

## .Mel Cappe

Lars is a noted professor of Economics at Dalhousie University in Halifax and is well known for his work on Canada's changing workplaces. Mr. Osberg also is on the Minister's Advisory Committee on the Collective Reflection of the Changing Workplace and Mr. Osberg will talk to us about equity, efficiency, and the new workplace.

## Lars Osberg

The initially advertised title for this talk was: "Sharing the benefits of innovative workplaces in a world of contingent work," but I have changed it to "Equity, Efficiency and the New Workplaces", because the two titles have a different focus. The first title basically presumes that the benefits of the new workplaces will be there regardless, and the issue is how to share them out. However, the second title tries to draw a link between social equity and the full realization of the potential efficiency gains of new workplaces. I think that it is important to look at the new workplaces and the full realization of their potential efficiency gains in terms of the potential for intermeshed networks high performance workplaces - and social equity is basically a precondition for full achievement of the potential efficiency gains of such intermeshed networks.

Within the individual establishment, perceived equity in sharing the benefits of workplace changes in both pay and job security is already central to the effective operation of the high performance workplace. It is useful to ask yourself the question: "What is it that makes high performance workplaces actually work?", because these enterprises are trying to do something that is considerably more difficult than traditional workplaces. Many of these workplaces are operating in a just in time mode where there is a huge premium to rapid reaction, to very precise timing of production, and to absolute dependability in production. These workplaces are using highly complex technological processes in an environment of very rapid technological and market change, but although they are constantly changing how they do things, a key word in their operation is quality.

The demands for quality in both goods and services production are being raised to entirely new levels of stringency. In the goods sector, you find many firms are really starting to become serious about the idea of zero defects. However, the attainment of zero defects in manufacturing is simultaneously rendered more and more difficult by continual pressure for new, innovative designs and product changes, and by rapid technical change in production processes. The result is short cycle runs, and a continual process of process adaption.

In the services sector, the idea of quality is again key, but what *exactly* is "quality"? Quality, particularly in services production, is the most ambiguous of terms. What exactly is a high quality financial transaction or a high quality bit of financial advice? Particularly at the top end of the services sector, the idea of quality is ambiguous and ever-changing, and it really doesn't matter too much what the producer thinks quality is. What really matters is what the customer thinks quality is and since each customer is somewhat different, each customer has a somewhat different definition of a high quality transaction. In that sense, it becomes essential for a firm to solve the customer's problem rather than the organization's problem. And in order to

solve the customer's problem, in both manufacturing and services, when you have an environment of very rapid change, and very stringent market demands, delegation of decision-making becomes increasingly essential.

In many of the new workplaces, delegation of authority and of operational decision-making, has been combined with a whole new way of operation - the creation of semi-autonomous work teams and the elimination of whole layers of middle management. The elimination of supervisors implies a whole new degree of delegation of responsibility for quality control. The key idea, for many firms, is getting it right the first time and thereby eliminating the need for separate quality control departments.

Now, obviously, in order to make this sort of workplace environment work, you need high quality labour and capital inputs. You need a substantial amount of individualized training, and high human capital at the level of the individual, and you need good services inputs, which are on time and on budget, and of dependable quality.

However, I want to emphasize another dimension of it, because if we're talking about multi-skilled, multi-tasked and highly flexible work teams, these teams also need a whole new level of social skills on the part of workers. Team members have to interact at the workplace and solve problems in a way that they didn't have to do in the old assembly line, hierarchical, mode of organization. And, in order to solve the customer's definition of the problem of quality, workers kind of have to want to.

This kind of new workplace therefore requires a new level of cooperation on the part of workers, a new level of internalization of the firm's goals, and a new level of worker commitment. The old alienated labour tradition and the command and control-type firm just doesn't make it in this sort of environment - but the transition to a new type of work organization doesn't happen by chance either.

Successful firms realize the interdependency between the sociology of work and the technical aspects of work organization. They realize the interdependency between "hard" and "soft" technology. The "hard" technology of individual human capital and the physical capital of the workplace has always been the traditional focus of economics departments. However, increasingly firms are realizing that best practice "soft" technology, by which I mean the technology of creating relationships among people at the workplace, the technology of motivation, and the technology of organization, is equally essential for success at the level of the firm.

The key to making autonomous, motivated teams work is team cohesion and cooperation. It is not really reasonable to think that team cohesion and cooperation is going to function and thrive in the long term if the members of those teams think that they personally may not be there tomorrow. Job security is a basic precondition for the success of autonomous work teams. It is also essential for the cohesion of these teams that there be a sense of perceived equity among the

relative rewards which team members receive. Successful firms therefore tend to de-emphasize highly individualized pay practices and tend to emphasize instead payment on the basis of skills or payment on the basis of salary, and have moved away from the traditional 19<sup>th</sup> century piece rate mode.

