

The Productivity Challenge

Where the Real Work Must Be Done

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It may not be anything new, but in the debates about workplace relations, there is too much political and tribal criticism and not enough constructive work on the solutions for building the mutual benefits that arise from cooperation. Today I want to reorient the debate and provide a constructive path for considering the challenges of Australian enterprises in the current global environment.

Wealth distribution depends on wealth creation, and wealth creation depends on successful enterprises - and this is where the focus must lie. It is one thing to say, as the Workplace Relations Minister Bill Shorten recently told the Sydney Institute, that the conflict model is not the path for the future. It is another matter to determine how to move away from it.

I want to speak about one element of labour productivity - how employees and employers can improve the performance of their enterprises by the way they relate to each other. This is an area, which in my view, requires far more attention from all involved in workplace relations policy and practice. Reviews of legislation that merely focus on technical changes or new names of institutions run the risk of missing the boat entirely - as the Hancock Enquiry did 25 years ago. It was swept away to irrelevance by the far more significant Keating government changes a few years later.

It is just on 20 years ago that Australia's enterprise approach to workplace relations rose from the ashes of the unique Australian compulsory arbitration model which had existed for the previous 90 years. The change occurred because a consensus was reached between representatives of business and labour that this was essential, in an increasingly internationalised economy, to take the Australian economy forward. The Business Council of Australia said at the time:

“The Council's overriding objective is to create an industrial relations environment where people can work together most effectively and with greatest satisfaction; where the highest possible productivity becomes the common goal for all; and where healthy enterprise performance provides the best outcomes for employees and employers alike. The Council believes that these objectives will be best served by a fundamental re-orientation of the system away from one largely focussed outside the enterprise and adversarial in nature and towards one which is centred on the enterprise, develops a high degree of mutual trust and interest, and strengthens the direct relationships between employers and employees.”¹

In addressing the 1991 National Wage case, then Secretary of the ACTU, Bill Kelty, said:

“Undertaking necessary change must necessarily involve a devolution of authority from the ACTU to its affiliates; from its affiliates to the workers involved. It must equally involve a devolution of responsibility from a national wage system, an industrial tribunal to individual workers and management at a workplace...and create a new wages system for the next generation of Australians, involving as it does, inevitably, a diminution in the authority of bodies such as the ACTU; bodies such as the conciliation and arbitration systems of Australia, as more and more is done where more and more has to be done, and that is in the workplaces of this country.”

The momentous changes made soon after, and since maintained by an unspoken political consensus, reflected the objectives of the BCA and the ACTU.

But how are we really travelling?

Let's flick the switch to May 2012. There is widespread concern that productivity growth has slowed and questions have been raised about the workplace relations system.

It appears clear that labour productivity is not the only source of the problem. There is a broad consensus among Australian economists that the slump in Australian productivity growth is in part due to the economy's adjustment to the dramatic rise in Australia's terms of trade. As with many areas of public debate and economics, this debate is shrouded by myths and misconceptions - such as the failure to differentiate between labour productivity and multifactor productivity, the failure to explain the wide disparity in productivity performance in different industries and the failure to identify the true reasons for changes in productivity.

Take a look at how mining and manufacturing productivity has changed.

Slide 1.

You would think that something drastic has to happen in mining. In fact mining is not the problem. It is obvious that major changes are needed in industries such as manufacturing. Graphs such as these can paint a misleading picture. Regardless of what range of factors are involved in producing this picture, it is indisputable that labour productivity can and should improve in all industries where there is the potential to do so, especially in sectors such as manufacturing.

A number of important questions arise. Has the necessary mindset changed to reflect the original intentions of an enterprise based system? Have we up-skilled sufficiently in those 20 years to continue to produce the goods? Does the institutional framework support these elements - or work against them?

The Executive Director of Manufacturing Australia, Dick Warburton recently said that despite the original intent of the Hawke-Keating reforms to develop a more cooperative approach, the situation has since regressed. BHP-Billiton Chairman Jac Nassar made similar comments in his speech last Wednesday to the Australian Institute of Company Directors.

In most industries, productivity improvement is a priority, yet remains a major challenge. Boral Cement MD Mike Beardsell said recently that it was easier to shut up shop in a struggling manufacturing operation than push for greater efficiency.

