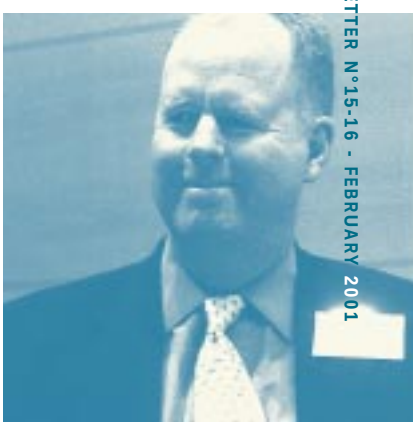
1. Labour Market and Work Organization Trends



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Changing work organization in Europe

Abstract

In increasingly fierce global markets there is a 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 in European regions. They have become, in Porter's words, “entrance factors” in the market place: conditions which must be met simply in order to stay in the game. The real source of competitive advantage, whether at European, regional or enterprise level, is to found in the capacity for innovation - the ability to 'do things differently' and to continuously reinvent products and services.

An innovation-based model of regional competitiveness implies the need for a more radical approach to the workplace. We can therefore differentiate between a *high road* and a *low road* of innovation - the low road driven by cost cutting and the high road by liberation of human creativity in ways which achieve a dynamic balance between product and process innovations. An overview of research on leading edge companies in Europe identifies a series of trends in the design and implementation of new forms of work organization which challenge traditional organizational structures and practices. However, despite increasingly well-documented advantages, the spread of new approaches to work organization and culture remains limited in Europe, especially amongst SMEs. Inertia, a poor knowledge base and short-term approaches to productivity and investment inhibit the pace of innovation.

The individual firm is too weak an instrument around which to build change. Innovation is intimately related to the firm's external context, the semi-public sphere which determines access to knowledge, exchange of experience and shared resources. In short this environment defines firms' ability to overcome internal limitations by developing collective solutions to common problems. Given the rapid evolution of new approaches to work organization it is vital to build a public sphere of knowledge in which collective learning can take place, and which explodes the traditional one-dimensional consultancy relationship between 'expert' and 'client'.

Learning and innovation are often very localized. It is therefore important to discover and to strengthen the characteristics of effective and dynamic innovation systems at regional level - for example the types of bridge that can be built between academic research, social partners, business support organizations and the individual firm, with particular emphasis on the needs of SMEs. Public policy must promote a wide range of opportunities for collective learning about the design and implementation of new approaches to work organization, building broad communities of expertise at local and sectoral levels and creating new technical resources to support change.

Towards innovation-based regional development

In increasingly fierce global markets there is a 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 in European regions. They have become “entrance factors” (Porter 1985) in the market place: conditions which must be met simply in order to stay in the game. At present the fulfilment of these conditions is the dominant concern of most managers and policy makers. But from a long-term perspective this strategy will not prove sufficient to realise growth and employment. Rather it can only be regarded as a defensive answer to competition from outside Europe.

The real source of Europe's competitive advantage lies elsewhere. It is to 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).

If this is true at European level, then it suggests that the competitiveness of regions needs to be defined in terms of their capacity for innovation - their ability to 'do things differently' and to continuously reinvent products and services.

An innovation-based model of regional competitiveness implies the need for a more radical approach to the workplace. Alternative approaches to competitiveness generate different models of work organization which, in turn, have quite different implications for regional development and employment. To understand this we must focus on the types of *innovation strategies* adopted by firms in responding to a changing market environment. On the one hand strategies for workplace flexibility which are motivated principally by cost-cutting will certainly decrease the demand for labour; as several studies of lean production methods suggest they are also likely to reduce quality of working life ('job enlargement without job enrichment'). However strategies for flexibility which are geared towards the creation of new products or services, exploring new business activities and building new markets may have quite the opposite effect. We can therefore differentiate between a *high road* and a *low road* of innovation, built on quite distinctive approaches to the organization of work. The defining characteristics of the high road are the creation of organizational spaces and the liberation of human creativity *in ways which achieve a dynamic balance between product and process innovations*. But the high road must be grounded in a social infrastructure which values dialogue and collaboration between social partners, policy makers and researchers as a necessary precondition for a culture of innovation (European Work & Technology Consortium, 1998).

