JOSEPH ROWNTREE FOUNDATION

REPORT

REWARDING WORK FOR LOW-PAID WORKERS

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The UK's problem of in-work poverty is only partly addressed by pay rises – so what can employers do to improve the quality of employees' working life without damaging bottom-line performance?

This report examines how human resources and development (HRM/D) practices could help tackle in-work poverty, and assesses the business case for their adoption:

- HRM/D practices offer financial returns through higher productivity, better organisational performance, and lower labour costs and absenteeism, while boosting job satisfaction and well-being;
- Training, development and flexible working can improve productivity and employee motivation, but the relationship is complex and depends on the effective deployment of skills;
- Not all aspects of HRM/D practices are beneficial to employees. Genuine employee involvement in decision-making is important;
- Although the business case for HRM/D is by no means a 'no-brainer' for employers, more should be done to promote 'Good Jobs', supported by practice advocacy and better leadership.

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EXECUTIVE SUMMARY

In-work poverty is an increasingly significant problem in the UK, and the number of people living in households in poverty where someone works is now larger than the number in households where no one works. Low pay is an important part of the explanation for in-work poverty.

Low pay is mostly concentrated in a few labour-intensive sectors of the economy, and is especially prevalent in relatively small, private-sector service provider organisations operating in either very price-competitive markets or as contractors to public authorities that are subject to tight budgetary constraints. Low-paying sectors are diverse, typically containing a mix of large, often highly profitable, household-name organisations individually employing large numbers of workers – including major supermarkets and fast-food chains – but with the bulk of workers employed in a multitude of smaller organisations. These latter types of organisation in particular tend to operate on the basis of low-cost/low-price business models, survive on narrow profit margins, and are particularly sensitive to increased labour costs.

Employers in some sectors, such as large retail organisations, might well be able to absorb the magnitude of increase in the pay bill necessary to bring about a substantial reduction in in-work poverty. However, this is likely to result in a significant profit squeeze for a large number of low-paying organisations, and could even result in some reducing their workforce. Voluntary approaches to increasing pay – such as introducing the Living Wage – are less likely to succeed in these cases. It is therefore worth exploring other ways in which employers can address poverty among their workforce in ways that do not involve a significant increase in pay levels. For example, if employer practices can be demonstrated to reduce employee stress, assist progression in work and boost income in ways other than through direct pay, it may be that they can have a positive impact on staff experiencing poverty or at risk of poverty. Furthermore, if a business case can be constructed for 'making bad jobs better', it may be possible to persuade more businesses to tackle poverty among their workforce.

This assertion provided the starting point for this report, which investigates the conceptual and empirical basis for the supposed business case. This involved a literature review of evidence that would indicate that the adoption of certain human resource management and development (HRM/D) practices[1] would both improve the quality of working life for low-paid employees and the bottom-line performance of low-paying organisations.

At a conceptual level, the business case is derived from a number of typologies used in business studies and personnel economics. These include High Performance Working (HPW), Employee Engagement (EE), Good Work (GW), Corporate Social Responsibility (CSR) and Total Reward (TR).

These typologies in various ways stress the importance of a clear and consistent sense of organisational purpose to inspire employees, combined with the use of HRM/D practices that enable and incentivise employees to most effectively pursue that purpose. To date these concepts have rarely featured in the context of debate on in-work poverty and how they might be able to contribute to tackling poverty.

The report examines evidence to address two broad questions that arise from these concepts. First, how strong is the economic imperative for organisations to adopt the kinds of HRM/D practices associated with HPW and EE? Second, do HRM/D practices improve both working conditions and the bottom-line performance of organisations? In addition, the report considers which HRM/D practices might be most valued by employees experiencing poverty or at risk of poverty.

In attempting to answer these questions, the report considers analytical issues that complicate research on the links between HRM/D practices, employee behaviour and organisational performance outcomes, and the difficulty this causes when trying to draw generally applicable conclusions that might be relevant to low-paying organisations. Despite some important caveats and reservations, the breadth of available research offers enough compelling evidence to underpin the business case for organisations to adopt HRM/D practices to support HPW and EE. However, evidence relating to the effectiveness of HPW or EE strategies or individual types of HRM/D practice is neither strong nor unequivocal enough for it to offer universal recommendation (see Table 1 below). In organisational slang, the case for wider adoption of HRM/D practices is *not* a 'no brainer'.

As well as looking at HRM/D in general, the research also examined some specific practices: training, development and progression at work, flexible working and fringe benefits. Table 1 summarises the evidence for the extent to which a business case can be made for these practices, and how far they are likely to benefit employees. The benefit to employees that may be experiencing poverty is often difficult to assess because most studies do not look at the question in this way. As a result, the report often has to settle for considering the impact on employees in general.

Table 1: Summary of benefits of HRM/D practices

Practice	Benefit to organisational performance	Benefit to employees
HRM/D HPW systems (where particular practices are not used in isolation but combined with an overall management strategy to improve individual/ organisational performance)	Generally positive impact on employee performance, but magnitude of effects on cost reduction, productivity, profit and overall organisational performance uncertain because dependent on various contingent economic/ institutional factors. The latter include conditions in labour markets, nature of employment regulations, quality of leadership and management in organisations and effective practice/implementation	Potentially beneficial to job satisfaction and employee well-being, but effect uncertain because dependent on quality of leadership and management in organisations, degree of worker discretion in performing job tasks and degree of genuine individual or collective employee involvement in organisational decision-making (i.e. strength of 'employee voice')
Workplace-based/ job-related training (training that is either fully or partly funded and facilitated by employers)	Generally positive effect on productivity and employee engagement, but incentive to invest in training depends on product/service market orientation of organisation. Similarly, overall performance impact depends on how well training is integrated with other HRM/D policies (which affects the use of skills, in the jargon 'skill utilisation'), and the return on employer investment depends on subsequent employee mobility	Opportunity to train may enhance job satisfaction, employee engagement and well-being, but any effect on employee productivity and performance depends on the quality and level of training, while the effect on employee employment and pay progression depends on pay structures and systems within their current organisation and/ or the extent to which skills attained can be transferred to other organisations/departments
Job rotation (enabling an employee to experience more than one job role in an organisation)	Generally positive where it improves ability of employees to more easily switch work roles ('functional flexibility') and move from job to job when vacancies arise (reducing recruitment costs), but requires sufficient number of jobs in organisation and variation in job roles to be worthwhile	Has potential to enable employees to vary work routine, which can reduce monotony and enhance well-being, and also to acquire new skills or experience which may aid subsequent job mobility. However, overall effect on well-being depends on degree of employee choice over how rotation is conducted
Flexible working (various ways of working that help organisations match employee hours to changing work needs and help employees match hours of work to their individual/ family preferences)	Uncertain because dependent on organisational context, so any generalisable cost-benefit assessment indeterminate; also depends on whether introduced as a non-wage employee benefit or with clear business outcomes	Generally positive if freely chosen and appreciated by most employees, but there is a potential downside, especially if certain forms of flexible working result in limited hours or types of work that restrict opportunities for subsequent job and pay progression (for example if part-time employees receive less training)
Fringe benefits (an array of non-wage financial and non-financial aspects of employees' remuneration)	Potentially beneficial effect on recruitment and retention (thereby helping to reduce turnover costs) and employee motivation, but effect likely to vary according to type of benefit provided. Only limited evaluative evidence of effectiveness	Uncertain whether fringe benefits add to employees' total reward or substitute for pay, though if employees value products of fringe benefits more highly than the cash equivalent, this may increase their effective reward and well-being

The strength of the business case is particularly questionable for organisations that have no apparent difficulty in hiring people into low-paid jobs that require little in the way of formal skills and in which 'hard', job-related skills can be acquired relatively quickly and cheaply. For low-paying organisations as a whole, the strength of the imperative for change is likely to depend on the specific markets organisations choose to operate in and will be stronger the more the balance of consumer preference is tilted towards consideration of quality rather than price. The decision to act on the imperative may also depend on the foresight or quality of leadership and management in low-paying organisations, a factor which might ultimately be as important a determinant of change as the business case for improved HRM/D.

Numerous case studies identify both aspiring small employers and large corporate employers (for example large retail or fast-food employers) situated within low-wage sectors as keen to learn the lessons of HPW and EE. Organisations such as these may not explicitly aim to become 'anti-poverty employers' but are most likely to be responsive to ideas on how to improve working conditions for their employees, if not also to calls for the Living Wage.

Practice advocacy might help support these organisations to move in this direction. This could involve establishing a campaigning vehicle to enable aspiring employers to form a 'coalition of the willing' in order to promote the case for Good Jobs, including a medium-term (if not immediate) aspiration to voluntarily raise minimum pay rates to the Living Wage. Practical change strategies would include improvements to leadership and management, especially HR and people management skills; emphasis on skills training and career ladders; flexible working; and in all cases close consultation and involvement of employees in the change process. Advocacy of such strategies might be undertaken by organisations willing to be Good Jobs champions or mentors.

As for those organisations currently reliant on low-paid workers, with relatively little commercial need for HPW or EE and no aspiration for change, there is, on the basis of the business case evidence compiled so far, little reason to assume that they will be any more amenable to becoming 'anti-poverty employers' than they would agree to pay a Living Wage. Given that these are precisely the types of organisation that sit at the heart of the UK's low-pay problem, and also at least to some extent the problem of in-work poverty, this poses an obvious challenge to practice or policy advocacy.

It must be acknowledged that the current state of affairs in what some call 'low-wage Britain' is the outcome of a number of deep-seated structural and institutional features of our economy and society. Consequently, voluntarism faces an uphill struggle if it is to successfully reduce the relatively high incidence of low-wage/low-quality employment in the UK economy and genuinely help combat in-work poverty.

1 INTRODUCTION

The evolution of the UK's employment and welfare policy model has resulted in a gradual erosion of the value of benefits paid to people without work, ever greater pressure on benefit recipients to seek work and accept the first available job offer, and payment of tax credits to people in work to 'make work pay'. The aim is to reduce structural unemployment and the poverty this causes. However, the model's ability to combat poverty is constrained by the UK's relatively high and rising incidence of low-paid employment and contiguous problem of in-work poverty. As the Social Mobility and Child Poverty Commission (2013: 6) recently concluded, 'a comprehensive approach to tackling in-work poverty is the missing piece of the Government's policy jigsaw'.

Low pay is an important part of the explanation for in-work poverty, although it should be noted that it doesn't tell the full story. Analysis of households experiencing in-work poverty finds just over half of such households contain someone who is in a low-paid job (Barnard 2014). Insufficient hours and family structure are also important parts of the story. Furthermore, just as not all people experiencing in-work poverty are low paid, not all low-paid people are experiencing in-work poverty. Nonetheless, reducing the incidence of low pay would make a contribution to addressing the problem of in-work poverty.

More than 5% of jobs (around 1.5 million) are what the Low Pay Commission (LPC) describes as minimum wage jobs (paid at, below or up to five pence above the hourly National Minimum Wage (NMW)) (LPC 2013). The NMW is currently (from October 2013) £6.31 per hour for adults aged 21 and over, £5.03 for 18–20 year olds, and £3.72 for 16–17 year olds.

Approximately 20% of employees (5 million) earn less than the calculated Living Wage (£7.65 in 2013/14, but £8.80 in London where living costs are higher), with a similar proportion earning less than the commonly used low-pay threshold for OECD countries (i.e. less than two-thirds of the median gross hourly earnings of all employees (Pennycook & Whittaker 2012; Whittaker & Hurrell 2013). This places the UK close to the top of the OECD league table of economies with a high incidence of low-paid workers. This is second only to the United States (around 25%), similar to Canada, Ireland and Germany and 4 percentage points higher than the OECD average. Not surprisingly, therefore, at least 4 million of the UK's working-age adults are in low-income working households (Lawton & Pennycook 2013; Devins et al 2014 forthcoming), albeit that the relationship between low pay and in-work poverty is contiguous rather than direct.

Low-paid work may provide a couple without dependants with enough income to avoid poverty. Similarly, low-paid young people may avoid poverty if they live with their parents and pool household incomes. Young people have a very high incidence of low pay (at present accounting for one in six of all low-paid employees), with those aged under 21 eligible only to a lower rate of the NMW. But according to the Office for National Statistics (ONS), 29% of UK men and 18% of UK women aged between 20 and 34 live with their parents (figures for 2011, ONS 2011). Multi-earner households with one or more members in low-paid employment may avoid poverty, whereas conversely a single earner in a reasonably paid job might suffer in-work poverty if he or she has one or more non-working dependants. Indeed, figures compiled by the New Policy Institute for JRF find that 44% of adults in working poverty aren't low paid themselves (Barnard 2014). Similarly, for many young people, a period of low-paid employment is followed by progression to better paid work, with the lower rate of NMW thus generally deemed acceptable, assuming this encourages employers to offer young people an initial foot on the job ladder.

Nonetheless, more than half (54%) of the UK's low-paid workers live in low- to middle-income households (i.e. households in deciles two to five of the working-age income distribution, excluding those who get more than 20% of their income from means-tested benefits; Pennycook & Whittaker 2012). One in five low- to middle-income households are reliant on a main earner in low-paid work, and one in three low-paid workers are in the prime of their lives (aged 31–50, ibid.). So while low pay per se may not be the sole determinant of in-work poverty, and not all people who are low paid today will always be low paid, it is clearly a very significant contributory factor, and for a substantial number of people it can be a life-time experience. In addition, if the experience of low-paid employment is, as can sometimes be the case, also one of short-lived or insecure employment, individuals are at risk of being trapped in a 'low-pay, no pay' cycle and suffer regular bouts of both in-work and out-of-work poverty.

Consequently, addressing the problem of low pay is central to the numerous possible policy responses to in-work poverty. Well-known measures include raising the statutory NMW, encouraging or incentivising employers to voluntarily pay employees a Living Wage, and education or skills training measures to improve the market value of low-paid individuals. In addition, government can raise income tax thresholds for low-paid workers or increase tax credits in order to boost overall income. Yet while all these approaches are important, they also have limitations.

Tax credits for the low paid are expensive – especially in a period of fiscal austerity – as well as being an implicit state subsidy to low-paying employers (it is calculated that if the Living Wage were paid universally in the private sector, the government would at present save £3.6 billion from increased tax revenues, higher National Insurance contributions and reduced spending on tax credits to the low paid; Plunkett & Hurrell 2013). Raising the tax threshold (i.e. the amount people can earn before they pay any income tax) is popular but also problematic. For example, the policy of the present UK coalition government of raising the threshold to £10,000 is both expensive – around £10 billion per year by 2014-15 – and doesn't benefit workers already earning below the threshold (House of Commons Library 2013b). Although there is no evidence that the NMW has been harmful to employment in the UK at the levels set since it was first introduced in 1999, increasing pay rates significantly at the bottom end of the labour market, say towards the Living Wage, nonetheless carries a potential risk to employment. And there is no guarantee that higher skills will automatically translate into higher pay. Clearly there are no easy answers.

Limits to policy

The limits to policy primarily stem from the characteristics of organisations with the greatest propensity to employ low-paid workers. Pockets of low pay are found in all sectors of the economy and in organisations of all sizes. Moreover, ever more intricate supply-chain relationships mean that ostensibly high-paying organisations may also make use of low-paid contract workers. Nonetheless, the incidence of low pay, as for example shown by data on the NMW, indicates the nature of the core underlying problem.

According to the LPC, the hospitality, retail and cleaning sectors together account for over half (54%) of minimum wage jobs, while social care, childcare, transport, food processing and storage each account for between 3% and 4%. Evidence on the incidence of low pay in Britain is also available from the Workplace Employment Relations Survey (WERS). Six of these large-scale, government-sponsored surveys have been conducted since 1980. The most recent survey, relating to 2011, reports on all workplaces with five or more employees (see van Wanrooy et al 2013.). The 2011 WERS finds that in one in six private-sector workplaces, at least a quarter of employees were paid an hourly rate at or below the adult NMW (the proportion is as high as two in five in the wholesale and retail sectors; and one in four in the hotel and restaurant sectors). The corresponding proportion in the public sector is 1 in 40.

The picture is clouded somewhat by the fact that low-paying sectors are themselves diverse, typically containing a mix of large, often highly profitable, household-name organisations individually employing large numbers of workers – including major supermarkets and fast-food chains – but with the bulk of workers employed in a multitude of smaller organisations. And as the LPC notes, the incidence of low pay rises as the size of organisation falls: minimum wage jobs account for one in 20 jobs in large firms (250 or more employees) but one in twelve in small firms (10–49 employees) and one in eight in micro-firms (1–9) employees.