Even some of our more successful high technology manufacturers are struggling. One business, Finisar Australia, exports over \$100m in telecommunications equipment per year. Yet in order to fight competition from China it has needed to reduce its prices by 15% every year. And in order to survive, it needs every one of its employees to focus on cutting costs. With significant cooperation from the workforce it hopes to survive the next five years. This

is cold comfort for us all, when a successful Australian business faces this sort of pressure - simply to survive.

The challenges are immense - and quite acute in many industry sectors. They are immense even with workforce cooperation - let alone when cooperation is diminishing. There may not be a silver bullet solution. But if there is an area capable of leading to a significant improvement, then we should be making the most of it.

Where are the positive examples? What is the positive direction?

The problem is that it is difficult to get a good understanding of success stories from the outside. And it is difficult to tell from the media. In all areas of reporting, conflict is more likely to attract publicity than harmony. The field of workplace relations is no exception.

No doubt you read about the recent good news story concerning Grenda's Bus Services in Melbourne. Grenda's was a small family business established in 1945, that originally operated some suburban bus routes in and around the Melbourne industrialised suburb of Dandenong. Grenda's grew by taking over wider suburban government contracts and services ultimately operating 1300 vehicles and employing 2000 employees - in Melbourne, Adelaide and Perth. Its successful formula was treating its employees fairly and regarding them as part of the family. When the owners of the business received an offer to buy the business which was too good to refuse, and the business was sold earlier this year, the Grenda family members decided to pay their employees part of the proceeds of sale, thousands of dollars each. This prompted some to suggest that Ken Grenda was Australia's best employer.

I have known Ken Grenda for 30 years and I spoke to him recently about the publicity he had been getting. He tells me that his media monitoring company discovered reporting of his efforts around the world - even in North Korea. So when an Australian private sector business gets publicity in North Korea for treating employees well it must be quite exceptional. But for him he doesn't regard it as unusual or any change to his approach over the time he has been in business. He has always dealt directly with his employees and treated them well. Clearly Grenda's was a productivity leader and a successful business.

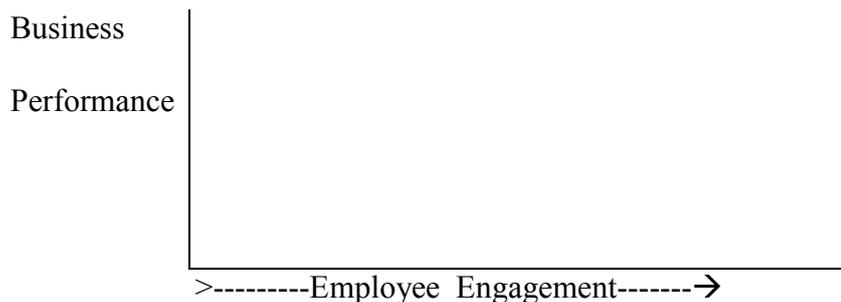
The 2012 Telstra Productivity Indicator has identified the advantage that productivity leaders have achieved over followers. And the rewards are high. In the private sector, the productivity advantage is reflected in greater success in leveraging investment in innovation to help develop new revenue streams, deliver significant growth and increase market share. In the government sector, the productivity advantage is reflected in greater success in managing risk and fostering collaboration between staff, key stakeholders, interest groups and clients.

Productivity leaders focus on people. The Telstra Survey found that eighty seven per cent of productivity leaders prioritise the attraction and creation of an engaged workforce. Productivity leaders consider that improved employee engagement has contributed in a major way to achieving past productivity performance.

There are of course other elements that contribute to productivity performance - but there is often an interaction of one sort or another with employment issues. Technology changes are

of course a leading productivity factor. However significant barriers to technology investment disclosed by the survey included ‘the complexity of managing change’ and ‘the culture change necessary to implement new technology’. These factors have a large ‘people’ element.

So what does this mean for employee relations? Clearly it shows that there is a correlation between employee engagement and business performance. We can represent that graphically as follows:



But the more usual notion of industrial relations is a workplace where there is conflict of one type or another - and the picture we get far too often is a workplace characterised by adversarial industrial relations. Many who work in the area of industrial relations concentrate most of their activity when and where there is conflict. Conflict can be generated by perceptions of unfairness. It can arise from claims on how the cake is distributed. It is often generated when one side or the other has power at its disposal. The threat of using power can be very effective and is probably more widespread than its use. There may not be disruption, but the outcomes may represent an adversarial culture or unequal power bases. Conflict can also arise when there is a battle for recognition and relevance, or preservation of power. Many disputes have several of these elements and many workplace cultures are characterised by undercurrents of them.

