

Employee participation and company performance: a literature review

Government policy promotes employee participation as a means of improving company performance, particularly by changing employees' attitudes and improving the work environment. While there is some evidence from the literature that participation can have a positive effect on companies' financial performance and the working environment, a significant body of work also questions these links. In their analysis, Juliette Summers (University of Stirling) and Jeff Hyman (University of Aberdeen) found that:

- The effects of participation schemes vary with the environment into which they are introduced. An insecure workplace environment may induce employees' compliance with participation measures, but may not achieve the commitment needed for attitude changes.
- Links between participation and attitude change appear to depend on the degree of influence granted to employees under participation measures. Low degrees of perceived influence are unlikely to produce positive results. However, middle management appears to resist participation initiatives which are perceived as reducing their influence or authority, thus posing an obstacle to the success of participation programmes.
- A combination of financial and work-related participatory measures can have a positive impact on company performance as employees do not all react to participation initiatives in the same manner. Some respond well to financial initiatives and others to more work-related elements.
- Assumptions that participation measures affect all employees identically, regardless of gender, race, age and contractual status, can amplify social disadvantage. Disadvantaged groups, such as older workers, disabled people and those with caring commitments, may have only a restricted voice at work.
- In terms of the work-life balance and family-friendly working, employees' voices remain muted. They tend to have a weak collective voice in larger organisations, whereas in some smaller firms individuals can sometimes negotiate flexible working arrangements.
- The researchers conclude that a combination of participation and welfare measures (such as equal opportunities and family-friendly policies) appears to enhance organisational performance and the quality of working life. Policy support should focus on union recognition and activity within a human rights framework, since this can positively influence employees' behaviour towards organisational goals.



Background

Economic changes in recent decades have required employers to seek more efficient and flexible means of production. Deregulation and privatisation have also significantly altered the UK's industrial relations climate, with a decline in trade unions' influence and membership. Mirroring this has been the growth in 'new' forms of work-related participation by employees, under the banner of human resource management and associated programmes and strategies for partnership and high commitment.

Governments must balance the needs of a competitive economy with the welfare of their citizens. A change in political climate has seen social partnership currently being promoted by all interested parties. Reflecting this change, the inclusion of trade unions in government consultation exercises is significant.

Against this background, the three main rationales for introducing employee participation are based upon different economic, social and political assumptions:

- *Economic* – changes in employees' attitudes and behaviour are achieved through financial participation, by offering employees a stake in the firm. Employees' association with management values and goals is thereby increased, and they are more motivated and committed to achieving those goals.
- *Social* – by catering for employees' social needs, through improved job security and satisfaction and quality of working life, higher performance is achieved. Alternatively, satisfying social needs can be treated as an end in itself.
- *Governmental* – current UK policy is to improve national economic efficiency while also improving the experience of work for employees.

This study formed part of the Joseph Rowntree Foundation's Work and Opportunity programme. The researchers reviewed the literature on employee participation.

Does participation work?

Not all the literature agrees on the universal, positive effects of participation. Some suggests that participation may have no effect or even negative effects on performance. However, it is difficult to discern a definitive pattern. Lack of consistency in the outcomes of participatory measures suggests that schemes are not isolated from the effects of the external economic, political and social environment.

Attitude change

Participatory measures such as teamworking and high-involvement work practices demonstrate improvements in performance, but can also have less positive outcomes for employee and social well-being. Performance changes may occur because participation leads to changed attitudes which lead to higher performance.

Alternately, changes to behaviour and performance may be achieved not through attitude changes but through fear and an insecure or intensified work environment.

One explanation for these contradictory results is that participation schemes are sometimes introduced as part of restructuring packages. When employees are faced with an *insecure environment*, participation may induce compliance and not the attitude changes necessary for employees' commitment to the enterprise. If this is so, behavioural changes may not be of the order anticipated.