Low pay is therefore mostly concentrated in a few, labour-intensive sectors of the economy and is especially prevalent in relatively small, private-sector service provider organisations operating in either very price-competitive markets or as contractors to public authorities subject to tight budgetary constraints. These types of organisation, especially smaller firms, tend to operate on the basis of low-cost/low-price business models, survive on narrow profit margins, and are particularly sensitive to increased labour costs.

The fact that low pay is widespread in the economy but mainly concentrated in some sectors and types of organisation creates a quandary for policymakers. There are organisations, including large organisations in sectors with a high incidence of low pay such as retail, that could clearly pay substantially more to those they employ, either directly or through contractors, without this having any discernible impact on costs or profits. But what would be of little consequence for these organisations is at the same time likely to result in a significant profit squeeze for many low-paying organisations. Those that find this difficult – where raising prices means less business and they're unable to absorb costs through increased efficiency – may have little choice other than to cut the number of people they employ or the hours of work they offer simply in order to survive, to the detriment of low-paid workers themselves.

This explains why policymakers prefer to play safe and combine a modest NMW with tax credits for low-income households, and also why employers who struggle to cope even with the NMW might ignore calls to voluntarily pay the Living Wage, even if offered a temporary tax incentive to do so (as recently proposed by the Labour Party; *The Independent* 2013d). No wonder then that despite considerable success in 'abolishing extreme low pay' (to quote Sir George Bain, the first Chair of the Low Pay Commission), the NMW has failed to prevent an increase in the wider incidence of low pay in the UK. It is also no wonder that organisations most willing to sign the pledge on the Living Wage are large, highly profitable corporates in sectors such as banking and finance (Bain 2013).

Faced with this structural dilemma, the typical policy response is to emphasise 'skills' as a means of enabling workers to command a higher reward in the labour market. But while this is clearly the ideal solution in theory, in practice improving the quality of the available labour supply by way of enhanced education and training may not be enough to persuade low-paying organisations to adopt higher quality business models. They might simply proceed on the basis of 'business as usual' and either underutilise available skills (see Keep & Mayhew 1997) or where possible make use of groups more prepared to take low-paid jobs, such as migrant workers.

Complements to higher NMW or Living Wage solutions

Given these limitations, it is worthwhile thinking about what else employers might be able to do to 'make bad jobs better' in order to have a positive impact on the lives of employees experiencing poverty or at risk of poverty. For example, employer practices that reduce stress in the lives of their employees, support their progression or help boost their income in ways other than through direct pay could all have an impact on poverty. To this end, being an anti-poverty employer could extend beyond matters of low pay. If anti-poverty levers can be aligned with efforts to demonstrate to organisations the business case for 'making bad jobs better' in ways that do not just involve a significant increase in pay levels, faster progress might be achieved.

This possibility emerges from the observation that conditions of work as well as pay levels are also generally poor in low-paying organisations (ESRC; Mason et al 2008). There are few non-wage benefits and limited (if any) provision for staff training or skills development. The jobs performed range from the physically and psychologically arduous to the relatively easy but dull or repetitive. Fluctuations in demand for services make hours of work and incomes, if not the jobs themselves, subject to uncertainty, especially if workers are employed on zero-hours contracts. In small- and medium-sized organisations, employee relations with owners and managers can be highly personalised. There are usually no HR departments to influence management practice, nor recognised trade unions to balance management and employee interests.

When combined with low pay, factors such as these result in high rates of labour turnover in low-paying sectors of the economy and are generally considered detrimental to employee motivation. Given that labour turnover is costly and low employee morale can be detrimental to their productivity or overall organisational performance, it is thus contended that low-paying organisations could improve their financial bottom line by improving the working conditions of their employees.

The contention accepts that the changes to management or workplace practices needed to achieve this might involve some cost but the assumption underlying the business case is that any costs would be more than covered by the financial return from improved organisational performance. The broad assertion is thus that it is in organisations' own interest to improve the quality of low-paid employment by increasing the so-called total reward (i.e. the combination of financial and non-financial aspects of work) in low-paid employment. If such measures can be demonstrated to improve the performance of business, it should be possible to build a business case for organisations to make these improvements even if they consider themselves unable to offer significantly higher pay. If this can be shown to have a positive impact on the lives of people experiencing poverty or at risk of poverty, a larger number of employers could in effect take steps towards becoming 'anti-poverty' employers by managing their low-paid employees with due care and attention to the financial and non-financial pressures they face.

Scope of the project

The objective of this report is to test this assertion by investigating the conceptual and empirical basis for the supposed business case. This involves a literature review of evidence that indicates that the adoption of certain human resource management and development (HRM/D) practices would both improve the quality of working life of low-paid employees and the bottom-line performance of low-paying organisations. HRM/D encompasses an array of practices but most notably includes structured recruitment, training, staff development, performance management and appraisal systems, flexible working and fringe benefits. While the use of practices such as these will in many cases be formulated and overseen within organisations by specialist HR departments and HR professionals, they are generally implemented by senior managers and line managers. The use of HRM/D does not therefore necessarily require an organisation to have a designated HR department, as is often the case in smaller organisations, which is why the term 'people management' is increasingly used as a generic term for the way in which HRM/D practices operate in the workplace.

While the main focus is the business case, since this is likely to be the principal voluntary motivating force for change on the part of most organisations, the report is equally interested in the impact on employees, since it is this that will ultimately determine the quality of people's working lives rather than simply what they add to their employers' bottom line. Employer practices cannot be considered anti-poverty measures if they do not have a positive impact on the lives of employees living in poverty or at risk of poverty.

As a voluntary sector employer operating in the adult care sector[2], JRF is particularly interested in learning any lessons that might be applied in the sector in ways that would improve the quality of care as well as working conditions for employees.

Purpose of this report and the bigger picture

This report should be read as complementary to other JRF research on approaches to tackling in-work poverty. Advocates of a higher NMW or Living Wage will doubtless consider that solutions to in-work poverty that do not directly increase pay are a second-best option. After all, it's possible that a substantial pay increase for low-paid employees would have similar beneficial effects on recruitment, staff turnover, motivation and productivity (see McLaughlin 2007 for a review of discussion on this issue), and thus also at least to some extent pay for itself, so why not simply address in-work poverty at root?

It might also be argued that it is wrong to accept as a *fait accompli* the wider institutional context and policy choices that influence the incidence of low pay in our economy (see, for example, Coates 2013), as well as the constraints on a higher NMW and Living Wage that arise from the reluctance of consumers or taxpayers to pay more for some products and services.

Cross-border differences in the incidence of low pay between developed countries suggest that labour market outcomes are not the consequence of some natural tendency but instead bear the imprint of distinct economic and social policy models. For example, being employed in consumer services carries a much bigger risk of low pay in the UK than in most other advanced economies, some of which have built institutions, including more assertive minimum wage strategies, that encourage employers to create good-quality versions of these jobs (Plunkett & Hurrell 2013).

Ideas for institutional reform to combat low pay include a wider remit for the Low Pay Commission, giving it responsibility for investigating the causes, consequences and cures for low pay, including changes in employer practices, investment in skills development and dissemination of best practice (Resolution Foundation 2014). Alongside this would be a reconstruction of collectivism in workplaces and the establishment of a wage floor (perhaps linked to the Living Wage) through the process of public procurement (Coates 2013; see also Goodhart 2013). Corporate governance rules and financial reporting requirements might also be changed to encourage organisations to invest more in HRM/D practices.

These are valid points and important ideas that should be debated and tested. It is important to stress at the outset that the purpose of this report is to assess how various HRM/D practices might help alleviate the experience of in-work poverty as part of a wider battery of approaches to the problem, including those that raise thorny ideological issues related to public policy, employment regulation and the balance of power in the workplace. There is certainly no intention here to suggest that consideration of voluntary adoption of HRM/D practices diminishes the need for advocacy of higher pay or broader policy responses, an issue to which we will return when drawing conclusions from the review. The case for improving total reward in low-paid employment via voluntary means is nonetheless worth examining and itself opens up a wider debate on the degree to which associated improvements in organisational performance might themselves provide scope for higher pay, and to help determine whether instead a more regulatory approach might ultimately prove the only way to make real progress.

Structure of the report

The report has seven chapters:

Chapter 1 sets out the conceptual basis of the business case for improving
working conditions in low-paying organisations, considering the potential benefits for both employees and organisations.
Chapter 2 assesses the broad empirical basis for the business case.
Chapter 3 assesses the broad evaluative basis for the business case.

Chapters 4 to 6 examine the incidence and impact of management practices expected to be of potential help to low-paid employees as follows:

Chapter 4 – Training, development and progression
Chapter 5 – Flexible working
Chapter 6 – Fringe benefits.

Chapter 7 examines pay and workplace practices in the UK adult care sector in the light of the preceding discussion.

The report ends with conclusions.

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2 CONCEPTUAL BASIS OF THE BUSINESS CASE FOR IMPROVING WORKING CONDITIONS IN LOW-PAYING ORGANISATIONS

The conceptual underpinning of a business case for improved working conditions is derived from a number of distinct but closely related strands of thought which posit a significant positive relationship between HRM/D practices, quality of working life, employee behaviours and organisational performance.

Why HRM/D is said to matter

The view that it makes commercial sense to treat employees well is far from new and has echoes in the early 20th-century experience-based arguments put forward by Seebohm Rowntree amongst others (Rowntree 1921). But whereas early 20th-century business models, which essentially treated labour as a standardised input and variable cost, meant organisations could succeed without giving much attention to what Rowntree called 'the human factor', the emergence of a knowledge- and service-based economy since the late 20th century is said to have led to a greater onus on treating labour as an asset to be nurtured. The corollary is that HRM/D practices should not be thought of as non-wage labour costs that reduce profits but instead as akin to investments that offer a rate of return. In this sense, the adoption of HRM/D practices can be considered analogous to the use of a new technology. Hence also the switch from 'personnel' – seen as a necessary but cost-creating administrative function within organisations – to 'human resources' or 'HR'.

This shift in emphasis is the result of a confluence of changes in technology, globalisation and market pressures which have transformed production and employment requirements in developed economies. Global competition from emerging lower cost economies has undermined business models based on producing standardised products, so placing ever greater pressure on commercial organisations to move up market and adopt new technologies in order to compete on the basis of quality rather than solely on price. This has resulted in a sharp fall in demand for routine skilled and unskilled manual workers in manufacturing and heavy industrial sectors. However, this process of deindustrialisation has been accompanied by increased demand across all sectors for highly qualified knowledge workers and has also increased demand for less qualified workers, the latter mostly needed by organisations in expanding private-sector services.

The apparent imperative to compete primarily on product quality has focused attention on the HRM/D requirements of organisations that seek to gear themselves toward higher quality business models. Central to these required HRM/D practices are recruitment, training, development, performance management and appraisal systems that ensure organisations acquire, develop and make effective use of higher level knowledge skills, as well as identify the need for further skill acquisition and investment. But it's also posited that the consequences of structural change give rise to a broader 'talent imperative' – the need to make use of the full range of personal abilities people bring to their jobs, not just their acquired skills – which means that HRM/D practices are potentially important for all organisations, regardless of the business model adopted.

Implications of the 'talent imperative'

Although from an economist's perspective, knowledge workers and less skilled service-sector workers embody very different amounts of human capital, in one key respect both types of worker can be distinguished from the types of worker employed in the industrial sectors that were predominant for most of the 20th century. Whereas the latter were largely required to perform routine repetitive tasks, employers require knowledge workers and less skilled service workers alike to apply the personal touch in their work so as to enhance product or service quality. Knowledge work, for example, usually involves the exercise of creativity rather than the routine application of an acquired skill. Similarly, most service-sector workers, even those performing ostensibly low-level jobs, are likely to have some face-to-face interaction with customers or clients. Moreover, in most modern workplaces, teamwork, and hence the ability of workers to communicate and collaborate, plays an important role in the production process.

The combination of human capital and the personal touch in the workforce is nowadays commonly referred to as 'talent'. In popular parlance, the latter term is associated with some exceptional, often innate, quality possessed by individuals. By contrast, in the context of management theory, 'talent' refers in somewhat more mundane terms to the overall acquired and non-acquired skill sets of individuals, with the pure human capital aspect sometimes described as 'hard skill' and the personal aspect as 'soft skill'.

The term 'talent' is increasingly preferred to 'human capital', partly in order to demonstrate that organisations value more than just formal qualifications or accredited skills, but primarily to emphasise the key contribution of talent in the broader personal sense to organisational performance right across the product or service value chain.

However, organisations reliant on talent to succeed also have to cope with the obvious reality that the mix of personal attributes they value is embodied in individuals, who usually have discretion over where or how enthusiastically they apply their talent in the labour market. Consequently, it's said that organisations wishing to succeed at any point on the product or service value chain (and hence regardless of their use of formally skilled labour) need HRM/D practices that motivate employees to work hard and make the most of their talent. The imperative here is for practices that affect how people experience work, their propensity to leave their organisation and/or their willingness to 'go the extra mile' for their organisation.

High Performance Working and Employee Engagement

Conceptual typologies used to describe the organisational requirements involved in making maximum use of talent include variations on the long-standing High Performance Working (HPW) model and more recent Employee Engagement (EE) model. Differences exist within and between these models but most revolve around the importance of a clear and consistent sense of organisational purpose and values to inspire employees, as determined by senior management, and the exercise of appropriate HRM/D practices, as facilitated by both HR managers and line managers, that enable employees to most effectively pursue that purpose.

The principal dividing line is that human capital – hard skill – is typically more central to HPW than EE models. This makes the latter more easily applicable to a wider range of organisational settings, though both stress the particular value of frameworks of HRM/D practices that provide employees with the ability, motivation and opportunity (sometimes abbreviated to AMO) to work effectively.

The specific HRM/D practices associated with ability, motivation and opportunity in HPW and EE frameworks vary according to organisational need but are normally said to encompass job content, degree of work autonomy, workplace environment including regular two-way communication between employees and management, flexible working, training opportunities, sense of fair treatment, and support in coping with pressures outside the workplace, notably caring responsibilities. The two-way communication elements of these frameworks means they are sometimes alternatively called High Involvement Work frameworks, although these do not necessarily require formal trade union participation. Pay also plays a role in all these frameworks as a mechanism for incentivising and motivating employees.

Individual HRM/D practices are considered important not only in themselves but also when combined as mutually reinforcing bundles. Practices can have both direct and indirect effects. With regard to the provision of training, for example, there is a potential 'double-whammy' for organisations: productivity is potentially boosted directly by the investment in skills and indirectly via the effect of providing training on employee engagement, assuming that employees view training as a signal of how their organisation values them as well as being advantageous to their longer term career development.

Good Work, Corporate Social Responsibility and Total Reward

Most significant of all from the perspective of this report, while the primary objective of HPW or EE is improved organisational performance – the bottom line – the fact that ability, motivation and opportunity are built on a framework of HRM/D practices that operate via improvement in the quality of working life creates synergy between HPW, EE and what is sometimes referred to as Good Work (GW) (Isles 2010; Good Work Commission 2011). The Good Work Commission, established by The Work Foundation, describes the concept of GW as 'inherently ambiguous', with some definitions emphasising the interests of employees while others focus on what it means for employers or the wider community. According to the Commission, for employees GW concerns the development of skills; choice, flexibility and control over working hours and the pace of work; trust, communication and the ability to have a say in decisions that affect them; and a balance between effort and reward. For employers, GW is about engaging employees to encourage their contribution to organisational success. For the community, GW is about organisations being socially aware, ethical and sustainable.

Given all these aspects, GW is therefore often associated with forms of Corporate Social Responsibility (CSR) , a term popularly equated with business philanthropy but more accurately described by the Association of Certified Chartered Accountants (ACCA) as 'all of a company's impacts on society and the need to deal responsibly with the impacts on each group of stakeholders: typically shareholders, customers, suppliers, employers and the community (both local and global' (ACCA, 2003: 7).

CSR challenges the conventional economic view – best summed up by Nobel Laureate Milton Friedman that 'the business of business is business'; i.e. any activity that detracts organisations from the pursuit of profit is likely to be both costly and detrimental to profit generation. From a workplace perspective, CSR is said to operate in a manner that echoes EE: a strong record of CSR improves an organisation's reputation in both product and labour markets – aiding recruitment, retention and customer loyalty – with the specific HRM/D and GW aspect boosting organisational performance, thereby increasing the profitable return to shareholders.