Particular attention must be paid to the role of SMEs in building and sustaining the competitiveness of regions :

- as sources of innovation and new economic activity in their own right: the leading edge in the emergence of new sectors such as the creative industries and the focal point for the regeneration of traditional sectors such as fashion;
- in the flexible production of specialized goods and services within supply chains, which in many cases are adding an increasing proportion of value to the final product.

Clearly SMEs do not always succeed in fulfilling this potential. It is clear that a high proportion of smaller firms in Europe lack adequate management capacity, while the rate of diffusion of product or process innovations is unacceptably slow. However marked regional variations exist in the competitive strength of SMEs, suggesting that the local environment in which smaller companies exist plays a key role in determining their opportunities for growth. This poses a particular challenge for policy makers, who must create new ways of widening the distribution of knowledge and of facilitating collective solutions to common problems. The need is to discover and to strengthen the characteristics of effective and dynamic innovation systems at regional level - for example the types of bridges that can be built between academic research, social partners, business support organizations and the individual firm.

Towards the high road

A great deal of research has been undertaken throughout Europe (for example: European Work & Technology Consortium, 1998; Business Decisions Ltd, 1998) to define the types of work organization associated with the high road of innovation. We can summaries the broad conclusions as follows :

Drivers for change

A high percentage of companies attempting to build new forms of work organization are driven by crisis and/or by pressure from customers. In many cases these circumstances limit both the scope and sustainability of change. In such cases change is typically cost driven and fails to expand the full capacity of the company to innovate and to build new markets. Change may also fail to win the full commitment of employees and may fail to become embedded in company practice and culture.

Successful change, however, is likely to be driven by strategic commitment to a combination of the following :

- Improving competitiveness through, for example, faster development cycles, customization, adding value to existing products and services, etc.
- Improving agility through reduced cycle times, reductions in work-in-progress, effective partnerships with suppliers etc.
- Enhancing quality both through the adoption of formal standards and through changes in organizational culture.
- Increasing innovative capacity by fostering human competencies and by ensuring that work organization and technology are designed to enhance skills and creativity.
- Reducing labour recruitment, retention and absenteeism problems by enhancing quality of working life, workplace partnership, more effective dialogue between management and employees, etc.
- Improving industrial relations by building effective dialogue structures and development coalitions, including intermediary organizations and research institutes.

The nature of change

What changes are actually happening in the workplace to achieve these strategic commitments ? Overviews of research on leading-edge companies in Europe (European Work & Technology Consortium, 1998; Business Decisions Ltd, 1998) identify the following trends :

- **Workplace partnership as organizational development**. Traditional approaches to change have often been recipe driven. Companies are offered solutions (often consultancy driven) based on alleged 'best practice' models; the success of implementation is measured in relation to its conformity with the benchmark standard. However employees find it hard to 'own' solutions they have little part in designing or planning, and necessary culture change can be slow to achieve. More sophisticated approaches build workplace partnership as a precondition for organizational change. These vary widely in content, but are typically based on formal agreements between management, trade unions and workforces on the creation of structures and processes designed to build trust and dialogue. This dialogue itself becomes the motor for innovation in work organization.

- **Knowledge management**. Both during change processes and in resolving day-to-day issues the aim must be to unlock the full range of knowledge and experience available at all levels of the workforce, drawing on a strong sense of employee well-being and sustained motivation. This is a valuable collective resource for change and innovation.

- **Business units and divisions which reflect key market segments or production processes**. In other words the organizational structure should follow the client or product rather than traditional functional demarcations such as design, marketing, finance, etc. In particular this means the creation of multifunctional management teams which emphasize the interconnections between functional specialisms.

