most effectively. However these examples are generally found in countries with embedded structures and institutions concerned with work organisation. In the absence of such a wider policy framework regional and sometimes even national ESF programme committees rarely understand the nature of workplace innovation or its significance in meeting employment and competitiveness targets. Potential applications therefore receive little encouragement to develop workplace innovation proposals, or receive adverse scorings if they do (EWON, 2002).

The EU 2020 Consultation Document

The consultation document is certainly to be welcomed as an opportunity to reflect on the successes and setbacks of the last decade, and to help establish a new vision for the EU in 2020 which is both inclusive *and achievable*. The three main drivers – knowledge based growth, an empowered and inclusive society and a competitive, connected and greener economy – are to be welcomed. However it is important to remember James Wickham's critique of the original Lisbon vision in his essay for ICTU:

“Lisbon defines the European version of American 'apple pie': not just growth, not just employment, but good jobs and even social cohesion as well. In an earlier age, one might have said guns and butter; today the cynical might say, having your cake and eating it. No hard choices, just everything you want.”¹

The EU 2020 vision of convergence between economic, democratic, social and environmental objectives must be tangible in real life – in families, in communities and not least in actual workplaces. From this perspective however, there are many aspects of the document that are disappointing. We will be more innovative, more skilled, more competitive, more productive and greener, but the workplace – the focal point at which all these changes will be realised – remains invisible.

More specifically, the document limits its vision in two key respects:

1. A narrow view of innovation

Throughout the document, the discussion of innovation is once again limited to technology-driven products and processes. Thus for example “Innovation and creativity” (p.5) is focused only on intellectual property rights, capital funding, technological knowledge and R&D. Behind this narrow approach lies the old fashioned technology-push model of innovation. This is sharply in contrast with the understanding, widely developed during the last decade in Europe and beyond, that innovation is grounded in much more than technology. Organisational innovation, workplace innovation and social innovation must constitute integral dimensions of innovation strategy and policy at enterprise, regional, national and EU levels; indeed they are essential elements of the environment in which technological innovation takes place.

2. A mechanistic understanding of the 'world of work'

“*Empowering people*” (p6) adopts an excessively liberal interpretation of the flexicurity concept: the “flexibility of labour markets both on work organisation and on labour relations”, and the promotion of labour mobility to ensure that people can take up new opportunities by moving to where their skills are most needed”. The brief and slightly obscure reference to “work organisation” does nothing to disguise the dominant emphasis on numerical flexibility at enterprise level. Yet the real challenge if Europe is to secure competitiveness, empowerment and inclusion lies in building greater functional flexibility at workplace level, ensuring that workers have the ability to move easily between roles and to be active participants in innovation and change.

¹ www.ictu.ie/html/publications/ictu/Essay2.pdf

3. Beyond the fragments?

Under the heading “Empowering people in inclusive societies”, the document lays down the following challenge:

“The aim for 2020 is more jobs, higher employment rates of the working age population, better jobs, with higher quality and increased productivity, and fairness, security and opportunities, through a real chance for everyone to enter in the labour market, create new companies, and manage labour market transitions through modern and financially sustainable social and welfare systems.”

This runs a serious risk of “apple pie” wishful thinking unless it can be shown that these diverse objectives can actually be made to support each other in actual practice. The principal locus in which such convergence can happen is in the workplace – or more specifically in workplaces where there has been a significant investment in workplace innovation and forms of work organisation that empower and engage employees at all levels.

Conclusion

While the broad vision behind EU 2020 is sound, it falls into the same traps as the previous Lisbon strategy. In particular there is no concrete model of how convergence between these quite different policy objectives will be achieved in practice.

Such convergence cannot be achieved solely through macro-level policy interventions in the economy and labour market. The invisibility of the workplace – and of work organisation in particular – must be addressed if we are to avoid a future post-mortem on the failure of EU 2020.

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