Moreover, because these HRM/D practices extend beyond those relating to pay, HPW, EE, GW and CSR serve to strengthen yet another management typology, normally referred to as Total Reward (TR). Total Reward emphasises the value to employees of non-pay aspects of employment as well as the financial reward on offer (World at Work, website).

Although pay systems play an important role in TR as means of incentivising workers to perform better, the typology nonetheless to some extent diminishes the significance of pay vis-à-vis other aspects of working life as an instrument for fostering EE. Indeed, there is increasing emphasis on non-financial rewards being a far more powerful lever of EE. As an unpublished note based on a JRF research project and prepared for an informal seminar on the care sector concludes, higher pay is unlikely to motivate staff to improve the quality of care on offer in the absence of an organisational culture that affords them value and status (Owen & Ferreira 2013).

Influence of conceptual frameworks

Taken together, HPW, EE, GW, CSR and TR form the foundations on which to build a business case for low-paying organisations to improve the quality of working lives of their employees. However, to date these concepts have rarely featured in the context of debate on in-work poverty, having been prominent mainly in discussion of ways of improving organisational performance, notably profit and shareholder returns, and productivity in the economy as a whole. Most of the related focus has been on improving performance by inspiring organisations to rise up the 'best companies to work for' rankings, this often being cited as a reason why some large employers in sectors such as retail choose to pay employees more than the NMW or offer an array of non-wage benefits to boost their reputation in the eyes of employees, potential employees, customers and the community at large.

Early protagonists included the Chartered Institute for Personnel and Development (CIPD), the professional body for HR practitioners, which has understandably long championed the case for increased investment in HRM/D, and the Chartered Management Institute (CMI) (Caulkin 2001; CIPD & Engineering Employers' Federation (EEF) 2003). Bodies such as Investors in People (IIP) and the Advisory, Conciliation and Arbitration Service (ACAS) have advocated variations on the HPW model, geared towards an emphasis on employee participation and human capital elements respectively (IIP 2001), while Business in the Community (BITC) champions Corporate Social Responsibility (BITC, website).

Such advocacy has also influenced policymakers and their social partners (HM Treasury 2000, 2001; Confederation of British Industry and Trades Union Congress (CBI & TUC 2001); EEF 2001). The UK Commission on Employment and Skills (UKCES) has highlighted HPW as a means of leveraging increased employer investment in human capital and reducing underutilisation of the existing stock of human capital (UKCES 2010a, 2010b). The Government Office for Science, through the Foresight Unit, has stressed the importance of good working conditions to mental well-being in the workplace and society as a whole (Foresight Unit 2008). Likewise the government-supported Macleod Review of EE, and subsequent independent Employee Engagement Taskforce (known as Engage for Success), have provided a forum for evidence-based advocacy designed to influence employer practice (MacLeod & Clarke 2009; Engage for Success 2012). Most recently, the Chief Executive of the Royal Society of Arts, Manufacture and Science (RSA) has suggested an alliance to foster EE that would promote a framework to enable organisations to receive the designation of 'Good Employer' (Taylor 2013).

Insofar as the case for HPW, EE, GW and TR has infiltrated discussion of low pay this has mainly been through encouraging low-paying organisations to increase staff training, in the expectation that improved employee productivity will result in higher pay. Despite this, there are echoes of these broader concepts in calls for change in workplace practices in some low-paid sectors, including the care sector, where employees undertake some of the most important, highly sensitive and difficult jobs in society but are generally accorded low status and often employed on very poor terms and conditions, and thus in some instances themselves experiencing all the problems associated with in-work poverty.

For example, the final report of the Commission on Dignity in Care for Older People (2012:13) appears to have had some concept of HPW and EE in mind:

> Caring for older people is skilled, demanding and often stressful work. Staff who are appropriately trained and who feel valued and empowered to make decisions will be the ones who support dignified care. Staff who are denied the right to training and development, who do not feel valued by their organisation, who are not encouraged by their managers, and who do not feel that they have the freedom to make the right decisions for patients and residents are far more likely to deliver poor care.

Moreover, the Commission (2012:13), without specifically mentioning staff pay, goes on to say:

> Care home workers need a rewarding working environment, which recognises good performance and is set within a sound career structure. This is integral to delivering dignified care.

This kind of aspiration is obviously laudable and impossible to disagree with, but given the obvious persistence of low-paying organisations operating on the basis of low-cost business models, in the care sector and elsewhere, the conceptual background to the business case raises two distinct sets of empirical questions:

First, how strong is the economic imperative for organisations to adopt the kinds of HRM/D practices associated with HPW and EE?

Second, do HRM/D practices improve both working conditions and the bottom-line performance of organisations?

3 BROAD EMPIRICAL BASIS OF THE BUSINESS CASE FOR IMPROVING WORKING CONDITIONS IN LOW-PAYING ORGANISATIONS

The first set of empirical questions relates to evidence on the extent to which HRM/D practices are used, and measures of Employee Engagement (EE).

Take-up of HPW practices

The starting point for economists is that organisations will seek to optimise their production processes, including the use of HRM/D practices, in order to maximise profits. If so, and assuming the absence of market failures that might prevent this, the incidence of use of these practices should reflect the underlying business case relative to their non-adoption. At the very least one would expect to see increased use over time if various market pressures were driving a change toward different patterns of optimisation.

The 2004 Workplace Employment Relations Survey (WERS) found that only one in five UK organisations were implementing high-performance HRM/D practices in a consistent way, with no sign of any increase since the previous survey in 1988 (Kersley et al 2005). Separate, large-scale survey research in the early part of the 21st century also found evidence of only patchy application of practices. Over 90% of organisations operated annual appraisals but only two-thirds offered employees flexible working opportunities and only a quarter organised staff into autonomous self-directed work teams (Sung & Ashton 2005).

Evidence of subsequent progress is mixed. The 2011 WERS finds that the percentage of workplaces providing induction training to new recruits increased from 78% to 82% between 2004 and 2011 (van Wanrooy et al 2013). But there was stability in the percentage providing on-the-job training to experienced employees, with one in five workplaces providing no training to these employees at all. During the same period there was no general increase in the provision of flexible working practices; indeed, the proportion of workplace managers who consider balancing work and family responsibilities as down to individual employees rather than the organisation increased from 56% to 71%.

Evidence is also provided by the publicly funded, large-scale Skills and Employment Survey (SES) for 2012[3]. This finds that while organisations have been making better use of skills provided through the formal education system, the volume of training in the workplace, measured by the percentage of workers engaging in more than 10 days training per year, fell from 38% to 34% between 2006 and 2012. Average training hours per worker per year fell by a third. Fewer workers were found to be satisfied with the training they received and fewer felt the training they did receive improved their job satisfaction. On a more positive note, SES 2012 finds an increase since 2006 in the incidence of semi-autonomous and self-managed team working, though employees saw no increase in the amount of discretion they personally exercise over their work tasks and there was a perceived decline in influence over wider organisational decision-making.

The period between 2004, 2011 and since includes the recession of 2008-09 and subsequent economic stagnation which may have affected these trends. Even so, the slow rate of progress observed with regard to key HRM/D practices such as training and flexible working seems to run counter to what one might expect if organisations were under greater pressure to adopt business models and HPW systems geared toward high-quality products and/or designed to maximise EE. Either way, it does not appear that HR practitioners are in a particularly strong position to promote progress. According to WERS, although more than 80% of large workplaces with over 500 employees have someone in a management role with an HR title, this percentage falls significantly with organisational size and is as low as 8% in workplaces with between five and nine employees. Overall, 55% of employees are located in workplaces with no managers with 'HR' in their job title since most HRM/D is a matter for owners or general managers.

UK's relatively poor EE score

The degree of and trend in EE is even harder to gauge. EE is a somewhat fuzzy concept and can be defined in a variety of ways. Analysts differentiate between the extent to which employees engage with their job, their organisation, or both. It is also possible for employees to be engaged with their job or organisation at a psychological level without this necessarily translating into effects on their performance.

Evidence of engagement is usually drawn from employee attitude surveys either conducted within companies or by polling organisations. But heterogeneity in questions and survey methodologies complicate comparison and it's not always clear what the findings say about EE, assessment of which is normally derived from answers to numerous different questions. WERS, for example, derives indications of EE from the percentage of employees who say they strongly agree or agree when presented with statements such as 'I share many of the values of my organisation', 'I feel loyalty to my organisation', 'I'm proud to tell people who I work for' and 'Using my own initiative I carry out tasks that are not required as part of my job'.

Agreement with these statements is generally high, expressed by between two-thirds and three-quarters of respondents in the 2011 WERS, the proportion in each case having increased since 2004. Scores are highest for employees in smaller organisations, and low-paid workers exhibit higher levels of job satisfaction than the better paid.

Despite this, the majority of independent studies of EE typically find only around a third of UK employees highly engaged with their organisations, with at least a quarter disengaged. According to one international ranking of EE, compiled by Kennexa and cited by Engage for Success, the UK is placed ninth amongst the world's twelve largest economies (Engage for Success 2012). This suggests that, despite the findings of WERS, evidence cited by Engage for Success that more than two-thirds of business leaders think EE is critical to their business doesn't reflect what's actually happening at ground level in their organisations. Consequently, advocacy of EE has unfortunate parallels with the long-running business adage, often lampooned by critics that 'our people are our greatest asset'.

Persistence of low-cost business models

Moreover, the very fact that the incidence of low-paid employment has increased over time in the UK also casts some doubt on the strength of the economic imperative for organisations to progress toward HPW or EE strategies, especially since the broad forces of structural change thought to create this pressure are generally seen as the root cause of widening pay inequality.

The sharp fall in demand for routine skilled workers in manufacturing and heavy industry described earlier has caused a collapse in the number of people performing jobs of a kind that were once plentiful in the middle of the pay distribution (Holmes & Mayhew 2012). With increased demand for higher level knowledge skills generally outstripping increased supply, the underlying tendency has been for pay at the top of the distribution to rise relative to the pay in the middle. By contrast, the supply of people seeking work in service-oriented jobs has generally exceeded demand, thereby depressing pay toward the level of the NMW, making the UK's low-paid labour market, in the words of the first Chairman of the Low Pay Commission, 'increasingly bottom heavy' (Bain 2013). Whereas the distribution of pay used to spike in several places, with workers clustered at key increments, low-paid workers now cluster mainly at the NMW, which has effectively become the going rate for entry-level staff in many low-pay sectors (ibid.).

This is partly because the relative preponderance of part-time work in the service sectors has enabled women at all skill levels to find jobs that can fit with childcare, partly because welfare-to-work policies have become more effective at encouraging less skilled people into the labour market, and partly because service-sector jobs give migrant workers without formal qualifications a route into the UK labour market. In addition, in recent decades it has also become more common for students to take part-time jobs while studying. The Office for National Statistics reports that in summer 2013, 950,000 part-time workers in the UK were 'students or at school', an increase of more than 50% on the earliest comparable figures (i.e. those for 1992). Between 1992 and 2013, the proportion of part-time employees who are students or at school has increased from 12% to 14%, the proportion having peaked at 18% in 2006 when 1.2 million students had part-time jobs (ONS, 2013c).

An excess supply of labour prepared for one reason or another to enter low-paid work makes it perfectly feasible for organisations to maintain low-cost/low-quality business models that do not require the adoption of high-quality business models and related HRM/D practices, especially in those parts of the service sector sheltered from global competition. In fact a large population of low-paid workers in turn creates a market for low-price goods and services. This limits pressure on low-paying organisations to move up the value chain while reinforcing the drive from higher paying organisations elsewhere in supply chains to keep costs and prices down.

The widespread assumption that the adoption of advanced information technology inevitably incentivises organisations to create more highly skilled knowledge jobs is also challenged. On the contrary, employers may use technology to deskill formally complex jobs into simpler routine tasks, technology in turn making it easier to operate supply chains of low-wage suppliers, in both cases enabling organisations to tap into available supplies of low-skilled/low-cost labour (Keep 2013).

Retail offers a good example of a sector where organisations can effectively choose whether to operate either 'high-road' or 'low-road' business models to serve particular market niches, with a combination of changes in information technology and labour supply conditions also facilitating the possibility of a mix of business strategies within as well as between organisations. It's now commonplace for large retailers to operate both face-to-face sales and online sales, employing shop-based staff and those engaged in online-related warehousing and logistics activities in different ways, requiring different levels of skills and on different terms and conditions (UKCES 2012b).

The low-cost imperative along the supply chain in turn creates a barrier to attempts to raise pay levels or improve working conditions by encouraging commercial organisations or public authorities to include the adoption of various advanced HRM/D practices as requirements within contracts (Holman et al 2012). The drive to cut supplier costs is often as strong from public-sector as private-sector purchasers, in part because of the negative impact of low pay on the public finances, which intensifies efforts to curb government spending, and in part also because of efforts to inject competitive market pressure into the delivery of public services.

Given the various pressures and incentives facing organisations in low-wage sectors in the UK to continue along 'the low road', what evidence might therefore convince organisations that voluntarily improving working conditions makes business sense?

4 BROAD EVALUATIVE BASIS OF THE BUSINESS CASE FOR IMPROVING WORKING CONDITIONS IN LOW-PAYING ORGANISATIONS

Acceptance that organisations might be able to persist with business models that are more concerned with cost and low price than quality does not in itself demolish the business case for the wider adoption of HRM/D practices.

As discussed earlier, practices that increase EE are relevant to organisations that wish to get the most out of their employees wherever they are situated on the product/service value chain. Although the high incidence of low-wage employment in private-sector services indicates that the soft skill or talent required has a limited value in the labour market, organisations may nonetheless wish to maximise the discretionary effect of those they employ.

Similarly, limited take-up of HPW and poor EE scores could simply mean that the business case has either not been made strongly enough or at least not convincingly enough. Organisations might want to see harder evidence demonstrating that HRM/D practices represent genuine investments with an identifiable rate of return rather than non-wage costs which raise total employee reward at the expense of profits in much the same way as an increase in pay. What therefore does the available evaluative evidence show?

Do HRM/D practices add value?

The search for evidence to demonstrate that HRM/D practices add value rather than cost to organisations has generated an extensive research literature in the past two decades (so much so that 'personnel economics' is now considered a major sub-field in labour economics; Bloom & van Reenan 2010). Research into the effects of management practices on employee behaviour has a much longer heritage but only more recently has the focus been firmly on the consequent impact of employee behaviours on organisational performance outcomes.

One aim of the current project is to search for and review evidence of the respective links between HRM/D, organisational performance and their on employees, as well as to identify any research findings related to specific practices that might potentially be adopted by low-paying organisations. It is useful to precede this with a brief consideration of some of the analytical issues involved in researching the links between HRM/D practices, employee behaviour and organisational performance outcomes and the difficulty these cause when trying to draw generally applicable conclusions that might be relevant to low-paying organisations.

Analytical issues affecting research into effects of HRM/D

HRM/D practices operate through a complex series of processes that initially affect employees' ability, motivation and opportunity and only subsequently organisational performance. To establish cause and effect, researchers need to establish precisely how and why practices affect employees, how to measure this, and also how best to measure organisational performance.

The difficulty is that although some measures of behavioural effects are fairly straightforward to assess (for example labour turnover), employee motivation or engagement are somewhat more intangible outcomes. Similarly, while reduced labour turnover can be associated with reduced labour costs, the degree to which this or other organisational performance outcomes can be attributed to these intangible influences is hard to determine. Moreover, it is not always obvious which organisational performance measures are most likely to be affected: labour productivity, associated with either greater employee skill or effort, or some less tangible discretionary behaviour that improves the quality of goods and services? Neither is it easy to assess the impact of any of this on financial outcomes such as sales or profits, and over what timescale any cause and effect occurs, not to mention the possibility that HRM/D practices are adopted by already successful or profitable organisations rather than being the cause of success.

Similar issues bedevil analysis of the related subject of the relationship between CSR and corporate financial performance. Meta-analysis of 167 research studies conducted between 1972 and 2007 finds a small positive correlation between CSR and corporate financial performance but was unable to determine the causal relationship, the degree to which the relationship was attributable to other characteristics of organisations that made them more likely to pursue CSR, and which specific aspects of CSR (such as good treatment of employees) were of greatest significance to positive financial performance (Margolis et al 2007). While it is commonly asserted that organisations ranking high in league tables of 'best companies to work for' are also highly successful, the causal relationship remains unproven. It could simply be that successful organisations voluntarily choose to share some of their profits with employees by way of extensive use of HRM/D or adoption of GW, rather than this being the source of higher profits in the first place.