The *degree of influence* accorded to employees is also important. Low levels of participation with little employee autonomy have been identified as a reason for disappointing results. Where employees' expectations have been raised by introducing participation, but there is little real improvement in employee influence, workers may express resentment and dissatisfaction. Where participation is only from the top down, workers may feel that they are being lectured and not listened to. Even where participation is from the bottom up, workers may feel that management is using their ideas, with no return seen by employees.

High levels of participation also have their own problems. Some authors claim that employees do not make hard decisions, opting for outcomes that maximise income, not profit. Others claim that employees are not able to discipline co-workers, and that decision-making takes too long. From the management perspective, high degrees of employee influence may mean that managers' input in decision-making is reduced. Whether from concern that their authority is being compromised or through dilution of the decision-making process, this may result in reduced competitiveness.

Participation can also be categorised as *individual versus collective*. Individualised forms of participation may clash with existing collective arrangements and fail to induce a harmonious climate. Concerns have also been expressed over individualised financial participation, and a fall in share prices could make it harder to attract high-quality staff. Collective participation, on the other hand, can work with existing labour-relations channels and attitudes in a productive way. The role of trade unions therefore continues to be significant.

However, collective participation is no guarantee of positive attitude change. Management also has to accept the ethos of participation, and middle and supervisory management is a particularly difficult group to influence.

Combining participation measures

The potential for positive impact on performance seems to arise when participation measures are used in combination, either as financial and work-related participation, or as representative and direct participation. Either combination may act upon employee perceptions, encouraging high-trust relations within the workplace

and allowing employees with different motivations to enjoy the benefits of participation. Employees are not a homogeneous group responding identically to participation initiatives. Different employees have different motivations: some respond to financial incentives and others to more social or work-related ones. This is why a combination of financial and work-related participation appears to have a positive effect on performance.

Transferability

A further issue is the transferability of participation schemes, particularly between large and small firms. It is uncertain whether participation schemes suitable for large firms will have positive effects in smaller companies, or whether participation measures can be transferred between industrial sectors and even between different national conditions. For example, the success of Japanese profit-sharing and other involvement techniques has been accounted for by Japan's unique culture, which emphasises mutual obligations by employee and employer.

Workplace equality

Questions arise concerning the benefits of participation measures to *workplace equality*. Work-related participation can place a premium on social factors such as ability to communicate and the time available to commit to participation. Participation can therefore amplify social advantage and, by the same token, social disadvantage; for example, caring responsibilities may mean that some employees have relatively less time to attend meetings.

In addition, some schemes may be based upon questionable assumptions about employees – for example, that women are sometimes less committed to work and perhaps less willing to participate. However, a number of studies have refuted this assumption. Other potentially excluded groups also suffer from amplified disadvantage, including ethnic minorities, single parents, agency workers and temporary workers, with possibly limiting effects on their capacity and opportunity for participation.

Discrimination

Less advantaged groups and individuals, such as older workers, ethnic minorities and disabled people, may have a *restricted 'voice'* within the workplace. Coupled with greater employment insecurity, this can permeate workers' performance through frustration and impotence, with a negative impact on both organisational performance and quality of working life.

The evidence indicates that participation schemes in tandem with welfare measures – such as equal opportunities and family-friendly policies – improve organisational performance and the quality of working life. By contrast, perceptions of unfairness have a negative impact.

Employee participation and family-friendly working

Some studies which have examined the business consequences of implementing family-friendly employment policies have found benefits in doing so. Others have tried to determine whether employees have a voice over work-life issues, and how instrumental it might be in establishing family-friendly employment policies.

Employees appear to have a voice of some kind in larger organisations. It tends to be collective, and expressed through trade unions or staff associations. Smaller enterprises typically lack collective means of expression, though there can be direct communication between individual employees and their employers over flexible working. Some studies have reported individuals negotiating informal arrangements with their managers in small and medium-sized enterprises to suit their individual circumstances, but not all employees have a powerful enough voice to achieve this.

Family-friendly policies appear to be more widespread and deeply embedded in enterprises which recognise unions, though this association does not imply that unions have a more effective voice. Various studies have confirmed the low-key role of trade unions. Consultation – even with and among line managers – also appears to be rather restricted, with the possible exception of health services, where there is an organisational cultural tradition of consultation.