- **Semi-autonomous group working**. Multiskilled teams can have high levels of discretion for the day-to-day production of goods and services including scheduling, meeting targets, liaison with customers and suppliers and team development. Typically this will lead to a reduction in the layers of management.

- **Reduction in job demarcations**. Especially within the context of teamworking, demarcations

between jobs are reduced as much as possible to ensure greater versatility, the self-regulation of work groups and possibilities for learning.

■ **Balancing individual competence with organizational development**. Improving workforce skills is insufficient if employees remain in tightly defined jobs with insufficient opportunities for discretion and versatility. Likewise new organizational structures can fail if they place demands which exceed the skill levels of individual workers. Skills enhancement and lifelong learning, which are often increased significantly, nonetheless need to be developed in balance with organizational change.

■ **Rethinking the role of middle and front-line managers**. Semi-autonomous teams fail to achieve their full potential where the role of middle and front line managers remains unchanged. Managers accustomed to playing a policing role feel threatened by empowerment, and can consciously or unconsciously subvert change. However the redeployment of these staff in team development and continuous improvement, as well as in overall support and longer-term planning roles, can have lasting benefits.

■ **Innovation as a core task**. Traditionally the development of new products and processes was undertaken by specialist R&D teams, often remote from the point of production and consumption. Increasingly however production teams are involved in the process of innovation by integrating R&D staff within the production environment, through continuous improvement programmes, by other forms of workplace partnership and by liaising directly with buyers and customers.

■ **Strengthening partnerships across organizational boundaries**. New forms of work practices and cultures enhance the potential for innovation and improvement not just within organizations but by enhancing multi-level collaboration between organizations. This challenge needs to be met both through formal planning and through innovative organizational solutions such as virtual teamworking and inter-agency approaches to continuous improvement.

■ **Mainstreaming quality**. Introducing quality as a performance measure for semi-autonomous work groups help to create a 'quality culture' rather than 'quality control'.

■ **Adding human and organizational dimensions to the design, selection and implementation of new technologies**. Technologies must operate within a specific context based on organizational structures, cultures and work practices. Ensuring an effective 'fit' means that the design and implementation of technological systems has to reflect the organizational principles of the company and to recognize the human factors involved in their operation.

■ **Rethinking performance measures**. Measuring the performance of managers and employees purely against short-term productivity targets is destructive of teamworking, innovation and quality. Other measures such as customer satisfaction, organizational learning, innovation and waste reduction also constitute critical dimensions of competitiveness and should be measured with equal rigour.

■ **New reward systems**. Payment systems need to reflect performance across this wider range of factors, not just productivity. Team or company-based approaches to gain-sharing reflect a culture of trust, unlike individually-based reward systems.

Ownership, management and distribution of knowledge

Despite increasingly well-documented advantages, the spread of new approaches to work organization and culture remains limited in Europe. Inertia, combined with short-term approaches to productivity and investment, inhibit the pace of innovation.

At the level of the company, many managers and trade unionists have little overview of how the world is changing, yet are simply overwhelmed by external pressures. They fail to understand the nature and potential of workplace innovation, or believe that experiences elsewhere cannot be relevant to their own enterprise. This appears to be particularly true of SMEs, where the exposure of management to alternatives is often very limited.

The knowledge base accessible to change agents in the field of work organization remains a serious problem, especially (but certainly not exclusively)

for SMEs. Successful change needs to be well resourced with appropriate tools, experience and understanding. Many organizations lack both the concepts and the practical tools needed to analyse, to plan and to implement the process of change. Indeed the internal knowledge available even to the largest organizations may be insufficiently grounded in 'good practice' experience and methods to be found across Europe.

Beyond consultancy

There are three ways in which organizations have traditionally sought to accomplish change :

1. They can undertake it on their own, using their own resources. This has risks, mainly arising from the limited capabilities that the individual company can bring to problems, and from the dangers of mistakes. This is the preferred alternative only when the next two options are not available.

2. They can undertake change with the cooperation of their main customers (and sometimes this kind of change is forced upon them). Such change often takes place within confined parameters, and may be resented.