Analytical complexity is further compounded by the fact that the impact of individual HRM/D practices is mediated by the interaction between these and other practices as well as other factors affecting organisations such as the sector, market, institutional and regulatory settings in which they operate. The impact will also be mediated by how individual practices fit with other HRM/D practices, other non-HRM/D practices such as use of

Total Quality Management (which manages employees to ensure continual improvement in product or service quality) or Lean Production methods (which aim to minimise waste in the production process and maximise quality), and overall organisational strategies. For example, in HPW settings, investment in human capital, and what this indicates about an organisation's quality strategy, may be the key factor as opposed to any effect via EE. Similarly, in measuring the effect of EE on organisational performance outcomes, is the causal factor EE (itself an intangible construct even if measurable), or is it instead the concrete and identifiable HRM/D practices that underlie this?

Role of management and leadership

How well or with how much integrity HRM/D practices are implemented may also be important. If managers merely pay lip service to HRM/D practices, this will limit their effectiveness. But this lip-service effect might itself be a reflection of deeper inadequacy in leadership and management, or indicative of a low-trust organisational culture that also impinges on performance. For example, line managers perform a critical role in ensuring HRM/D practices operate as intended. Line managers can greatly influence the experiences of employees and determine opportunities for development, a fact highlighted in a JRF report on low-paid employees from different ethnic backgrounds (Hudson et al 2013).

Given this, improving the quality of management and leadership might be a more appropriate means of improving organisational performance than the adoption of HRM/D practices per se – a possibility strengthened by evidence that UK managers are less well qualified than managers in other advanced economies despite being far greater in number (there are 4.8 million 'managers and senior officials' in the UK, accounting for one in six people in employment; Department for Business, Innovation and Skills (BIS) 2012). The definition of 'manager' is more loosely applied in the UK compared with other countries – hence the large management cadre – but only one in five has a management-related qualification and of these fewer than two in five are qualified at NVQ level 4[4] or above. According to the UKCES, only one in three organisations provide management training, another report for the government also commenting that 'UK provision of leadership and management training tends to be ad hoc rather than strategic' (BIS 2012: 20).

Studies suggest that this comparative deficit in management quality contributes to the UK's well-known productivity gap with major competitors and results in the UK having a 'long-tail of poorly managed firms' (ibid). One consequence of this is that UK managers are found to be slower and less successful at translating new management practices into improved performance than their counterparts in France, Germany and the United States. Survey-based analysis also shows a statistical relationship between organisations' commitment to management and leadership development, related HRM/D practices and organisational performance measures (McBain et al 2012). The relationship was found to be associated with a 23% variation in organisational performance measures, though no direct causal process was demonstrated.

Deficiency in management and leadership capability is identified as a particular problem for small- and medium-sized organisations where owner–managers have little option other than to multi-task over the entire range of management activities and have no time or limited resources with which to invest in their own professional skill development. This is clearly important given the high incidence of small organisations in low-pay sectors, and is a common theme in discussion of poor performance in parts of the adult care sector (see Chapter 7 below), where management capability and style are found to affect employee well-being and the quality of care (Wild et al 2010).

Do HRM/D practices improve organisational performance?

Research studies on the effects of HRM/D practices have adopted different approaches to addressing the complexities arising from all these various contingent factors (Macduffie 1995; Huselid 1995; Guest et al 2000, 2002; Guest & Conway 2000, 2002). Studies have varied from rigorous quantitative and qualitative academic research to somewhat rougher and readier case study exercises conducted by management consultants. Some have used econometric methods to analyse large cross-sectional and/or longitudinal multi-firm data sets (with organisations not making intensive use of such practices serving as a *de-facto* control group) though the majority are small case studies. Early studies were mostly conducted on manufacturing organisations and focused primarily on looking for evidence of the effectiveness of HPW, though there has been growing interest in the link between EE and organisational performance.

The generality of studies suggests positive statistical links between HPW and EE and various organisational performance measures. A seminal study in the US drawing on data from manufacturing firms found that HPW systems increased net sales per employee by 16% (Huselid 1995). Longitudinal research into UK medium-sized manufacturing businesses found that differences in the extent of use of HRM/D practices accounted for 18% of variation in productivity and 19% of variation in profitability (Patterson et al 1997). These were more powerful predictors of company performance than strategy, technology and research and development (R&D).

A drawback of the initial wave of studies in the 1990s was they were conducted in manufacturing organisations, focused mainly on HPW, and could not determine with any precision the causal processes underlying the observed statistical relationships (Richardson & Thompson 1999). Research in the past decade has been applied more widely across sectors, focused on EE as well as HPW, and has been combined with qualitative studies designed to look inside the so-called organisational 'black box' to determine the causal processes at work (see, for example, Applebaum et al 2000 in the US and a similar UK study by Purcell et al 2003). There have also been more meta-analyses combining statistical analysis of data drawn from many separate studies (Riketta 2008).

However, some economists have bemoaned the scarcity of high-quality data and noted that cross-sectional research studies are generally more supportive than longitudinal studies of a statistical link between HRM/D practices and productivity (Bloom & Van Reenan 2010). Their conclusion on the question of whether research establishes a link between HRM/D and productivity is thus a qualified 'probably yes', but they quote another economist who remarks '[discussion of] no potential driving factor of productivity has seen a higher ratio of speculation to empirical study.'(Syversson 2004:1181).

Accepting this caveat, the 'black box' and meta-analytical studies consistently attribute a variety of performance outcomes to the relative development of ability, motivation and opportunity within organisations. The Employee Engagement Taskforce, Engage for Success, recently published a review of findings from numerous research reports causally linking EE to marked improvements in both employee outcomes – well-being, lower absence, labour turnover, health and safety – and organisational performance outcomes ranging from productivity and profits, to innovation and customer satisfaction ratings. These results were found in all types of sectors, including health, where EE is identified as the best indicator of NHS trust outcomes (Engage for Success 2012).

Studies conducted within the NHS find 'many significant associations with patient satisfaction, patient mortality, infection rates, Annual Health Check scores, as well as staff absenteeism and turnover' (West & Dawson 2012: 20). A broader, economy-wide review finds a positive association between implementation of HRM/D practices to enhance employee well-being and key organisational performance outcomes, including employee satisfaction, productivity, lower sickness absence and labour turnover, though the review also concluded that 'the evidence base available for analysing the impacts of such interventions is comparatively limited, and significant judgement is needed when assessing the impacts' (Foresight Unit 2008: 196). An extensive review finds no directly relevant formal academic studies of the link between HRM/D and performance outcomes in the care sector but does conclude that 'if the mechanism for introducing changes can be understood and can also be linked to the outcome of introducing changes, then there is the potential for improvement in improved services, improved experiences of work for the employee and improved profitability for the employer' (Lucas et al 2008: 6).

However, comparability between studies is made difficult by lack of consistency in the specific HRM/D practices examined, the definition of HPW and EE, absence of clarity about the underlying HRM/D practices that determine EE, and the choice of organisational performance measures. Interpretation of the research findings in the context of the review for this project is further complicated by the fact that pay systems play a role in HPW and EE, which makes it virtually impossible to distinguish the precise effect of pay and non-pay factors.

Some critical appraisal has suggested that studies have tended to under-investigate the effect of interaction between HRM/D and the host of contingent factors and, especially in case studies, been over-reliant on evidence provided by senior executives or HR directors (Patterson et al 2010). Case studies might be affected by an implicit bias in that no matter how good the research design, participating organisations may not be reflective of organisations as a whole.

There is also a risk that research findings can be overhyped, or any uncertainties glossed over, where studies are funded or published by bodies with an interest in advocating HRM/D, HPW or EE. Indeed, it has been argued that there is an implicit bias in the very conception of HPW which implies an association with positive organisational outcomes (Wall & Wood 2005).

Do HRM/D practices benefit employees?

There is an implicit assumption of employee benefit from HPW, which means that much available research fails to give this due attention. This raises the questions of whether HRM/D practices are as benign an influence on employee behaviour as HPW and EE typologies usually imply. The positive image of the productive workforce, applying all the HRM/D practices in the management handbook and operating to the mutual advantage of managers and workers, is countered by depictions that question the benefits to workers (Lloyd & Payne 2006). For example, team working, rigorous performance measures and appraisal may result in increased workloads, a higher pace of work, loss of individual control and autonomy, and greater surveillance.

All of this can be potentially demotivating, with the impact of this on stress levels reducing the quality of work and diminishing rather than improving employee performance. The European Foundation for the Improvement of Living and Working Conditions notes in similar vein that innovative working practices can be associated with high employee commitment to organisations but often also expose workers to intense, strenuous and stressful working conditions (Eurofound 2012). Consequently, the Foundation notes, the extent to which HRM/D practices benefit both employees and organisations is likely to be conditional on the extent to which employees are consulted on and involved in practice innovations.

This is an important observation and means that the interpretation of workplace trends must be treated with caution. For example, the most recent SES survey finds that work intensification increased in UK workplaces between 2006 and 2012, with the speed of work accelerating and pressure to meet tight deadlines rising to a record high (Felstead et al 2013). The survey also finds that workers are increasingly anxious that they might be unfairly treated. The survey report suggests that this is likely to come at a cost in terms of increased levels of employee stress.

Unfortunately, we can't tell from these findings whether such worrying trends are symptomatic of too little effective use of HRM/D practices or, on the contrary, exactly what advocates of HRM/D practices would deem necessary for increased organisational performance. Interpreting the trend since 2006 is also complicated by uncertainty about the precise impact of the recession of 2008-09 and subsequent hiatus in economic growth, which only noticeably started to return in 2013. As a result, as one review concludes, 'in short, the claim that workers benefit from HPW remains just that – a claim, which, on current evidence at least, can be just as readily refuted as it can be upheld' (Lloyd & Payne 2006: 159-60).

The next few chapters therefore shift the focus of attention away from the general effects of HRM/D practices to examine evidence for a range of specific practices, focusing on the potential benefits to employees as well as organisations of practices that comprise the non-pay elements of employees' total reward. These are discussed under three broad headings commonly used in consideration of total reward, encompassing opportunities for training, development and progression; opportunities for flexible working; and fringe benefits. The practices discussed do not represent the entire range of practices that might fall under each heading but are those most frequently covered in the empirical literature and therefore provide a basis for meaningful review.

5 TRAINING, DEVELOPMENT AND PROGRESSION

Deficiency in skills and levels of workplace training has for decades been considered a cause of relatively low labour productivity in the UK compared with most other developed economies (a phenomenon popularly referred to as the 'productivity gap') and the related high incidence of low-wage employment. While improvement in the quality and quantity of formal education is a key factor in increasing the supply of skilled labour, investment by employers in ongoing staff training and development is also needed to expand and refresh the stock of available human capital. Organisations are thought to have an incentive to make these investments on the assumption that a higher skilled workforce will be more productive, thereby reducing labour costs per unit of production, improving product or service quality and thus improving bottom-line performance. Trained staff should in principle be more productive, enabling employers to pay them higher wages than less skilled staff, and also potentially more valuable in the labour market, which aids their longer term pay and job progression.

There is a vast literature on the economics of on- and off-the-job training, covering estimates of rates of return on investment (given that training involves some initial cost), examination of why organisations do (or do not) make such investments, and which types of employee receive most training.

The main and rather simplified analytical distinction underlying most studies is that made between general training that provides employees with transferable skills of value to all employers and specific training that provides skills of value only to the employer providing the training (Becker 1963). The broad theoretical conclusion is that organisations will be reluctant to invest in general training because there is no guarantee that employees who acquire general skills will remain with the same employer. As a result, general training will only be provided if employees themselves meet the entire cost of training by accepting a lower wage while being trained. By contrast, organisations will be prepared to cover at least part of the cost of specific training, since employees will not be able to use specific skills in other organisations, although given the possibility that employees might leave anyway, organisations will still require trainees to meet part of the cost by accepting a lower wage while being trained.

However, the theoretical distinction between general and specific skills is rarely so neatly observed in practice, with most forms of training involving both general and specific elements. There are therefore several reviews of evidence that support the business case for employer investment (e.g. Tamkin 2004; Porter & Campbell 2006) as well as more technical reviews of evidence of the economic effects (Hansson 2008; BIS 2013a).

Studies related to analysing the incidence of training in the broader context of HRM/D practices distinguish between induction training for recruits, apprenticeships, training to improve the performance of established employees in their existing jobs, and training or staff development practices designed to enable employees to progress to other jobs in an organisation. While some amount of routine induction training (which will normally include familiarisation with work tasks, workplace systems and basic health and safety procedures etc.) is common to most jobs and most employees, beyond this employers are found to be more likely to invest in some types of worker than in others. As a general rule, men are more likely to receive training than women, younger workers than older workers, full timers than part timers, and better qualified people than less qualified people (Hansson 2008). These inequalities reflect organisations' assessment of the likely returns on training, this often being based on assumptions about the length of time a trained employee will remain with them.

However, analytical studies of the effects of employer-funded training are dominated by those that focus on the employer and employee benefits of training that leads to formal qualifications (notably apprenticeships, to which we therefore devote a specific sub-section of this chapter). Much, if not the majority of the employer-provided training that employees might receive is either not accredited or not intended to lead to a formal qualification. But analysts have invariably used formal qualifications as a proxy for skills in evaluative studies since the qualifications individuals acquire are easier to identify from available large-scale surveys (Keep et al 2002).

Benefits of training and development to organisations and employees

The findings of evaluative studies of the effects of training (to which one must inevitably apply all the methodological caveats raised earlier) generally show that most forms of job or organisation-specific performance and progression training are beneficial both to organisations (in terms of improvement in productivity and/or some measure of rate of return) and individuals (in terms of enhanced earnings and employment prospects and improved job satisfaction, which can further benefit organisations providing the training if this in turns spurs organisational commitment, motivation and EE).

The broad consensus is that training is potentially most beneficial to employees (in terms of subsequent pay and employment prospects) if it is essentially work-based but combines a strong work-focused element with a strong off-the-job study element in order demonstrate that any skill or qualification obtained is of high quality and transferable (see for example Blundell et al 1996, using survey data on employee participation in all types of employer-funded training courses, not only those leading to formal qualifications).

However, evidence is equivocal about the precise magnitude of the effects of training on employees' subsequent earning power or employment prospects since this will depend on the level of skill acquired, the extent to which skills and any related formal qualifications are transferable from one employer or sector to another, and hence the value of those skills and qualifications on the open labour market (which can be minimal for some lower level vocational qualifications; see Wolf Review 2011; also Department for Business, Innovation and Skills (BIS) 2013a).

In terms of impact effects, an OECD review of the international literature suggests that organisations reap the majority of the return on employer-funded training, with individuals enjoying between 20% and 50% of the return in terms of higher pay (Hansson 2008). Within the UK the effect of training on boosting productivity is around twice as large as the effect on wages (see Dearden et al 2000, though this study does not look at low-paid workers specifically). The positive effects on wages indicate the potential for training to help reduce in-work poverty though this review has not identified any studies that address this issue specifically.

However, in the context of low-pay organisational settings, the potential economic return on training has to be qualified by evidence, such as that from WERS as mentioned in Chapter 2, which shows that a substantial proportion of UK workplaces provide no or only limited training to their employees. Moreover, of organisations that do, spending on training and 'talent development' is heavily weighted to senior and qualified staff with relatively little attention given to the less skilled (CIPD 2013a). According to the CIPD, fewer than half of employers therefore have a strategy to support the development of less skilled workers.

As for job mobility, although an employee's participation in employer-provided training and/or the acquisition of any recognised skills may act as a signal of their potential to other employers, evidence suggests that employer-financed training lowers the probability of an employee leaving and reduces job turnover (Hansson 2008). This may be because employers are more likely to invest in training leading to organisation-specific skills than that leading to transferable skills (since specific skills will be of less value to other employers), or because employees are more likely to show loyalty to organisations that provide them with training.