However, the major factor influencing employers to implement or extend family-friendly policies appears not to be collective or individual employee pressures, but labour-market conditions backed by minimal statutory requirements.

The management of time is an essential workplace process over which employees – especially those with domestic responsibilities – need a measure of control in order to combat tensions between the demands of work and home. Despite some softening of the political climate towards trade unions and scarcity of labour in some sectors, there is little evidence that employees, collectively or individually, have been able to make any significant impression on the work-life agendas of companies, even with evidence that there can be a business case for such policies. It also seems that some managers continue to adopt a gendered and possibly marginalised perspective of work-life issues.

Research has also shown that long working hours – another major dimension of work-life conflict – have scarcely been touched by the Working Time Regulations or high-profile concerns expressed in the media and elsewhere. In terms of the work-life balance and family-friendly working, the evidence suggests that the voices of employees remain muted.

Policy implications

The extent of current political support for employee participation is mixed. At times it appears unco-ordinated or even contradictory, as evidenced by the Government's ambiguous stance towards greater European influence over participation practice and work reforms such as the Working Time Directive. In addition, work-related participation policies focus on efforts to promote collective (though not necessarily trade union-based) participation through measures such as social partnership, while financial participation legislation leans towards individualised programmes. Current policy appears to be trying to appease both employers' and to a lesser extent trade union aspirations, though initiatives to date seem to point to the former direction.

This apparent lack of co-ordination of policy will have a disproportionate impact on small firms. Small firms are less likely to introduce work-related participation measures than larger companies, therefore providing few opportunities to access the positive effects of combining participation schemes.

On top of this, the Employment Relations Act 1999 works against the development of collective participation in small firms through the exclusion of enterprises with 20 employees and under from union recognition rights. This possibly excludes up to five million workers in the UK. Since the quality and quantity of welfare policies are associated with trade union presence, small firms and their employees could be missing out on the positive effects of combining participation and welfare schemes. Furthermore, the introduction of European Works Councils (EWC) applies only to large, complex enterprises with specific cross-European operations. Here, policy needs to focus on the training of EWC delegates in order to realise the positive effects of participation.

There are also some areas where the reach of policy is limited. Participation measures are not isolated from the effects of the external environment. Economic fluctuations have an impact on share prices, for instance,

and the voluntary nature of many participation schemes means that they are vulnerable to cost-saving exercises. In addition, there are discrepancies between how a policy is conceived at national or organisational level and how it is interpreted at company or workplace level.

Conclusion

The researchers conclude that combinations of participation and welfare measures (such as equal opportunities and family-friendly policies) appear to enhance both organisational performance and the quality of working life. Policy support should focus on union recognition and activity within a human rights framework, since this can positively influence employees' behaviour towards organisational goals and employer behaviour toward their employees.

One visible approach that combines participation with welfare is trade union presence and recognition. There is strong evidence that union recognition improves the scope and scale of welfare policies – such as family-friendly employment – within organisations, though not necessarily their operation at workplace level.

Given the findings from the literature review, policy-makers should be especially concerned about the policy implications for participation in terms of potentially excluded groups. This is especially the case since small firms (which are particularly affected by the current lack of policy co-ordination) employ a disproportionately high population of both women and ethnic minorities. Ignorance of these differences within the workforce could lead to participation schemes that undermine equality of opportunity within the workplace.

About the project

The study, by Juliette Summers (University of Stirling) and Jeff Hyman (University of Aberdeen), reviewed recent published research in the area of employee participation. In addition, current policy proposals were consulted in the search for evidence of links between employee participation and company performance.

For further information

The full report, **Employee participation and company performance: A review of the literature** by Juliette Summers and Jeff Hyman, is published by the Joseph Rowntree Foundation as part of the Work and Opportunity series (ISBN 1 85935 298 7, price £15.95). You can also download this report free from www.jrf.org.uk (ISBN 1 85935 299 5).

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