3. They can use outside agencies such as research institutes or consultancies to provide resources, methods and expertise.

The traditional way to accomplish change is change by design. This means that generalized concepts (such as teamworking, TQM, etc) are applied to specific problems according to a predetermined set of rules. It can be argued that given the complexity of today's organizational systems, the availability of 'expert' knowledge is becoming increasingly important. Public programmes have often sought to meet this need by subsiding access to consultancy, and use of outside agencies does offer potential advantages by providing the company with access to a wider range of knowledge and experience. In practice however the resourcing of organizational change raises more fundamental problems for companies, employees and public policy makers alike.

Researchers such as Fricke (1997) and Gustavsen (1992) stress that the design approach, with its strong reliance on expert power, has emerged as a roadblock rather than a motor for real change in organizations. For policy makers and management advisors, the key problem becomes the 'transfer of best practice' rather than the promotion of real innovation. Traditional models of consultancy typically embody a narrow and one-dimensional approach to knowledge in the change process. Expertise is seen as the property of the individual which can be 'passed on' to the client organization rather than emerging from a learning process based on dialogue and synthesis. Expertise is also seen as highly integrated and stable, and its transfer precludes questioning or reconceptualizing the skills and knowledge of established masters or the creation of culturally novel models of practice (Engeström, 1992). Too frequently therefore, consultants sell solutions rather than processes. 'Off-the-shelf' models of organizational change are presented to companies as blueprints, legitimized by a supposed record of achievement elsewhere. Companies may be complicit in this to the extent that they are persuaded by the attraction of short term improvements in cost, quality or versatility. But ultimately a failure to customize and to negotiate system design will affect the longer term sustainability of the change. People at all levels of organizations need to participate in the design process in order to 'own' it.

Moreover in a consultancy relationship, knowledge is a private commodity shared between the expert and the client. Often this results in experiences of change - good or bad - being kept as a closely guarded secret to prevent it falling into the hands of competitors (either of the consultant or of the company). Yet both parties are therefore deprived of potential opportunities for a wider process of interaction, leading to the sharing of experience and to further innovation. It also limits the ability of the company to build learning partnerships - with business organizations, customers, suppliers, trade unions or vocational trainers - who may influence the broader environment in which the company operates.

Arguably these limitations have been a major factor in restricting the spread of innovative approaches to work organization. There is also increasing evidence that it limits the quality of knowledge deployed in organizational change. Qualitative studies show that expert-led change is often partial, fragmented and unsustainable (Hague, McLellan and Totterdill, 1997). Practitioners need interdisciplinary perspectives and broad decision spaces.

The individual firm is too weak an instrument around which to build change. Innovation is intimately related to the firm's external context, the semi-public sphere which determines access to knowledge, exchange of experience and shared resources. In short this environment defines firms' ability to overcome internal limitations by developing collective solutions to common problems. Given the rapid evolution of new approaches to work organization it is vital to build a public sphere of knowledge in which collective learning can take place, and which explodes the one-dimensional relationship between expert and client. Public policy and business support organizations have a critical role to play - in part by insisting that subsidies for change at company level involve the widest practical exchange of knowledge and experience, and in part by building frameworks designed to promote collective learning.

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Learning from the experience of others

Case studies, benchmarking and 'best practice' studies have become part of the core vocabulary of contemporary business literature. Likewise many European governments, panicked by the need to 'catch up' with the US and South-East Asia, promote masterclasses, company visits and consultancy packages to persuade reluctant industrialists to adopt the various models and practices thought to characterize 'world class manufacturing' : TQM, JIT, MRP, MRPII...

Belussi and Garibaldo argue that it is important to avoid an academic comparison of different paradigmatic models in a vain attempt to discover magic formulae for success. In particular, policy makers or management opinion formers should be discouraged from an obsession with emulating the Japanese or North Americans :
"The key point is rather to shift from a 'catch-up' approach - which until now seems to have not been successful at all - to a strategy firmly orientated towards the creation of innovative and self-sustaining processes of development".

