



CPRN RCRPP

# ***Rethinking Productivity from a Workplace Perspective***

By

**Morley Gunderson**

## **Executive Summary**

CPRN Discussion Paper W|17 is available at  
<http://www.cprn.org> or on request at (613) 567-7500

---

**Canadian Policy Research Networks**

600-250 Albert Street  
Ottawa, Ontario K1P 6M1

## Executive Summary

In the global economy, where the prices of goods and financial and physical capital are increasingly determined and fixed in world markets, the main source of comparative advantage lies in the strategic use of human resources via the connection of workplace practices and productivity. Most discussions of productivity have been at the *aggregate* economy-wide level related to such factors as technological change, the computer revolution, and efficiency gains from trade liberalisation and the education of the workforce. In contrast, the focus of this report is on the unit of analysis – *the workplace* – where such productivity related interactions actually take place.

The link between workplace practices and productivity is important for all stakeholders – employers, employees and governments. For employers, productivity is crucial for competitive survival under global competition. For employees, it is important for job security and sustained real wage growth. For governments, enhanced productivity is important for sustainable growth, reduced unemployment, tax revenue generation, and for providing the means for a social safety net and social programs in general.

There is also growing recognition of the link between workplace issues and broader issues of health and well-being. Enhanced productivity that is generated through increased stress and loss of control at the workplace can be a false economy in the sense that it generates negative health outcomes and health expenditures. On the other hand, productivity improvements at the workplace, generated through more positive mechanisms outlined subsequently, can enhance compensation and job stability, which in turn can enhance health and well-being.

An interdisciplinary perspective is taken in this paper, focussing on two interrelated issues:

- The impact of workplace practices on various outcomes, especially related to productivity, firm performance, competitiveness and innovation as they affect organisational performance, which in turn directly feeds into the aggregate productivity and competitiveness of the economy.
- Barriers to the adoption and diffusion of “best” workplace practices.

The workplace practices discussed here are the main ones dealt with in the literature and are most fully documented in research. They include:

- Job design, including job classifications and teams
- Employee involvement
- Compensation
- Work time arrangements
- Training
- Diversity management
- Workplace well-being programs

## ***Methodological Issues***

Methodological problems in evaluating the impact of workplace and human resource practices on firm-level productivity and competitiveness are identified and analysed. These include:

- Defining and distinguishing different workplace practices (especially when they are combined in bundles and have key interactions) and defining and measuring productivity and competitiveness outcomes at the workplace level;
- Establishing the link between employee attitudes (satisfaction, motivation, commitment) and behaviour (absenteeism, turnover, effort) on the one hand, and organisational performance on the other hand;
- Dealing with the complexity of interrelated factors that can affect firm performance, especially when they are often linked to changing workplace practices;
- Reverse causality may run from firm productivity and performance influencing the establishment of different workplace and human resource practices;
- Bias from various factors including: selection of particular employees into the workplace or human resource program; selection of the evaluation results that get published or expounded in the media; and biases from introducing workplace practices to deal with temporary crisis situations that may revert to normal;
- Hawthorne effects whereby employees respond to any change; and
- Difficulties in evaluating the *long-run* impacts of the new workplace practices.

## ***Key Findings***

These methodological limitations of the evaluation studies suggest that the following generalisations that emerge from the evaluation studies should be regarded with appropriate caution:

- Most of the new workplace practices such as the job design features associated with high performance work systems, employee involvement, pay for performance, compressed workweeks and flexitime, work sharing and job sharing, multi-skill training, diversity management, and workplace well-being programs had positive effects on employees (satisfaction, tardiness, absenteeism, commitment, motivation, effort, performance) which in turn positively affected firm performance, productivity and competitiveness.