For those of us who work in the area of workplace relations, we need to look beyond our immediate experiences. For those who represent unions, the sphere of activity is obviously working on behalf of union members - tracking at about 13 -14% of employees in the private sector for some time now - and a lower percentage of workplaces. A proportion of those who represent unions only get involved when significant conflict arises. It is easy to see that one’s perspectives are coloured by these experiences - the highly unusual severe areas of conflict or some other type of relationship breakdown.

Focussing on adversarial disputes risks missing the main game, the vast majority of situations and many of the positive experiences. It risks being influenced by extraneous factors. Membership and recognition are not ends in themselves. Looking at adversarial disputes involves the unhealthiest of workplace relationships and rarely does anything to improve

them. Negotiating settlements in adversarial workplaces or separation arrangements for underperforming employees usually involves addressing the least constructive workplace relationships. If you look at the agreements in some industries, they bear a striking resemblance to one another - and employers and employees will admit that they do not feel they have any real choice in the matter.

It would be a pity if our workplace relations system were geared primarily to these types of situations. Sadly, I think it is. Because if I could make one generalisation about workplace relations it is this: it is impossible to generalise in workplace relations. There are a myriad of quite different circumstances. There are enterprises that can be plotted all over the spectrum of business performance and employee engagement. Every enterprise variable is wildly variable across the Australian economy.

But regardless of the actual circumstances, the true objectives of workplace relations professionals should be fostering harmonious workplaces that contribute to enterprise success and treat employees fairly and equitably. It is time to ensure that all motivations aimed at protecting vested interests are put to one side. We need to focus on the positive examples and bring others up to the highest possible standard. In all workplaces, for the mutual benefit of employees and their employer, there needs to be productivity and business improvement and the collaborative involvement of the workforce in bringing that about.

When we in our professional work spend most of our time on dysfunctional or broken relationships, we focus on the short term fix. And we risk losing our perspective on how to transform the unproductive culture. We tend to disregard the vast majority of workplaces that cannot be described in those terms - but are nevertheless in need of help to take them to a higher plane.

Much of the problem exists because in gatherings like these - Industrial Relations Society conferences, there has not been a sufficient change in the direction postulated 20 years ago when enterprise based decision-making was adopted. That is why we are a small number of people in a small room in a coastal village compared to the Australian Human Resources Institute which has hundreds of attendees at each of the three or four concurrent stream events and a sponsor's hall of exhibitors ten times the size of this room. And I can tell you that they are focussing on how a productive and equitable enterprise culture can be developed in mainstream Australian enterprises. It would be a mistake to think that what is dealt with in this gathering is the mainstream.

Let me illustrate what I think is an important constructive pathway - by reference to some observations of workplaces over the past 30 years. Let's take the dimensions of employee engagement and business performance acknowledged in the Telstra Survey but also inherent in the design of our enterprise based system. In many workplaces characterised by adversarial industrial relations there is a low rating for both. (Slide 2) All things are relative of course, but there is generally much more potential for more meaningful and positive employee engagement and better business performance in these types of workplaces. We all know - perhaps too well - workplaces that fall within this description. Most of them seem entrenched

in that category. They represent the hardest challenges and perhaps the areas of highest reward, because they are often significant businesses, and there is only one direction to go.

I am sure we also know workplaces where dialogue occurs, and indeed become talk fests. A lot of time, a lot of process, quite a lot of employee engagement - but not much improvement in business performance. In fact the process seems to take over. (Slide 3). This sort of workplace can be very frustrating for all, because despite their efforts, and the relative cordiality of their dialogue, the improvements are simply not evident. For those enterprises there needs to be some extra effort to raise this line above the horizontal.

So the option taken by some is to contract out (Slide 4) - and this often brings about an immediate spike in business performance. It does not however tend to utilise employee engagement to a significant degree. Current employees, those that remain, might rise to the challenge and look at some form of competitive tendering by making their labour more attractive. It can be a circuit-breaker and at least move away from an entrenched negative culture. Often widespread contracting remains a constant battleground, control is lost as leadership is delegated to a contractor business and long term improvements are limited.

(Slide 5) This is a desirable path for many productive enterprises - employee alignment leading to business improvement. Employees who contribute positively and willingly to improved business performance. In the words of the BCA, where the highest possible productivity becomes the common goal for all. It goes without saying that this sort of workplace can be expected to involve high levels of employee satisfaction and employee reward and recognition. They are unlikely to stay on this path if they don't.