They continue :
"... the most competitive countries and regions will be those which are able to create a virtuous circle based on their own cultural identity and on the more generally applicable knowledge resulting from the Japanese experience" (Belussi and Garibaldo, 1996).

In other words it is necessary to develop a model of workplace innovation which creates hybrids, drawing on external experience but customizing and improving it through local knowledge, resources, cultures and institutions. Change generated by such diverse interactions clearly challenges the idea that there can be some form of 'global best practice' setting a universal benchmark against which all organizations can be measured.

Such an analysis does not fit easily with the idea of the 'expert consultant' whose role is to transfer a stable body of knowledge to a receptive client. Rather it reflects Engeström's call to define expertise as the product of "multi-voiced" dialogue in which the interaction of a wide range of experiences lead to new understanding and new solutions. The need is for a new type of knowledge broker, part researcher and part facilitator, to manage this dialogue. The emergence of such an approach is perhaps strongest in the Scandinavian countries, notably the Change Laboratories developed at the University of Helsinki and the Dialogue Conferences used by the Swedish National Institute for Working Life (Engeström, 1992; Gustavsen, 1992; 1996).

The analysis by Lundvall (1992) and others of national innovation systems provides a more strategic approach to this question. Critically, workplace innovation should be seen as the product of a complex process of learning grounded in, for example, vertical and horizontal interaction within firms, networking between firms (industry associations, supply chain relationships, etc), public policy, vocational training, industrial relations, the financial system, and so on.

Learning and innovation are therefore very localized, and not placeless processes. It is therefore important to discover and to strengthen the characteristics of effective and dynamic innovation systems at regional, national and European levels - for example the types of bridge that can be built between academic research, social partners, business support organizations and the individual firm. The Italian industrial districts provide a paradigmatic example of a learning milieu based on such complex interactions (Asheim, 1997). These districts must not be understood as model production systems, but rather judged on their capacity to remake themselves on the basis of collective knowledge, learning, appraisal and action.

Thus current dialogue in Emilia Romagna is less about how to defend the industrial district structure in the face of globalization, but rather how to develop a specific approach to globalization which draws on the knowledge, experience and networking culture of each district.

At regional level, learning networks also influence innovation : companies and organizations do not develop in isolation but through collaboration with other companies and organizations. Participation in learning networks makes the immediate environment larger and richer with all the benefits that this accrues in the form of reduced uncertainty and new stimuli. Moreover the networking process has an inherently proactive capacity to create new opportunities, and not simply to react to changed environmental demands (European Work & Technology Consortium, 1998; Friedrich & Lantz, 1998).

Learning networks may provide policy makers with a powerful means of addressing a cluster of related issues: a mechanism for challenging passivity, signposting alternative choices, customizing information and support to meet the needs of individual companies, creating continuity of support, developing management capability through low-cost learning and creating a multiplier effect by mobilizing and sharing experiences between firms with a common agenda. Policy makers can therefore use learning networks to pursue key regional objectives by mobilizing companies to commit their own time and resources (Bessant, 1995; European Work & Technology Consortium, 1998).

At the European level, diversity of experience between regions is an important learning resource. In terms of organizational development there is considerable divergence yet much common ground between, for example, Northern European approaches to workplace development and the Italian industrial districts (Belussi and Garibaldo, 1996). Both are characterized by partnership and cooperation within firms, between firms, and between social partners and the state. However each manifestation of partnership and cooperation is heavily influenced by local circumstances and cultures, leading to different solutions and experiences. Such divergence provides real opportunities for hybrid innovation through inter-regional comparison, critical dialogue and collaboration.

For public policy therefore, the test of successful intervention lies in “the extent to which 'technical' expertise... ceases to be traded as a consultants' commodity and becomes, instead, the intellectual property and joint intelligence of managers, trainers and operatives alike”. New approaches to policy must involve: “a break from traditional practice, with its reduction of the process of change to 'casework' - a series of discrete applications by individual companies for subsidized training or consultancy” (Middleton and Totterdill, 1992).