- Success of the workplace practices was enhanced when they were: (1) combined in *clusters* or bundles of reinforcing practices, (2) integrated to *fit* with the overall corporate strategy of the business, (3) *supported* by managers, supervisors and the union, if present.
- These ingredients of success were generally easier to combine in new Greenfield sites, unencumbered by historical practices.
- In part because of the importance of clustering and integrating to fit with the corporate strategy, it is not feasible to rank the different workplace practices in terms of their *individual* effect on individual and firm performance – in essence, *context* and *fit* matters.
- In general, but not always, practices that led to more favourable employee attitudes in areas such as satisfaction, morale and commitment, also led to more favourable performance outcomes for the individuals and their firms.
- While favourable outcomes typically occurred for employees, unfavourable by-products also often occurred in such forms as stress, and polarisation between “good jobs” and “bad jobs.”

## ***Barriers to Adoption***

In view of these generally favourable outcomes for employee attitudes and performance, and ultimately for firm performance, the question of why such practices are not more readily adopted and diffused becomes paramount. A wide range of barriers to diffusion were outlined, including:

- A substantial degree of uncertainty (in part because of the methodological problems of evaluating workplace practices) over which practices work best and how they work best with respect to their combinations, workplace context and employee characteristics.
- Resistance on the part of the different stakeholders – managers, employees and their unions – especially if they have a vested interest in the former status quo, and are threatened by the change.
- Legislative barriers whereby restrictions in the legislation may inhibit or at least discourage change.
- The short-term focus that often characterises the time horizon of many of the stakeholders.
- The reluctance to share information on workplace practices when they can be a source of competitive advantage.
- Barriers to co-operation reflecting such factors as the legacy of adversarialism, the differential costs and benefits associated with co-operation, and federal-provincial tensions.

- Difficulties of determining the benefits and costs to different stakeholders, especially of human capital investments, and hence of determining who should pay, coupled with difficulties of paying or borrowing on the part of employees.
- Difficulties of appropriating the benefits of innovative workplace practices when the successful ones may be quickly emulated by others, including competitors.

## **Research Needs**

The previous discussion highlighted a variety of policy implications and areas in need of further research, including:

- It is likely to be more fruitful to *focus* government intervention onto areas where the incentives for the private parties themselves have broken down. That is, rather than dissipating policy intervention into areas where the private parties themselves have more information and expertise – and hence where public intervention may do little good, and even do harm – it may be more fruitful to focus public intervention on areas where the mechanisms of the market and collective bargaining may break down in providing what could be considered as the socially optimal amount of innovation and diffusion of workplace practices.
- Such a breakdown could occur because employers may not have sufficient incentive to innovate in this area because they bear the full cost of their innovation but cannot appropriate the full return. Government subsidies to organisations to encourage such innovation is not likely feasible, although awards could be made in areas such as diversity management. Co-operative collective mechanisms like Sector Councils could be encouraged to internalise the spillover benefits within an industry. The same applies to labour-management co-operation in general to assist the parties to escape from the prisoner’s dilemma of non-cooperative behaviour. Governments can play an important role in bringing stakeholders together to devise research agendas that will have practical relevance, and to disseminate the results of that research, as well as information on what works and what does not work in this important area. Loans for individuals to finance human capital formation could be considered (just as student loans exist) given the inability of individuals to use their human capital as collateral for a loan.
- Governments could also do their own experimentation in innovative workplace practices, revealing the information about what works and what does not work in this area. Doing this in Crown corporations could be particularly informative since Crown corporations run the gamut, with some being close to government departments, and others being close to private corporations.
- On the research side, it is tempting to simply conclude that more research is needed on the effectiveness of any and all workplace practices. As indicated by the vast literature that

already exists (and that is only illustrated here), more mileage is likely to be gained by synthesising that literature and by encouraging multidisciplinary interaction. A smaller number of high quality studies incorporating the best techniques of the different disciplines are likely to be more fruitful than a larger number of lower quality studies in a variety of different disciplines.

- Data that link behavioural outcomes of individual employees to the workplace practices of their organisations is likely to be particularly useful to facilitate testing for the key interactions and clusters that are important, and the context in which they will work.
- More conceptual research is also merited on the barriers to workplace innovation and the diffusion of that innovation, and perhaps getting information from the parties about the importance of those barriers. Reducing such barriers could be a very cost-effective way of encouraging those closest to the workplace – the private parties themselves – to develop best practices in this increasingly important area.