In addition to training, development and progress practices that change job content are sometimes suggested as ways to improve the total reward to low-paid workers. Changes to job content include enriching or enlarging job tasks, and can also involve job rotation so that employees in one part of an organisation can try out other job roles. There are various potential positive effects from these practices: improvements in employee skill, flexibility, motivation and reduced boredom or stress. But most of these practices involve some cost, either directly or (in the same way as for job-related training) in the form of reduced output when employees are learning about their expanded, enriched or different job roles. The overall incidence of job enlargement, enrichment and job rotation is unclear. The CIPD finds that 7% of organisations use job rotation as part of their training and development practices but the proportion citing this as being one of their top three most effective practices fell from 30% to 13% between 2010 and 2013 (CIPD 2013a).

There is a limited amount of detailed research on the cost-effectiveness of job rotation (see for example Eriksson & Ortega 2006). There appears to be little evidence that job rotation improves employee motivation. The practice does seem to improve employee skills and their ability to move from job to job (known in the jargon as 'functional flexibility') but is more likely to be applied in organisations that already have a strong commitment to training and development. There is also some evidence that rotation directed and controlled purely by management in the absence of employee choice or involvement may not be beneficial to employee well-being (Eurofound 2013).

A recent case study analysis highlights potential benefits of employer practices that aim to advance the progression of low-skilled workers (UKCES 2013). Employers involved in the UKCES study, including two adult social care providers, identify improvements in recruitment, retention, staff flexibility, productivity and corporate reputation. But the most clearly defined effect of staff progress was a reduction in labour turnover cost, associated with increased staff retention, with few organisations able to quantify precise links with productivity or profitability.

The practices examined in the UKCES study are examples of an approach sometimes referred to as 'progression pathways' (Devins et al 2014). This involves employers mapping job roles within an organisation, aligning this with training and development opportunities, communicating these opportunities to less skilled staff regardless of their contractual status, and using line manager assessment and appraisal systems to identify workers able and willing to progress. While Devins et al do not find this practice to be widespread in low-wage sectors, employers adopting it cite benefits in terms of lower labour turnover costs and improved quality of service. Public policy initiatives, mainly in the United States but also to a very limited extent in the UK, have attempted to encourage such practice by way of so-called 'career ladder schemes' (Ray et al 2014). These help employers map out progression pathways both within and across organisations and involve public- and voluntary-sector bodies in identifying and meeting the skill needs of employees capable of progression. However, the evaluative evidence base is not yet considered sufficiently robust to offer firm conclusions of the effectiveness of career ladder schemes.

As with employee training, however, the potential benefit of job progression and job rotation needs to be considered in the context of low-paid organisational settings and the limited use of the kind of internal labour market structures that make job rotation and progression possible. Indeed, the structure of employment in some low-wage sectors limits the ability of employees to increase their hours and earnings in the same job. Retailers, for example, are said to prefer to employ less skilled workers on a part-time basis not only in order to match staffing to peak trading but also because productivity in jobs involving the performance of repetitive routine tasks is considered higher if hours are limited. This restricts the number of full-time jobs available (Devins et al 2014).

Apprenticeships

Policymakers and skills advocates are keen to encourage employers to offer apprenticeships and to put 'employers in the driving seat' of the UK apprenticeship system (Richard Review 2012). Not only are apprentices aged under 19 or in their first year of apprenticeship legally entitled to only a lower NMW of £2.68 per hour, but government also offers public funding to support this form of training (involving at least £764 billion in England in the financial year 2013-14). The government pays 100% of the training costs of apprentices aged 16–18, 50% if the apprentice is aged 19–24 and up to 50% if the apprentice is aged over 25. The employer will normally cover any additional cost.

The National Audit Office (NAO) estimates that, based on UK Labour Force Survey (LFS) data between 2004 and 2010, employees who undertake apprenticeship training can over their lifetime expect to earn between 11% and 18% more than if they had not undertaken the training (the variation depending on level of qualification gained and sector of employment). The NAO suggests the spillover effect of this to employers in terms of increased profits is equal to around a quarter of the benefit to apprentices themselves, who additionally benefit from improved lifetime employment prospects. But the NAO applies a caveat to these findings, given the possibility that those undertaking apprenticeships might have personal abilities or qualities that would have enabled them to earn more over a lifetime anyway, leading to the conclusion that the findings 'should be interpreted as statistical association rather than the causal impact of apprenticeships on an individual's wages'. (NAO 2012: 3)

Other evidence highlights the relative sparsity of apprenticeship training. Only around one in ten employers in England offer apprenticeships compared with around a quarter in the exemplar country, Germany (Dolphin & Lanning 2011). In short, those in low-paying jobs are more likely to miss out. There is some positive news in official figures showing that the number of people starting apprenticeships in England has increased significantly in recent years (from around 170,000 in the academic year 2002/03 to more than 520,000 in 2011/12, an increase of 210%; House of Commons Library 2013a), with organisations in low-wage sectors such as retail actively engaged in provision, though this growth may not be all it seems. Much of the increase is due to organisations rebranding existing training activity under the apprenticeship label in order to access government funding (Dolphin & Lanning 2011).

As a result, a much higher proportion of all apprenticeship starters are now aged over 25 (44% in the academic year 2011/12, up from 18% in 2009/10). This not only results in a potentially higher deadweight loss to taxpayer subsidy but also a tendency for the 'apprenticeship' label to be applied to low-grade training that would not be classified as such in most other countries. Almost two-thirds (63%) of apprenticeships starts in England in 2011/12 were on training leading to intermediate-level qualifications (NVQ level 2). Of the remainder, 36% were for advanced-level qualifications (NVQ level 3) and just 1% for higher-level qualifications (House of Commons Library 2013a).

Perhaps significantly, much of the expansion of lower grade apprenticeships has been in sectors such as retail, where trainees spend the majority of their time working on the job (in many cases on the low apprentice rate of the NMW) and perhaps as little as one hour per week on off-the-job training. Not surprisingly therefore, the financial return to the trainee from apprenticeship training in retail, hospitality and customer service is thus lower than in sectors such as engineering where both the amount and content of training are generally superior (Dolphin & Lanning 2011).

The skills paradox

The empirical observation of limited training activity appears puzzling when set against the emphasis placed on investment in human capital by policymakers and employers' organisations but is understandable when viewed in the light of the various factors that influence employers' decision to train.

Most obvious is the possibility that staff trained in anything but purely organisation-specific skills might leave, denying the organisation any guaranteed return on its training investment. Small firms may also face the practical difficulty of being unable to give staff time off for training while meeting customer or client needs. Just as important a deterrent to training, as discussed earlier, is the deeper economic and broader regulatory structure in which UK organisations are situated which makes low-road business models perfectly feasible. As one review of employer demand for apprenticeships notes, 'for many organisations, skills may be a third or fourth order issue and there are a range of alternative routes to competitive advantage that rely on different approaches to simply upskilling the mass of the workforce' (Keep & James 2011: 58).

Where training is undertaken in low-wage sectors it therefore usually takes the form of minimal induction training and/or training in essential health and safety requirements – and in some cases even this is absent. The main exceptions within low-pay sectors are large hospitality and retail organisations, especially those that operate multiple outlets, which invest in high-volume staff training in order to ensure consistency of service. These larger organisations may also offer greater opportunity for ongoing skills development and pay progression.

However, realisation of the potential benefit of training and pay progression depends on organisations having some form of internal labour market structure that makes this worthwhile. The preponderance of small employers in low-wage settings, plus a tendency toward flatter employment hierarchies even in large firms, mean this is often not the case. There may in practice be no or only limited opportunity for low-skilled individuals to move upwards from one skill or pay grade to a higher one. For example, one reason cited to explain the fact that women account for more than two-thirds of retail sector sales assistants but only one-third of management posts is that the latter are mainly full-time positions, which makes progression difficult for women who wish to move into better paid roles but also want to work part time (Devins et al 2014).

All this creates a disincentive to training on the part of employers and low-skilled employees alike. The disincentive to the employer arises because a trained employee with little or no ability to progress upwards within the organisation would have to leave in order to take advantage of any skills acquired, in which case the employer confronts the likelihood of high labour turnover whether investing in training or not. Consequently, many employers in low-wage sectors view high labour turnover as an unavoidable fact of life rather than a 'problem' that can be solved by investing more in training or, for that matter, increasing pay.

Even if the employer does offer training, there may be a disincentive for employees to participate if the organisation doesn't operate some kind of internal, skill-related pay progression ladder and the skills acquired on the job are not generally transferable to other organisations. In the absence of this, low-paid employees may have to show particular enthusiasm and determination to undertake training, especially if this involves any cost to them in terms of a less favourable work–life balance or difficulty in meeting their own family caring responsibilities during periods of training. Research for UKCES finds that the main barriers that deter employees from deciding to participate in training are the cash fees involved and the time cost involved, rather than any lack of confidence or belief in their capacity to complete the training (McQuaid et al 2012).

What this also demonstrates is that the relationship between skill and pay and employment progression is far more complex than often suggested by advocates of increased investment in human capital who see this both as pathway out of in-work poverty and a way to enhance the quality of working life. Equally important, especially when it comes to presenting 'skills' as the answer to low-wage employment, are labour market structures, workplace power relations and the true extent of demand for human capital across the economy. Whereas it is commonly asserted that qualifications and skills equal wage gains for employees, as one observer notes ‘rather than “equals” it would often be more accurate to say ”in certain circumstances may equal”.’ (Keep 2013: 1). The inference here is that the necessary circumstances might need to be better regulated pay-setting institutions and a stronger role for employee voice.

6 FLEXIBLE WORKING

A combination of changing product and service market conditions and changing individual lifestyles has brought flexible working increasingly to the fore in the past 30 years. Organisations wishing to adjust labour inputs quickly in response to changing demand, and/or to operate on a 24/7 basis, are keen to employ more staff either on a part-time basis or on contracts that enable employers to easily vary the hours of work. The ability to work in this way can also make it easier for employees to combine work with non-work responsibilities and activities. Taken together, flexible working is thus posited both as a way of helping organisations cut costs and improve performance as well as enhance employees' work–life balance and overall well-being. As a result of this so-called 'win–win' outcome for employers and employees, flexible working is also said to potentially convey benefits to employers by way of easing recruitment and retention pressures, reducing absenteeism and boosting employee engagement, while helping to ease the stress that employees might otherwise experience in balancing work with pressures outside the workplace.

In discussion of the quality of working life, flexible working, and the various contractual arrangements associated with it, can simultaneously appear as hero and villain of the piece. This is in part due to the fact that flexible working can mean very different things. The term is a catch-all for a variety of practices encompassing part-time working (the most common form), flexi-time, temporary reduced hours, regular working from home, compressed working week, annualised hours, job-sharing and term-time working (Tipping et al 2012). Views on the efficacy of flexible working also vary according to whether this is offered to employees as a non-wage benefit or is instead introduced by employers as way of changing workplace practices, and in either case according to the degree to which employees have choice over which type of flexible working they perform.

The overall stability in the use of flexible working since the middle of the first decade of the 21st century and recorded in WERS (see Chapter 2 above) results from increased use of compressed hours and working from home and decreased use of job-sharing and reduced hours. There was in this period a doubling in the proportion of workplaces with at least some employees on annualised-hours contracts and zero-hours contracts but in both cases the incidence of these contractual arrangements remained relatively low (7% and 8% respectively, albeit that since publication of the latest WERS there has been considerable discussion of whether available official data sources understated the incidence of zero-hours contracts). Flexi-time, working from home and emergency leave to care for a dependant are the forms of flexible working most commonly used by employees. Other survey evidence suggests that around one in four organisations provide some form of emergency childcare or elder care leave, with over half (58%) offering enhanced maternity/paternity leave (CIPD 2013b).

Benefits of flexible working to organisations and employees

The latest (fourth) large-scale, government-sponsored Work–Life Balance Employee Survey 2011 (Tipping et al 2012) examines all the various practices outlined above, including as a category of 'flexible worker status' part-time employees (i.e. those working fewer than 30 hours a week). The survey finds that the main advantages of flexible working (as broadly defined to cover all the various practices) to employees are an increase in free time (cited by 24% of employees working flexibly), increased time spent with family (18%), improved work–life balance (17%) and greater convenience (14%). Two in five survey respondents said flexible working was an important reason for choosing to join their current organisation, this being of particular importance to women, parents and carers (ibid.). Among full-time employees, flexible working was more common for employees aged 40 and over, those that had higher qualifications, those that had higher incomes and those that had managerial responsibilities. Among part-time employees, those working flexibly in other ways were more likely to be high earners, to have managerial responsibilities or professional qualifications, to be trade union members and to be employed in the public sector.

Overall almost half (48%) of those working flexibly did not feel there were any negative consequences, though low pay was the most frequently cited negative consequence and a third of employees believed people working flexibly were less likely to be promoted (ibid.). The survey also finds that employees with flexible working were more likely than employees without flexible working to report good working relations between employees and managers within the workplace.

WERS in turn finds that employees who work flexibly are more likely to strongly agree that they go 'above and beyond' what's required in their role.

Another study also finds a positive statistical association between flexible working and EE, although interestingly flexible working is found to have a negative effect on relationships outside the workplace (Burnett et al 2013). The study suggests that this might be due to a blurring of boundaries between work and home life, particularly where information technology enables workers to work at home, possibly during non-work hours. In addition, the study notes that while flexible working has been beneficial to women's ability to enter the labour market there has been no corresponding reduction in the amount of domestic work women undertake, thus intensifying women's overall workload. Nonetheless, despite the generally positive findings, alongside the family-friendliness and beneficial work–life balance aspects of flexible working for employees, sit concerns about some types of contractual arrangements.

For example, there is a well-documented 'pay penalty' to the most common form of flexible working, part-time employment. Across OECD nations, part-time employees on average earn less per hour than full-time employees (36% less at present in the UK); typically only around a third of which can be explained by factors such as the personal characteristics of employees and the fact that (as discussed in earlier chapters) part-time jobs are more prevalent in relatively low-paid sectors (OECD 2010). On average for OECD countries, part-time employees face a poverty rate (measured as living in a household with income less than half the median disposable income) more than twice that of full-time employees, with the poverty rate of part-timers being higher the higher the percentage of employees involuntarily working part-time (ibid.).

Workplaces that utilise zero-hours contracts also have a higher proportion of staff on low pay than those who do not (Pennycook et al

2013). The Work–Life Balance Survey mentioned earlier does not include zero-hours contracts as a specific sub-category of flexible working. The main empirical consensus so far is simply that while official statistics show that the number of people employed on zero-hours contracts rose from 134,000 to 250,000 between 2006 and 2012 – the latter figure representing 0.7% of UK employment – this is probably an underestimate because people may be inadvertently mistaken about their contractual status when responding to the Labour Force Survey. The CIPD, for example, has suggested that the true figure might be as high as 1 million (CIPD 2013). The ONS plans to begin publishing new estimates, derived from surveys of employers rather than the Labour Force Survey, in 2014 (ONS 2013b).

There is also debate on the social efficacy of zero-hours contracts, with some commentators suggesting they should be outlawed while others point to the fact that they offer a degree of flexibility that can suit some workers. Almost a quarter of zero-hours contract workers are full-time students, and overall 80% of zero-contract workers are not looking for another job (Work Foundation 2013). Once again therefore the question of employee choice and how this is exercised comes to the fore, and there are calls for companies using zero-hours contracts to sign up to a code of practice, including allocation of working hours with fair notice and access to training opportunities to enable career progression (Berger et al 2013). At the time of writing the government is undertaking a review of the practice (*The Independent* 2013c) and is consulting on possible reform but has ruled out an outright ban (Department for Business, Innovation and Skills (BIS) 2013c).

As for organisations, most employers' bodies laud flexible working as a means of helping organisations to recruit and retain staff and to increase staff satisfaction (for example, see REC 2013). Yet some of the very same bodies believe that the decision to offer employees flexible work, and precisely which contractual arrangements to use, should be determined solely by organisations themselves — hence criticism of legislation giving employees the right to request flexible working, first introduced a decade ago for most working parents, and subsequent extension of that right. According to the CBI 2011 Employment Trends Survey, a third of UK companies are critical of the forthcoming extension of the right to request flexible working.

The business complaint is not that the right to request in itself is a bad thing but rather that cost is incurred in making the case for turning a request down if this decision is challenged by an employee. Employer reluctance to voluntarily introduce flexible working, especially among small- and medium-sized firms, revolves around organisational difficulties, inability to cover for or substitute some employee skills and managerial complexity. The latter tends to involve lack of trust in employees, in the belief that flexible working may be used as an excuse to work less hard, and possible problems stemming from perceived unfairness if some employees are allowed to work flexibly while others are not (Dex & Scheibl 2002). Some employers, while lauding the efficacy of flexible working, therefore seek to recast the practice in more business-friendly terms, emphasising the potential benefits to business rather than simply the employee benefit aspect (Agile Future Forum 2013).