Conclusion : building capacity to animate change

Public policy must promote a wide range of opportunities for collective learning about the design and implementation of new approaches to work organization, building broad communities of expertise at local and sectoral levels and creating new technical resources to support change. Such intervention pursues innovation not emulation. The 'high road' is defined as one in which organizational structures reflect both creativity within the workforce and interaction with external knowledge and experience. Organizations need to draw on good approaches from the wider world to generate ideas and inspiration, but they must also be able to interpret these examples by means of critical scrutiny, dialogue and open-minded experimentation.

Diffusion of innovative practice does not simply occur by publishing case study evidence of success. As in any other domain of innovation, diffusion is to a large extent dependent upon the infrastructure available to manage and to distribute knowledge. This is taken as self evident in the field of technology, where essential components of the infrastructure include :

- close cooperation between technology suppliers, users and knowledge centres in both the public and private sectors;
- intermediary organizations which help to customize general technological knowledge to meet specific needs;
- expert centres which integrate local and general knowledge within education and training initiatives.

Organizational innovation is directly comparable that of technological diffusion in this respect. Experiences from the Scandinavian countries

(Gustavsen, 1996) are illustrative here. They show that an innovative society needs specialized support structures, or "development organizations" to create the conditions for broad scale change. Such structures represent a coalition of interests and resources with shared values, capable of generating new synergies and momentum, and of giving a strategic direction to change. Critically however, such organizations are not conventional technology transfer agencies seeking to disseminate or apply a defined approach. Rather the emphasis must always be on creating contexts (both internal to the company and within its wider environment) able to animate and sustain innovation.

In creating new capacity, essential targets for public policy include :

- building new bridges between research institutes and practitioners to ensure both a strong knowledge base for organizational change and the incorporation of concrete experience within research programmes;
- creating new centres of excellence at regional or sectoral levels (for example the new *Istituto per il Lavoro* in Emilia Romagna) with a commitment to the active resourcing of innovation in the workplace;
- mainstreaming work organization within the activities of business support centres, technology transfer agencies and social partner bodies, many of whom have insufficient appreciation of its impact on competitiveness and little access to appropriate knowledge or expertise.

Even in countries with long established national policy frameworks and with strong institutional capacity, it is not clear that the knowledge and expertise generated is widely distributed or accessible. In Sweden between 1990 and 1995 the Work Life Fund was responsible for the expenditure of 30 billion Kronor on 25000 different workplace innovation projects. Yet company and project data was not systematically collected, packaged and disseminated in a way which makes it subsequently accessible to change agents. As one evaluator suggested, the Work Life Fund may have "thickened the soup" of management knowledge of work organization. But (as with the Fund's counterparts in several other countries) there was no active strategy for longer-term knowledge management and dissemination. Likewise in England the comprehensive network of local *Business Links* which provides business development support to SMEs rarely addresses work organization as an issue for company competitiveness. Comparable shortcomings can be found among the business support infrastructure in most EU countries. Similarly many universities still perceive themselves to be above the regional development process and fail to build bridges to local policy makers.

To address these gaps, rationalization of knowledge structures and the resourcing of workplace innovation is of growing importance in several European countries. In Sweden, the task of wider dissemination has been taken up by innovative regional or sectoral bodies such as the University of Halmstad who have employed researchers and consultants previously involved with Work Life Fund initiatives. Elsewhere, for example, the Institut Arbeit und Technik in North Rhine Westphalia is supported by the regional government and helps to ensure that an organizational perspective exists within strategic policies for employment and economic development. Initiatives also exist in other German regions including the Free City of Bremen, where the programme is grounded in a partnership between local government, the university, social partners and the Federal Work and Technology agency. Likewise in France the national agency ANACT has instigated a number of regional ventures in partnership with local actors. Each of these examples demonstrates the relative potency of regional measures in reaching and resourcing firms, increasing effectiveness through enhanced customization and targeting (European Work & Technology Consortium, 1996; 1998).

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- **The new labour market and the third industrial revolution**
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