So how does one move onto this pathway? Not by more adversarial behaviour obviously, or pulling the levers inherent in such relationships. What are the techniques available?

There is a mountain of information available on this. The importance of good communications, genuine employee involvement in business circumstances, performance rewards and recognition of one type or another, efforts to encourage a culture of mutual discretionary effort, building alignment through safety and quality performance, enlightened and fair leadership and genuine teamwork. Many organisations are well down the road of entrenching an appropriate mix of these elements. Many are not even at first base.

Management often has good intentions on these matters. But too often they find it a battle to implement them. Are employees appropriately encouraged to embrace these matters? Do employers and employees know what can and should be done as part of day to day management at the workplace? Do bargaining representatives encourage these processes, via the bargaining process or otherwise? What roles do employee advisors and leaders have in encouraging these pathways?

So I ask the question. Do we have a system that involves the appropriate orientation and encouragement of the mutual benefits arising from improved business performance and fairness? Or at least empowers those with the ultimate responsibility for their enterprise to

head in the right direction and support them in their endeavours? At a broader policy level can we at least build a consensus around this desirable path?

The desirable path for improved productivity and fairness must directly and principally involve those at the enterprise level. The system must encourage cooperative employee alignment aimed at improving business performance and fairness to employees.

It was disappointing to note that the submissions to the current review of the Fair Work Act generally fail to address the matters that I have identified here. A review of legislation cannot achieve greater productivity in itself. It cannot achieve an improved framework unless it identifies where the responsibility for producing positive results lies and empowers those at the workplace level to do so. Consultations between industry and union players - with or without the involvement of a tribunal - cannot achieve productivity improvements unless they do likewise.

As has been the case since the establishment of the enterprise based system, those who personally benefit from centralised or adversarial dynamics will be threatened by renewed devolution to the workplace level. Bill Kelty reemphasised this last Wednesday night. And they will be threatened by processes which do not require or highlight their combative or conflict resolution skills. Indeed many still disparage the very notion that employers can work collaboratively with their employees to deliver truly mutual benefits. Many believe that the type of employer behaviour engaged in by Ken Grenda is paternalistic, does not lead to mutual benefits and is more concerned with undermining workers representatives. As incredible as it may seem, I have heard that view expressed not only by industrial relations players, but also labour relations academics and tribunal members.

There is no room for sacred cows here. The success of advisors, representatives and institutions should be measured by the extent to which they contribute to positive productivity and fairness outcomes for their constituents, clients and the broader community.

We may need a review of our institutions, and a consideration of the roles they perform. In the UK, the Arbitration, Conciliation and Advisory Service has a best practice advisory function. It issues publications and provides training dealing on the model workplace. It issues tips for better management.

In Australia, this type of role does not really exist. It may have been obliquely tacked on to the Fair Work Ombudsman's functions - but with a compliance focus - not a best practice focus. I doubt that there is sufficient expertise in the Fair Work Ombudsman's office to contribute much at all on best practice workplace relations and I certainly do not think that the type of expert assistance fits well within an enforcement body.

Nor for that matter does it fit well with a body made up largely of people with experience in adversarial industrial relations disputes. Let's be frank and not ignore realities. Until the recent appointments, only one of the Sydney based Commissioners of Fair Work Australia did not come from a union background - and she is a career public servant. The only real variety in background is they come from different unions. As I have already observed, this

spectrum of experience is likely to involve a small minority of workplaces and a particular type of workplace dynamic. In a workplace with a low level of unionisation, (the vast majority of workplaces) the offer of advice, assistance or recommendations from people with such a narrow spread of backgrounds is likely to be seen as more frightening than enlightening.

Perhaps there is a role for the Productivity Commission in this regard.

As workplace relations professionals, let's recommit to a cooperative approach based on enterprise improvement and fairness.

Let's acknowledge where the focus for productivity improvements belongs and empower those primarily responsible for devising and delivering the benefits relevant to their enterprise.

Let's ensure that they are encouraged to do so in a way that treats employees fairly and builds a long term, productive and cooperative culture.

Let's acknowledge that vested interests that hinder workplace cooperation should not be supported or encouraged.

As professional workplace relations advisors let's sharpen our skills in the areas that contribute most to workplace productivity and fairness, so that more is done, where more work has to be done - in the workplaces of this country.

¹ Enterprise Based Bargaining Units - A Better Way of Working, July 1989, p 2.