Evaluating the business case for flexible working

The diversity of leave and contractual arrangements complicates analysis of the effects of flexible working. Other than a plethora of individual case studies of how individual organisations have benefited from their own use of flexible working, available research evidence is far more equivocal about the business case for flexible working than advocates of such working arrangements generally suggest.

An early review of family-friendly employment practices found positive effects of flexible working on employee commitment but only very limited support for the business case (though no negative effects; Dex & Smith 2002). A more recent comprehensive review concludes that available evidence 'fails to demonstrate a business case for flexible working' as broadly defined above (de Menezes & Kelliher 2011: 2). Another concludes that there is no 'one size fits all' business case for work–life balance practices (Yasbeck 2004: 4).

The most recently available analysis uses the 2011 WERS data to test whether there is a link between the availability of flexible working arrangements and managers' assessment of their organisation's financial performance relative to the industry average (Chanfreau 2013). The study found that after allowing for the effect of organisational size and sector, the number of flexible working arrangements available in an organisation is not significantly related to either better or worse than average financial performance. In other words, there isn't a business case for, or for that matter against, flexible working.

The likely reason for this is that the benefits from flexible working accrue mainly to employees in the form of job satisfaction, increased commitment and reduced absenteeism but there is no guarantee that this ultimately improves the business bottom line. The key factor instead appears to be the specific organisational situations in which flexible working practices operate, especially the overall nature and quality of management. This is apparent also in one large-scale, multi-country econometric study using data from 700 manufacturing organisations (Bloom & van Reenan 2006). This finds a positive correlation between work–life balance practices and organisational productivity but the effect disappears once broader management characteristics of the organisations are accounted for. The study concludes that since flexible working isn't detrimental to productivity it may still be worthwhile because of the benefits to employees. In this respect the study notes that flexible working practices were more likely to be available in organisations with more women in management roles, suggesting not only that such organisations were better at attracting female recruits but also more likely to stress the benefits of flexible working to employees.

Equivocation over the business case for flexible working is likely to be due to the diversity of practices involved and the fact that few research studies have focused on employer-driven flexible working (de Menezes & Kelliher 2011). Consequently, the business-led Agile Future Forum initiative, which uses the term 'agility' rather than 'flexibility' to convey how organisations might introduce more flexible working practices, is a potentially interesting development. The Forum concludes that case studies of changes in practice in a number of major UK companies, including one drawn from the retail sector, show that agile working practices 'currently generate value equivalent to 3–13% of workforce costs' (i.e. a combination of additional profits and reduced costs) (Agile Future Forum 2013: 7). However, what is as yet unclear is how this experience might be translated more widely into the economy, especially into low-wage organisational settings, and whether employer-driven flexibility offers a true 'win–win' outcome benefiting employees and employers alike.

7 FRINGE BENEFITS

While employer-funded training and development and opportunities for flexible working are normally considered as part of the non-wage element of total employee reward, other financial and non-financial benefits are popularly referred to as 'fringe benefits'. The use of fringe benefits can be traced back to the mid-19th century when they began to be adopted by paternalist employers concerned with employee welfare. Nowadays, few if any employers cite the alleviation of in-work poverty as an explicit reason for providing fringe benefits, even though this can have a potentially significant effect on employees' overall well-being and their ability to deal with poverty-related personal issues. The predominant rationale is instead to provide fringe benefits in order to aid employee recruitment and retention and support EE strategies in an effort to reduce labour turnover costs and increase organisational performance.

Fringe benefits come in a variety of forms, ranging from paid holidays and time off work to the provision of occupational pensions, occupational sick pay, health insurance, free flu jabs, support for childcare, gym membership, free canteens or meals, company cars and travel allowances and bus or rail season tickets. Employee benefits also include discretionary 'gifts', in the form of retail or entertainment vouchers and free staff parties or attendance at sporting events, the definition of 'benefits' also extending to staff recognition schemes (such as 'employee of the month' awards, which may include a prize) and 'dress-down days'. Similarly, some organisations provide employees with access to advice or counselling about financial or personal matters, often involving the use of workplace counselling schemes or employee assistance programmes (EAPs), usually purchased from external commercial providers.

The provision and value of fringe benefits is also influenced by the tax system and other public policy initiatives. Certain benefits (for example employer-provided health insurance) are subject to tax while provision of others (such as childcare vouchers) is encouraged by preferential tax treatment, though taxation has generally been less evident as a driver of the use of fringe benefits in the UK than in the United States which operates a far more limited system of state-funded social welfare provision. Other related public policy initiatives include government measures to encourage people in work to save more towards meeting the cost of their pensions in retirement. A recent example is a new system currently being introduced in the UK requiring organisations to auto-enrol employees into pension schemes, to which both employers and employees contribute, and which operate unless employees decide to opt out.

Incidence of fringe benefits

There is no fully comprehensive source of data on the incidence of these practices, though official figures are available for benefits that are subject to tax. The Office of Tax Simplification (OTS) describes the current system as a complicated 'tax minefield' which has emerged in piecemeal fashion and is subject to complex and changing rules that cause confusion for employers and employees alike. For example, the OTS notes that not only are different benefits taxed in different ways but also benefits are sometimes taxed on the basis of how they are paid rather than what type of benefit they are. Despite this, the OTS, which at the time of writing is examining ways of simplifying the system, observes that there has not been a fundamental review of the taxation of employee benefits and expenses since the 1970s (OTS 2013).

The OTS quotes official HM Revenue and Customs data showing that in 2010-11, 3.7 million people (i.e. one in seven employees) in the UK received a taxable benefit. These taxable benefits were provided by 300,000 employers (which equates to around a quarter of organisations that employ people in the UK). A total of £3.36 billion was paid in tax and National Insurance on these benefits, approaching two-thirds on use of company cars and fuel and a fifth on private medical and dental benefits. Only around a third of people receiving a taxable benefit in 2010-11 earned less than £30,000. But the OTS finds 'little data' on tax-exempt benefits so one can't tell whether fringe benefits as a whole are equally heavily weighted to people on above-median earnings.

Despite this, some indication of the overall incidence of fringe benefits can be obtained from relatively small-scale surveys of employers, notably the CIPD's annual Reward Management surveys, although a statistical health warning should be applied to such small-scale survey findings which are drawn predominantly from fairly large organisations and/or organisations with a designated HR professional, and thus perhaps not typical of organisations where low pay is most prevalent.

The most recent CIPD survey (evidence from which refers to February/March 2013) draws on responses from 444 senior reward/HR practitioners, covering all sectors of the economy (58% in the private sector, 19% in the public sector and 22% in the not-for-profit sector). The majority of respondents (57%) were in large organisations (i.e. defined as having 250 or more employees) with the remainder in small- or medium-sized organisations (the lowest category being organisations with fewer than 250 employees). Both the extent and range of benefits provided increase with organisational size. The survey distinguishes between financial benefits, health and well-being benefits, social benefits and transport benefits. Within each benefit category the survey further distinguishes between benefits provided to all employees, provision dependent on some other factor such as grade or seniority within the organisation, and no provision. As a survey of organisations rather than employees, the survey reports relate to the provision of benefits rather than take-up of benefits.

Around two in five respondent organisations devoted 10% of their total spending on employee reward to employee benefits, though almost as many devoted between 20% and 40% of their reward budget to benefits. Note, however, that the CIPD survey defines employer-provided training and development and flexible working practices as employee benefits. The figures for total spending on benefits therefore includes spending on these latter items in addition to fringe benefits as discussed here.

Within the more specific category of financial benefits, 83% of respondent organisations provided a pension scheme for all employees (around a quarter of which were final salary schemes), with 9% making no provision. The incidence of pension provision was lowest in private-sector services and smaller organisations. Almost half (48%) provided advice, counselling or guidance about debt to all employees, and a similar proportion (49%) provided this to no employees. More than a quarter (27%) provided free financial education or advice to all employees (with just under three-quarters not doing this for any employees), and 13% in turn provided welfare loans for employees experiencing financial hardship.

The top three most-provided health and well-being benefits are death in service insurance/life assurance (mentioned by 69% of respondent organisations as being provided to all employees), free tea, coffee or soft drinks (67%) and eye-care vouchers (63%). More than a quarter (27%) of respondent organisations offered flu jabs to all employees. Just under a quarter (23%) of respondents offered private medical insurance to all employees but a similar proportion did so only on the basis of employee grade or seniority. More than half (56%) provided an EAP, which appears to be an increasingly used form of employee benefit. Separate market analysis conducted for UK EAPA, the trade body for EAP providers, suggests that the number of UK employees covered by an EAP has grown from around almost 4 million in 2005 to almost 14 million (i.e. more than half of all employees in employment) in 2013 (UK EAPA 2013).

Social benefits include childcare vouchers (provided to all employees by 63% of organisations responding to the CIPD survey but to no employees by one in five respondents). Two-thirds gave employees a Christmas party or lunch, almost one in three a company picnic or barbeque, and just over one in ten a company sports day. Free or subsidised on-site car parking is the most commonly provided transport benefit (offered to all employees by 60% of respondents). More than 30% of respondents provided all employees with a travel season ticket loan. However, company cars, car allowances and fuel allowances are unusual fringe benefits in that they are overwhelmingly provided primarily on the basis of employee grade or seniority. For example hardly any organisations (0.2%) responding to the CIPD survey provided a company car to all employees but almost two in five did so for more senior staff.

The benefit of fringe benefits to organisations and employees

In economic theory, all that should matter to organisations operating in competitive product and labour markets is the total cost they incur in rewarding employees for their time and effort (Bulow & Landsman 1985). Whether this consists solely of pay or a mix of pay and other elements such as fringe benefits will be of no importance to organisations unless they discover that employees value pay and fringe benefits differently when choosing who to work for or how much effort they put into their work (Lazear & Shaw 2007). The existence of fringe benefits is therefore taken as implicit evidence of the business case for organisations to provide them, the existence of a variety of different benefits packages across the labour market in turn indicating the types of employee different organisations most want to attract, retain and motivate. However, the fact that some organisations provide fringe benefits does not necessarily imply that there is a business case for all organisations to do so, or that doing so would necessarily increase the total reward to employees.

From the organisational point of view, there is no economic imperative to offer employees fringe benefits so long as employers are able to obtain the quantity and quality of labour they require without doing so. As for employees of such 'no-frills' organisations, economic theory predicts that because organisations won't pay more in total for the labour they need, the provision of fringe benefits will anyway be offset by an equivalent reduction in the pay element of total reward packages (Rosen 1987). In other words, pay and benefits are substitutes not complements – employees effectively cover the cost of any fringe benefits they receive in the form of lower pay and are no better off financially with benefits than without them.

The particular corollary of this for low-paid employees on the statutory minimum wage is that organisations are likely to respond to increases in the NMW by cutting back on any fringe benefits they do provide (Hashimoto & Zhao 2000).

The suggested inevitability of a trade-off between pay and fringe benefits is often questioned because it doesn't seem to fit the facts. Contrary to economic theory, and adjusting for other factors affecting reward such as the skill compositions of organisations, it is commonly found that high pay and generous fringe benefits go hand in hand while low-paid employees tend to get few if any fringe benefits (Forth & Millward 2000). This pattern of 'to them that hath, more will be given' is clearly consistent with the incidence of fringe benefits as discussed earlier, which suggests that benefits are relatively more likely to be offered to employees of larger organisations and to above-average earners. This is also likely to explain why benefits such as private medical insurance and company cars, which as the CIPD survey finds tend to be provided only to senior staff in organisations, are also, as the OTS analysis shows, the types of fringe benefit organisations tend to spend most on.

The observed pattern results from differences between organisations across the economy, notably differences in the market power of organisations and the extent to which employees in those organisations are represented by trade unions. Large, profitable organisations may be able to afford to offer generous fringe benefits without cutting back on pay. They may voluntarily choose to do so if this helps attract, retain and motivate employees, or agree to do so under pressure from trade unions, especially where the union objective is to improve the overall package of pay and benefits on offer. By contrast, employees working for low-paying organisations operating on tight profit margins and not subject to trade union influence are likely to find that fringe benefits are traded off against pay (Forth & Millward 2000). By the same token, the lowest paying employers will be reluctant to provide fringe benefits at all because the minimum wage can't adjust downward to offset the cost of provision.

However, while this pay–benefits trade-off implies that improved fringe benefits might not increase the cash value of total reward in low-paying organisations, they might nonetheless increase the effective value of reward if employees value what the benefits provide more than they value the cash equivalent of those benefits. Moreover, if organisations have purchasing ability that enables them to provide benefits such as childcare, health insurance and counselling at lower cost than employees would be able to obtain for themselves, this will also increase the effective value of those benefits. Insofar as fringe benefits do effectively increase employee total reward they thus might be expected to deliver positive returns to organisations that exceed the cost of provision. For example, it's often suggested that the incentive effect of giving a prize or award to an employee in recognition of good performance is greater than that associated with simple cash bonuses (Human Capital Institute 2009).

In the academic research literature, the business case for providing fringe benefits has not generally been assessed directly by way of estimating the cost-effectiveness of particular benefits but instead indirectly by considering why organisations provide fringe benefits at all (Oyer 2005). The limited amount of available international economic research does indeed suggest a relationship between fringe benefits, reduced labour turnover and increased worker effort (ibid; Dale-Olsen 2004). However, the precise effect has proved difficult to establish. The relationship is conditional on the value employees place on benefits, which can very according to individual preference and is therefore hard to analyse (Weathington & Jones 2006). Moreover, if benefits are provided to some but not all employees in an organisation it's hard to tell whether any positive effect on recipients' behaviour is offset by negative effects on the behaviour of non-recipients, who may feel hard done by.

The fact that individual employees may value benefits differently is evident from the fact that some organisations operate flexible or 'cafeteria' benefit schemes that enable employees to choose which benefits they want included in reward packages. But estimating the implicit value employees place on benefits, let alone how this affects employee attitudes and behaviour, is both conceptually and empirically problematic. For example, we simply don't know to what extent, if given the option, employees in receipt of different fringe benefits would rather have the cash equivalent and decide for themselves how to spend this. As a result there is a dearth of sound evaluative evidence on the impact of such fast-growing fringe benefits as EAPs. For example, UK EAPA implies that EAPs are effective because almost all employers in 'best companies to work for surveys' use them (UK EAPA 2013). But as the US-based Employee Assistance Research Foundation (EARF) states on its website, in reference to international research on the subject: 'The commercial success of EA over the past three decades has not been accompanied by an increase in scientific evaluation of EA'.

Trend in provision of fringe benefits

Taken together, economic theory, the incidence of fringe benefits and a relative lack of evaluative evidence to support the business case, offer little prospect that low-paying organisations might easily be encouraged to provide more fringe benefits to employees (or, even if they did, whether their employees would actually want them to). But the chances of this happening should also be considered in the light of evidence of the longer run trend in benefit provision.

Across the UK economy, increasingly cost-conscious organisations have over time been curtailing key benefits such as pensions and sick pay (possibly indirectly indicating diminishing faith in the business case for providing them). A recent review notes that active membership of occupational pension schemes in the UK has declined to a level last recorded in the 1950s, while the proportion of employers offering occupational sick pay in excess of statutory requirements fell from 90% to 48% between 1988 and 2010 (Bacon & Hoque 2013). Even where these benefits are available, they are, in line with the discussion above, more likely to be offered by larger employers and/or to more senior staff within organisations.

The only exceptions to these declining trends are the provision of childcare vouchers and flexible working opportunities (which the review by Bacon and Hoque (2013) classifies as an employee benefit), in both cases encouraged by legislative change. The percentage of organisations offering some form of support with childcare increased from 4% in 1998 to 9% in 2011 (although one should also note that the Work–Life Balance Survey 2011 finds that 57% of parent employees do not receive any support for childcare from their employer (Tipping et al 2012).

Given that only a limited number of organisations provide childcare support, the government has decided to introduce a new form of tax relief, Tax-Free Childcare, due to be phased in from autumn 2015, the operational details of which will be finalised following consideration of conclusions drawn from a recent public consultation (HM Treasury & HMRC 2013; see also House of Commons Library 2013c). The key change is that the new relief will be available to all eligible families, who will be required to open accounts directly with childcare voucher providers, and thus not limited to those benefiting from employer-provided childcare. The new relief will be available to two-parent families where both parents are in work and to lone parents in work, subject to the proviso that no parent earns more than £150,000 per year and that the family is not receiving any support through tax credits, Universal Credit (recipients of which are covered by a separate scheme) or employer-supported childcare. Once the relief is fully operational, those eligible will be able to claim 20% of the childcare costs of up to £6,000 for each child aged under twelve.

There are at the time of writing no official estimates of the number of families expected to benefit, or the distributional impact (though the eligibility criteria suggest that low-income families will benefit least). The effect on employer provision of childcare is equally unclear (both for the main form of relief and in respect of the Universal Credit scheme). While the existing system of relief will not be available to working parents joining organisations once the new system is introduced, families already receiving tax relief on childcare provided by their employer will be able to decide whether to continue with this or shift to the new system. Similarly, in its consultation document on the new system, the government highlights ways in which employers might play a role in Tax-Free Childcare. These include providing information to employees about the new system, bulk buying childcare vouchers on behalf of employees to reduce cost, or offering additional childcare support as part of employee reward packages. In this latter respect, for example, the consultation document stresses that the new system will not affect the provision of workplace nurseries, which will continue to benefit from an unlimited tax exemption and National Insurance disregards.

As for the overall downward trend in the provision of fringe benefits, it has been concluded that 'significant gaps have opened up between employer provided benefits and the protection required by the modern workforce' (Bacon & Hoque 2013: 2). As a result, today's employees are said to be less financially secure than they were 30 years ago and, moreover, 'there is little evidence in the last 30 years that a sufficient proportion of employers will offer these provisions without leadership from government.' (ibid: 4). Encouragingly, pension auto-enrolment offers an example of such policy leadership, though this will not be required of new and small organisations until 2017 or 2018, and neither is it yet certain what (if any) impact this will have on employees' total reward resulting from trade-offs with pay or other benefits. Indeed, some of the very lowest paid (i.e. those earning below the auto-enrolment earnings threshold, currently £9,440) may in any case be unaffected. Employee participation in auto-enrolment should, however, offer some indication of the preference for this type of benefit within their total reward.

8 THE CASE OF THE UK ADULT CARE SECTOR

The big-picture account of inherent tension between furthering the aspiration of improved working conditions for low-paid workers and the underlying factors that so often frustrate progress is perhaps best understood by looking in more detail at particular occupations or sectors of employment. Part of the overarching purpose of this report is to consider what might be done to improve the quality of work in the adult care sector, in which JRF operates as an employer and service provider.

Adult care is frequently cited as an example of where the availability of low-skilled workers and public-sector financial constraints combine to create an incentive for providers not to improve employee pay, conditions and working practices, i.e. the exact opposite of the kind of quality aspiration expressed by the Commission on Dignity in Care for Older People, cited above. On the contrary, extensive studies of the UK care sector suggest that even minimal employment standards are often extremely poorly met, let alone the fact that many organisations lack an internal infrastructure of job roles, ladders and career paths (Gospel 2008; Rubery et al 2011).

Consequently there is growing concern that the care sector is not entirely up to the job of meeting client need, raising serious questions about the quality of management as well as skills and pay and conditions in the sector. Concern has been heightened by numerous media reports of abuse of residents in some residential care homes, poor standards of domiciliary care, and by the findings of wider reviews of the quality of care in both the NHS and the care sector (Francis Inquiry 2013; Cavendish Review 2013).

In the wake of this, the Care Quality Commission (CQC), the independent regulator of health and social care in England, has for the first time appointed a Chief Inspector of Adult Social Care to lead inspection and regulation (CQC 2013). The Chief Inspector will be responsible for developing a new approach to the way the CQC regulates social care, including a new rating system for providers of social care. The CQC will also be monitoring the financial sustainability of the 60 largest care-providing organisations, which can be an indicator of poor care and the risk of insolvency. But it's also acknowledged that more than inspection is required, including improvement to the management, training, pay and status of care workers.

Size and structure of the adult care sector

The adult care sector in England comprises 22,100 organisations employing staff in 49,700 establishments (i.e. local units, including residential care homes where care workers work or the base for domiciliary care workers who travel to provide care to people in their own homes). These organisations provide 1.63 million jobs and employ 1.85 million people (these latest available figures, for 2011, have been obtained from the National Minimum Dataset for Social Care (NMDS-SC), the most detailed source of data on the sector albeit based on a non-compulsory return of information from employers; Skills for Care 2012a&b). The total number of jobs in the sector is projected to grow significantly in the coming years, reaching between 2.1 and 3.1 million by 2025 depending on different possible scenarios.

More than one in three (36%) jobs in the sector are in residential care homes but approaching half (45%) are in domiciliary care and there is an ongoing shift toward domiciliary provision. Around four in five care jobs are direct care providing, 7% are managerial jobs and 9% professional jobs (the latter requiring a professional qualification, normally in nursing or social work), with the remainder admin and ancillary jobs not directly involved in providing care.

In terms of business structure, the sector conforms to the complex typology of low-wage sectors described earlier, ranging from 'the largest international companies, large charities and councils with social services responsibilities to the smallest independent care homes' (Skills for Care 2012a: 3). Skills for Care estimates that in 2011, almost half (49%) of these care jobs were undertaken for employers in the private sector, 15% in the voluntary sector, 9% in local authorities and 4% in the NHS, with the remainder (23%) provided by the fast-growing number of direct payments recipients.[5] (Skills for Care 2012b). The trend over time seems to be for consolidation in the sector, especially residential care, with a smaller number of larger organisations operating a larger number of establishments. However, almost nine in ten care-providing organisations employ fewer than 50 employees, more than half (54%) fewer than ten employees, and many operate on the kind of tight profit margins typical of much of the low-paid sector as a whole.

The adult care workforce

The workforce includes a relatively high proportion of part-time employees (40% of total employment), with shift work and night work common in order to ensure round-the-clock care provision. The sector is highly feminised (women account for more than 80% of total employment) and one in five employees are non-British. Around 12% of employees are either Black, Asian or from another ethnic minority, higher than that in the UK workforce as a whole. These groups are disproportionately employed in direct care roles. Employees on average enter the sector at age 35, around 44% over the age of 40, and in common with the national workforce trend, with increasing numbers of older workers being employed.

Most care workers are employed on permanent contracts but 30% of workers on whom data is collected by Skills for Care are employed on a zero-hours contract (Skills for Care currently estimates that just over 300,000 workers in the sector in England are employed in this way (The Independent, 2013b)). Flexi-time (worked by one in six employees) and annualised-hours contracts (worked by 28%) are also common working arrangements. The operation of shift systems, flexi-time and zero-hours contracts also means that workers, especially in the residential care sector, are recruited very locally so that they can be 'on call' without too much commuting time. This in part explains why the sector recruits such a high proportion of women at an age when they are likely to have children in school, with the availability of part-time or shift work close to their homes, enabling them to combine care work with their own childcare. One study suggests that flexible working, leastways the opportunity to work part-time or on a shift basis, is what attracts many women to work in the adult care sector (Rubery 2011). As a result, in the manner of the discussion in Chapter 5 above, flexible working can be viewed as a benefit of adult care that adds to the total reward from employment in the sector.

As for skill levels in the sector, care staff need the technical ability to assist service users properly and safely (sometimes including an element of medical care) plus basic admin skills, but for employees in direct caring roles, soft skill is generally more prevalent than formal qualifications; indeed there are minimal education requirements. Despite some improvement in attainment over the past decade, almost 40% of direct carers have no qualifications whatsoever, with the remainder split roughly equally between employees with NVQ level 2 qualifications (equivalent to five or more GCSEs at A–C grade) and qualifications at level 3 (equivalent to two or more A levels) or above.

This finding might not be too surprising, given that the personal ability of employees to treat customers with sensitivity, due respect and to display a marked degree of empathy might be considered at least as important as formal skills in the care sector. The importance of soft skill might in fact be linked to the low incidence of formal qualifications in the direct care workforce. The nature of the work involved provides opportunities for individuals who have strong personal skills but sometimes lack even basic literacy and numeracy skills, which makes further or higher level training difficult.

There is evidence that tougher regulatory standards introduced in the early 2000s had a positive effect on training activity and the attainment of qualifications in the sector. But few of the other HRM/D practices to complement training have been widely adopted – opportunities for progression are limited, attainment of higher qualifications does not necessarily lead to higher pay and most adult care workers have limited autonomy and discretion over how to do their jobs (Gospel & Lewis 2010). This is despite the fact that the percentage of health and care sector employers accredited to the Investors in People standard (27%) is higher than the national average (18%) and that use of HPW practices is similar to the national average, though that of course may simply reflect the relatively poor adoption of these practices in the economy as a whole.

Perhaps most significant of all, despite the care sector being of vital social importance, soft skills, as in other low-paid sectors, don't seem to command either a noticeable financial reward or high social status. On the contrary, the difficulty workers with few qualifications or hard skills face in gaining entry to higher paid employment sectors means that those with soft skills crowd into service sectors where this kind of skill is particularly important. This 'crowding' effect creates a buyers' market for people with solely or mainly soft skills, allowing employers to recruit them on very low rates of pay. Where, as in the care sector, these recruits are predominantly women looking for part-time work close to their own homes – which further limits the number of alternative jobs effectively open to them – the impact of labour crowding on pay can be marked.

Pay and working conditions in adult care

In 2011, direct carers were on average paid £6.72 per hour (£6.45 in residential care, £7.00 in domiciliary care), managers/supervisors £10 per hour, and professional staff £12 per hour. The adult NMW at that time was £5.93 per hour. Annual average pay for direct carers was £13,974, for managers/supervisors, £26,715 and for professional staff £28,632. In comparison the median gross annual earnings of full-time employees were £26,500 for the tax year 2011-12 (ONS 2013).

Adult care is by no means the lowest paying sector in the LPC list of low payers – in 2011 median average hourly earnings for 'care assistants and home carers' were £1.18p higher than for 'retail cashiers and check-out operators' – but offers a particularly arduous combination of low pay, demanding work, often anti-social hours, uncertain contractual arrangements and, for domiciliary workers, the isolation of having to undertake often difficult work in people's homes on their own. As the Cavendish Review notes (2013: 23), care workers earn less than social workers, outreach workers and other workers in the social care space, thereby concluding that 'measured by money, direct, hands-on looking after people is the least valued job.'

Pressure on low-paid staff is further compounded by tension between the need of organisations to standardise provision in order to fulfil contractual requirements – a direct consequence of funding and cost pressures forcing organisations to increase productivity – and the need of employees to cater adequately for the specific care requirements of service users. Pressure on staff providing domiciliary care to get from one client to another without having sufficient discretion to spend more time with clients who might require additional support is a frequently cited source of stress for individuals where stipulations from managers conflict with what they see as being their true vocation to the job. Employees providing domiciliary care services are not required to be paid for the often extensive amount of time spent travelling between clients, which in some cases can lead to effective hourly pay rates for time at work falling below the NMW (Bessa et al 2013; Pennycook 2013). Moreover, only one in five private provider organisations pay workers a supplement for shift work and less than a third pay a supplement for night work (Rubery et al 2011).

The size and structure of the sector, plus the shift away from direct, public-sector provision of services in local authority run organisations, has significantly diminished the role of organised labour. Membership of trade unions is now virtually non-existent in private care organisations, with some case studies of the sector indicating that most care staff in the private sector have little knowledge of, or interest in, union representation for either individual or professional matters (Wild et al 2010). In the context of minimal trade union representation, and thus limited collective voice, individual workers may not be able to persuade managers to change provision in ways that might potentially improve productivity by extending rather than restricting employee discretion.

The combination of low pay, work pressure and inability to offer the kind of good-quality care employees think users value partly explains why labour turnover for care workers is quite high. The turnover rate for the sector as whole (19% in 2011) is similar to that for the UK economy as a whole but the rate is higher in domiciliary care (30%) and for direct care workers (22%). In this respect, evidence suggests that the majority of employers are not using pay setting to improve staff retention among existing employees (Rubery et al 2011). Sickness absence in the sector is also relatively high, averaging around seven days per employee per year (higher than the corresponding average 2011 figure of 4.5 days for UK employees as a whole; ONS 2012).

What is also clear, however, is that most care workers appear committed to the sector if not always their current employer, suggesting a strong vocation to caring notwithstanding low pay and low status. Well over a third of employees (37%) leaving jobs in adult social care move to another employer in the adult care sector, and a further 12% move to an employer in the health sector. By contrast only 5% move from one job to another with the same employer, while 3% move to the retail sector and 9% to 'another sector' (the remainder having no immediate identified destination). This pattern of largely within-sector movement is consistent with the findings of a study of the wage structures for care assistants employed in residential homes in the South of England (Machin & Manning 2004). There was found to be very little wage dispersion within organisations but considerable dispersion between organisations, providing a potential incentive for employees in low-wage organisations to seek move to other organisations in the same sector and locality rather than necessarily leave the sector entirely.

Calls for improved working practices in adult care

The potentially adverse consequences on care quality of maintaining a predominantly low-paid, poorly qualified and low-status workforce in the care sector has in recent years led to a growing number of calls for improved workplace practices. In addition to the Commission on Dignity in Care for Older People (2012), an inquiry into domiciliary care by the Equalities and Human Rights Commission (EHRC 2012) highlights the effects of high staff turnover on care quality. The EHRC notes the emotional impact of having intimate personal care tasks performed by a large number of different people, and the frustration of having to repeatedly disclose personal information every time a new care worker visited, citing the case of one elderly women who recorded having 32 different home care workers over a two-week period (ibid.). However, it is the Cavendish Review (2013) that offers the most comprehensive set of recommendations for improving working practices in the sector, though focusing primarily on management and training issues rather than staff pay and conditions per se.

As noted earlier, median annual earnings of managers and supervisors in the care sector are similar to the median for the UK workforce as a whole, which indicates that they are only about as productive as the average UK worker even though performing work of arguably above-average importance. Evidence suggests that larger provider organisations in the care sector have well-developed management structures and capability, in marked contrast to small organisations where managers (often owner–managers) perform the full range of work activities, including providing direct care. The Cavendish Review emphasises the importance of first-line managers in the adult care sector, citing evidence obtained from the CQC demonstrating a clear link between the presence of a registered manager and the quality of outcomes that service users experience. The Review notes that managers have often had little training, and in some cases no training at all, which can have a negative knock-on effect on training activity in their organisations.

The Cavendish Review (2013: 7) finds that 'Some employers are not meeting the basic duty to ensure their staff are competent. I have talked to staff who were given a DVD to watch at home before being sent straight to the frontline.' This is despite the important work of the employer-led sector skills council Skills for Care, whose role is to determine the training needs of the workforce, develop national occupational standards and implement a national training strategy. According to Cavendish, although the sector does set common induction standards which should be met by recruits within twelve weeks, these are not always verified by inspectors and there is a lack of understanding of how the standards should be applied.

Cavendish does cite examples of good training practice in adult care, highlighting organisations that recruit people for their values and commitment to caring, invest in rigorous training and development and ensure that training translates into day-to-day practice. Such organisations are said to 'prioritise this in tough financial times, knowing that it improves care and staff engagement.' (ibid.: 32). But the review goes on to note that too many care workers do not see caring as a career with opportunities to progress, "I'm only a care worker" being a common refrain, and concludes that this situation 'is no longer consistent with the increasingly demanding and responsible roles that many support workers are undertaking.' (ibid.: 25).

Cavendish further notes that this kind of disincentive is reinforced by a plethora of training providers and qualifications that make it difficult for employers and employees to assess either the quality or work relevance of any skills obtained. Such confusion doesn't necessarily deter employers from training since many as a result develop their own in-house training programmes, though this is costly. But there is little in the way of a wage hierarchy with the result that staff benefit little financially by moving from one level of qualification to the next (see also Gospel & Lewis 2010). In this respect, the Cavendish Review (2013: 43) points to social care as being inferior to other low-wage sectors in that it 'does not yet offer the kind of clear simple career ladders available to staff who join Tesco or Specsavers', as a result of which many workers are not sure that they can see the way forward.

One potential downside of the lack of opportunity for progression emerges from the UKCES study of employer practices for progressing low-paid workers, cited earlier (UKCES 2012). A provider in the care sector describes a number of business benefits obtained from its job rotation practice. Employees are able to 'act up' to the next grade of employment and become more ingrained with the overall ethos of the business. This both assisted employee retention and also meant continuity of staff when higher level job roles needed to be filled, which was considered a valuable outcome in the elder care sector where familiarity between staff and customers is of critical importance to the overall quality of service.

To address the problem of limited progression, Cavendish thus recommends that employers be consulted on the possibility of creating a Career Development Framework for health and social care workers, proposes minimum standards of competence before staff can work unsupervised, and calls for a code of conduct for employers. There is also a call for the main trade associations in the sector and social-care employers to lead a process to agree on core national competencies that go beyond the minimum. However, this kind of recommendation ought perhaps to be considered in the light of a study for Skills for Care (Lucas et al 2008). This offers a cautionary note about the use of formalised HR management in small- and medium-sized firms of the type that are numerous in adult social care, which has been found to be detrimental to employee satisfaction and organisational performance. Introducing formalisation into what are often highly flexible and personalised employment relationships 'can be seen as a bureaucratic burden that distracts operational managers and staff from direct work with people who use services' (Lucas et al 2008: 8).

Competing pressures on adult care sector business models

While the Cavendish Review cites important examples of good practice to show what can be done to improve working practices and service quality in the adult care sector, progress has to be made against the backdrop of both tougher public commissioning of services at a time of fiscal austerity and a tougher regulatory regime. This both intensifies pressure on organisations to minimise costs and pressure on managers and staff to, as the current popular phrase puts it, 'do more with less'.

Although there has been a marked shift over time from direct public-sector provision of care services to commissioning and contracting of services from independent providers, most of the private or voluntary sector organisations operating in the care market remain heavily reliant on public-sector funding. Taxpayer finance for adult care is channelled to users through local authorities who determine who is eligible to receive care on the basis of a needs assessment and means test (the latest available official figures show that local councils in England with social services responsibilities spent £17.2 billion on adult social care in 2011-12; Health and Social Care Information Centre 2013). People of limited means deemed eligible have their care fully or partially funded, with those of sufficient means left to pay for their own care, but most care providers undertake the majority of their business by way of service contracts with local authorities. However, in comparison with the NHS, adult social care has tended to be something of a Cinderella service in terms both of status and government spending, albeit greater attention to the consequences of longer term demographic change have brought to the fore questions surrounding the quality and availability of care and how to fund it (see for example, the Commission on Funding of Care and Support – Dilnot Report – 2011; see also Humphries 2013; Himmelweit 2013).

With population ageing set to considerably increase demand for care services at a time when funding resources are under pressure, there is growing public concern that low pay and poor working conditions will persist, put service quality at even greater risk and perhaps even put some service providers out of business. According to one estimate, annual taxpayer funding of adult social care provided by local authorities in England has, under pressure of central government budget reductions, been cut by around 20% since 2010, having adjusted for inflation and an increased number of people with eligible care needs (Association of Directors of Adult Social Services 2013; Centre for Workforce Intelligence 2011). Concern about the financial viability of adult care-providing organisations was heightened by the collapse of Southern Cross Healthcare in 2011, at the time the UK's largest private-sector provider of residential care homes operating on the basis of what proved to be an unsustainable level of debt. Moreover, reports suggest that the number of care home insolvencies increased by 12% (to a total of 67) in 2012 (*The Independent*, 2013a).

The EHRC (2012) has highlighted the potential consequences of this, warning that cuts in commissioning rates are likely to adversely affect the pay and conditions of workers. Indeed, the Cavendish Review itself in turn warns that paperwork associated with regulation is already putting strain on the care workforce and cautions against adding to this as inspection is toughened. The LPC has also raised concern that the commissioning squeeze on care-providing organisations is contributing to non-compliance with the NMW regulations and thus recommends that contracts should contain an explicit clause requiring that at least the NMW is paid to employees (LPC

2013). As a result, the Cavendish Review (2013: 7) therefore recommends that statutory guidance should require councils to include payment of travel time as a contract condition for domiciliary care providers, having concluded that: 'It will not be possible to build a sustainable, caring, integrated, health and social care system on the back of domiciliary care workers who have to travel long distances on zero-hours contracts.'.

All this emphasises the degree to which employers in the care sector face competing pressures, with the aspiration of quality, improved pay and the introduction of performance-enhancing HRM/D practices confronting the fiscal imperative to cut costs. Indeed, cost-cutting has been the principal rationale for the UK's shift to a commissioning and contracting-out model of adult care provision in the past two decades.

International evidence indicates that pay and conditions for care staff are usually worse for those employed by private contractors compared with those directly employed in the public sector, partly because outsourcing serves to reduce trade union representation and collective bargaining (Simonazzi 2008). This is generally the case in large as well as small organisations, given that even large organisations mostly operate across large numbers of relatively small outlets. The often personalised employment relations in small workplaces, especially in the absence of any formal HR management, can make employees susceptible to management pressure to contain wages and conditions and also in some cases to work considerable amounts of unpaid overtime.

This may be precisely why governments in many countries have at least to some extent moved over time towards more contracting-out of services (ibid.). But the UK has taken this practice further than most countries. The juxtaposition of this contracting-out model with a deregulated labour market and plentiful supplies of low-skilled/low-wage labour makes the maintenance of low-cost business models in the sector almost inevitable.

This is in marked contrast with the situation in Scandinavian countries, notably Sweden, where subcontracting of care services to non-state providers is more limited and the government actively requires good minimum standards of entry-level qualifications to the sector. Compared with other countries, Sweden requires the highest levels of education among caregivers and pays the highest wages (ibid.). The objective of care policy is to improve employment and working conditions in order to recruit and retain a stable care workforce and enhance the status of care work. Moreover, countries such as Sweden that impose higher training standards on care workers also operate sector-wide pay regulations, often based on collective bargaining, with the result that 'it is not the training in and of itself that raises status but training combined with more regulated pay setting and the opportunity for social partners to engage in social dialogue' (Rubery et al 2011: 35). This is clearly a very different institutional context from the one that currently prevails in the UK.

Ultimately, therefore, any serious drive to improve pay, working conditions and service quality in the adult care sector may require acceptance at the very least of a higher level of funding for the sector if not a reassessment of the current contracting model.

CONCLUSIONS

Despite some qualification and reservations, the consensus of opinion is that the breadth of available research offers enough compelling statistical evidence to underpin the business case for organisations to adopt HRM/D practices to support HPW and/or EE. As a broad generalisation, one can also conclude that such practices also have the potential to improve the quality of working life of employees, which may also assist those that are experiencing poverty.

However, although this broad conclusion is in principle as relevant to low-paying organisations as to high-paying organisations, evidence on the adoption of HRM/D practices places a question mark over whether this holds for all organisations. There is also a question mark over the benefit to employees, which may depend on the types of practice involved, how they are implemented and, in particular, the degree of choice or involvement employees have in their implementation. The potential benefits of HRM/D practices for both organisations and employees, as identified by this review, are briefly summarised in Table 1.

As for employers, who are the main focus of this review, evidence relating to the effectiveness of HPW or EE strategies or individual types of HRM/D practice is neither strong nor unequivocal enough for it to offer universal recommendation. In organisational slang, the case for wider adoption of HRM/D practices is far from being a 'no brainer'. This will be particularly true for organisations that have no apparent difficulty in hiring people into low-paid jobs requiring little in the way of formal qualifications and where hard, job-related skills can be acquired quickly and cheaply, thereby reducing the cost implications of high labour turnover.

For low-paying organisations as a whole, the strength of the imperative for change is likely to depend on the specific markets organisations choose to operate in and will be stronger the more the balance of consumer preference is tilted toward consideration of quality rather than price. The decision to act on the imperative may also depend on the foresight or quality of leadership and management in low-paying organisations or their commitment to be seen as 'good employers', factors that might ultimately be as important a determinant of change as the business case for improved HRM/D per se.

This balance of consumer preference can vary within as well as between markets, which makes it difficult to determine how organisations will respond. For example, in the case of adult social care there is an obvious and growing demand for improved quality of service, which should in principle affect organisational practice, but also tight public and private funding constraints on consumers' ability to pay, which serves to preserve a significant market segment for cheaper and lower quality service providers to operate in.

Although, and perhaps unsurprisingly, case study analysis of the effectiveness of HRM/D practices rarely if ever includes low-paying organisations pursuing 'low-road' business strategies, studies do often involve aspiring small employers or large corporate employers (for example large retail or fast-food organisations) situated within low-wage sectors but keen on learning the lessons of HPW and EE. Organisations such as these may not explicitly aim to become 'anti-poverty employers' but are the group most likely to be responsive to ideas on how to improve working conditions for their employees, if not also to calls for the Living Wage.

From the perspective of raising pay levels and alleviating poverty, a commitment to increased work-related training and the development of associated progression pathways for less skilled employees would be the obvious first step on the 'high road' to improved performance as well as being the most straightforward for aspiring organisations to grasp.

On the basis of this review it is possible to suggest that some campaigning vehicle be established to enable aspiring employers to form a 'coalition of the willing' in order to promote the case for Good Jobs in its broadest sense. This should include steps to address poverty in the workforce and an aspiration to voluntarily raise minimum pay rates to the Living Wage, at least in the medium term if not immediately. This could be used to advocate best practice examples and where appropriate examine ways of building on calls for changes in practice, such as those identified in the various recent inquiries into the state of the adult care sector.

Strategies would include improvements to leadership and management, especially HR and people management skills, emphasis on skills training and career ladders, and flexible working, but in all cases close consultation and involvement of employees in the change process. Advocacy of such strategies might be undertaken by organisations willing to be Good Jobs champions or mentors.

For those organisations currently reliant on low-paid workers, with relatively little commercial need for HPW or EE and no aspiration for change, there is on the basis of the business case evidence compiled so far, little reason to assume that they will be any more amenable to becoming 'anti-poverty' employers than they would agree to pay a Living Wage. Given that these are precisely the types of organisation that sit at the heart of the UK's problem of in-work poverty this poses an obvious challenge to practice or policy advocacy.

It must be acknowledged that the current state of affairs in what some call 'low-wage Britain' is the outcome of a number of deep-seated structural and institutional features of our economy and society. In adult care, for example, talk of the need for a well-managed, more skilled and better paid workforce has also to confront the reality of limited resources, a service commissioning regime that puts pressure on organisations to cut costs to the bone and the low status afforded to people who undertake some of the hardest and most important of jobs. Similarly, as we have seen, higher quality leadership and management may not in themselves be a sufficient condition for the advancement of Good Jobs across the economy as a whole. 'Better' leaders and managers might simply be more ruthlessly efficient at responding to incentives within the economic system that encourage the kinds of low-road/low-wage organisational strategies that are not good for employees.

Many long-standing observers of the roots of the UK's low-productivity/low-pay problem stress that such reality continually bites hard enough to trump the best of intentions for voluntary change. This explains why a common theme emerging from discussions of an interim version of this review was that voluntarism and practice advocacy were unlikely to prove successful and indeed that talk of a business case for Good Jobs or 'win–win' outcomes beneficial to both organisations and employees could deflect attention from tough public policy choices.

To quote one commentary, a truly realistic assessment of the UK's fundamental low-wage problem 'would suggest that to make any serious advances would require policy interventions designed to foreclose cost-based routes to competitive success, exert pressure on firms to move upmarket, tackle short-termism and strengthen the position of organised labour both within the workplace and national policy setting' (Lloyd & Payne 2006: 13). The corollary of this in the adult care sector might be a shift back to direct public provision of services or tougher requirements on independent care providers to improve terms and conditions of employment, if necessary increasing the amount of taxpayer funding of provision in order to guarantee this.

However, despite signs of a wider public appetite for tougher action on employer practice – such as in the adult care sector with recent reviews recommending some greater quality strictures in contract requirements – a radical agenda for regulatory change challenges neo-liberal conventional wisdom which has been until now dominant in UK policymaking and business circles for at least the past generation.

The current coalition government, while acknowledging that the UK has one of the most lightly regulated labour markets in the world, nonetheless contends 'there has, however, been a steady flow of new employment regulation over the last two decades which has added complexity and, to a degree, undermined the overall efficiency of the labour market' (Department for Business, Innovation and Skills (BIS) 2013b: 3). Other than the setting of minimum standards, such as the NMW and the right to request flexible working, the government thus states 'we will step back from dictating outcomes in the labour market and instead aim to support and facilitate employers, individuals and their families – those who know best – with the freedom to arrange their employment relationships in ways that work for them' (ibid: 4). The implicit constraint is also evident in calls for better practice in adult social care. The Cavendish Review (2013: 51), for example, while advocating some important reforms nonetheless states: 'The review does not wish to place overly onerous burdens upon employers, given the harsh financial environment. There is no point making demands on employers which are not heeded or which put good, small care homes out of business.'.

It is not the purpose of this report to decide on the relative merits of regulation versus voluntarism. Regulation is open to the charge that it threatens labour market flexibility and might put some organisations and jobs at risk, albeit the experience of the NMW shows that organisations can adapt in ways that enable them to safely adjust to tougher regulatory requirements. By the same token, the evidence considered in this report would suggest that voluntarism faces an uphill struggle if it is to successfully reduce the relatively high incidence of low-wage/low-quality employment in the UK economy and genuinely help improve conditions of employment at the bottom end of the labour market to help combat in-work poverty.

Table 1: Summary of benefits of HRM/D practices

Practice	Benefit to organisational performance	Benefit to employees
HRM/D HPW systems (where particular practices are not used in isolation but combined with an overall management strategy to improve individual/organisational performance)	Generally positive impact on employee performance, but magnitude of effects on cost reduction, productivity, profit and overall organisational performance uncertain because dependent on various contingent economic/institutional factors. The latter include conditions in labour markets, nature of employment regulations, quality of leadership and management in organisations and effective practice/implementation	Potentially beneficial to job satisfaction and employee well-being, but effect uncertain because dependent on quality of leadership and management in organisations, degree of worker discretion in performing job tasks and degree of genuine individual or collective employee involvement in organisational decision-making (i.e. strength of 'employee voice')
Workplace-based/job-related training (training that is either fully or partly funded and facilitated by employers)	Generally positive effect on productivity and employee engagement, but incentive to invest in training depends on product/service market orientation of organisation. Similarly, overall performance impact depends on how well training is integrated with other HRM/D policies (which affects the use of skills, in the jargon 'skill utilisation'), and the return on employer investment depends on subsequent employee mobility	Opportunity to train may enhance job satisfaction, employee engagement and well-being, but any effect on employee productivity and performance depends on the quality and level of training, while the effect on employee employment and pay progression depends on pay structures and systems within their current organisation and/or the extent to which skills attained can be transferred to other organisations/departments
Job rotation (enabling an employee to experience more than one job role in an organisation)	Generally positive where it improves ability of employees to more easily switch work roles ('functional flexibility') and move from job to job when vacancies arise (reducing recruitment costs), but requires sufficient number of jobs in organisation and variation in job roles to be worthwhile	Has potential to enable employees to vary work routine, which can reduce monotony and enhance well-being, and also to acquire new skills or experience which may aid subsequent job mobility. However, overall effect on well-being depends on degree of employee choice over how rotation is conducted
Flexible working (various ways of working that help organisations match employee hours to changing work needs and help employees match hours of work to their individual/family preferences)	Uncertain because dependent on organisational context, so any generalisable cost-benefit assessment indeterminate; also depends on whether introduced as a non-wage employee benefit or with clear business outcomes	Generally positive if freely chosen and appreciated by most employees, but there is a potential downside, especially if certain forms of flexible working result in limited hours or types of work that restrict opportunities for subsequent job and pay progression (for example if part-time employees receive less training)
Fringe benefits (an array of non-wage financial and non-financial aspects of employees' remuneration)	Potentially beneficial effect on recruitment and retention (thereby helping to reduce turnover costs) and employee motivation, but effect likely to vary according to type of benefit provided. Only limited evaluative evidence of effectiveness	Uncertain whether fringe benefits add to employees' total reward or substitute for pay, though if employees value products of fringe benefits more highly than the cash equivalent, this may increase their effective reward and well-being

NOTES

1 These would include, for example, structured recruitment, training, development, performance management and appraisal systems, flexible working and fringe benefits.

2 that is, the provision of services to people in need of care living either in residential homes or in the community

3 SES has been conducted every six years since 1986 – Felstead et al 2013).

4 Level 4 is equivalent to a degree or Higher National Diploma (HND).

5 Direct payments give service users their own budget, who then make their own care arrangements to employ personal care assistants. At present this is still usually with the support of local authorities.

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