Of course, the reason why we are all here, and the reason why this is a public policy issue, is not, the question, “how does a single stand alone high performance workplace function?” The public policy issue is not the single stand alone firm. The public policy issue is how to create a high performance economy, not just a single high performance workplace. More exactly, the public policy problem is how to increase the percentage of establishments in the work force that has these sorts of high productivity characteristics and how to enable them to thrive in the long run.

The full potential of these new technologies is only realized when intermeshed complexes of high performance firms feed each other. When such complexes work well, these enterprises work together in a very finely-meshed interaction. Firms that are operating in a just in time production mode are linked to other firms very quickly and very precisely in their production processes and they can only do that if they depend on each other. Such firms have to have a high degree of development of common workplace standards and a high degree of communication. In an environment of very rapid market and technological change, new models of relationships among firms have evolved as large firms develop long-term sub-contractor/contractor relationships, in which both share the risks and the rewards of new product development and new design. A common infrastructure of suppliers and inputs and a common high quality labour pool to pull from helps these firms to survive, but they thrive most in an environment when other firms that are similar to them also thrive.

In many ways, the idea that the high performance workplaces of the future are the most productive when they are linked in high performance networks, or industrial complexes, is a fundamentally and profoundly optimistic picture for OECD nations. One of the things you realize when you visit less developed countries, is just how many seemingly ordinary things can go wrong in these places. Although individual firms may be mobile, one of the things that cannot be moved easily around the world is the social organization that is needed for the success of high performance industrial complexes. And the reason that the full potential of individual high performance work places is only realized when they are linked together in intermeshed complexes is because of network externalities.

Three of the key characteristics of high performance workplaces are timeliness, precision and dependability. These characteristics really have their full payoffs in the relationship of one firm to another. The benefits of timeliness depend, for example, on the punctuality of *other agents*. I am sure that everybody in this room has had the experience of wondering just how much point there is in delivering a report on time when it sits on somebody else’s desk for the next three weeks before it is actually read. Being on time and delivering a high quality product, rapidly and to deadline, is pointless if nobody else is delivering on time and to a similar level of quality. A

high precision product is similarly wasted if it is being delivered to a low precision environment. And in terms of dependability, although the absence of buffer stocks is one of the main productivity benefits for just-in-time manufacturing, it also means that a work stoppage at one firm can have a large and rapid ripple effect on all the other firms in the network of suppliers and customers.

Since rapid reaction high quality firms are often both customers and suppliers of each other, the higher the percentage of high quality, high performance, dependable firms that are out there in the marketplace, the higher is the productivity and profitability of an additional high performance firm that joins this network. This finely meshed system can be very high productivity when it works effectively, when each firm feeds each other in a high productivity, high quality, dependable way.

However, the flip side is that this is a system that is much less “Fault-tolerant” than the old system of buffer stocks, and approximate deadlines. Social disruptions, like the recent truckers strike in France, can be *extremely* costly when a slowdown anywhere in a just-in-time network causes a stoppage in linked firms. In a constantly changing world of delegated decision-making, dependability and cooperation in shared goals become increasingly crucial, both within the establishment and in intermeshed complexes of establishments.

In the new workplace environment, social cohesion and social organization therefore become key national assets. Conversely, the industrial system becomes increasingly vulnerable to social disintegration. How then to ensure that we can increase the percentage of high performance firms over time and enable them to develop intermeshed complexes? How can we establish the social order which enables these complexes to thrive in the long term?

Public policy can play a major role both for good and for ill. Obviously, the infrastructure of health and education services that create the skills of individual workers and maintain their capacity to show up productively at the workplace is crucial, but that is already getting a lot of attention, and the real issue is much broader. What framework policies of government will enable intermeshed complexes to actually function effectively over time? Government intervenes in important ways in setting workplace and work standards, in establishing the social security framework, in setting the industrial relations framework, and in its macro economic management policies, and one can put the issues in terms of a number of questions.

First of all, would social cohesion and cooperation in the OECD nations be increased by creating among all workers the sense of insecurity now primarily felt by the marginalized and the unemployed? Should we solve any perceived problem of inequity between insiders and outsiders by trying to turn everyone into an outsider?

I think not. I think that the workplace cohesion that enables high productivity workplaces to function effectively depends crucially on a realistic perception by individual workers on the shop floor that they have job security and a stake in the continued success of the

enterprise. I think that if we follow some sort of mirage of the ultra-flexible 19<sup>th</sup> century labour market, and disentitle workers from their expectation of continued job security, this will be highly dysfunctional to the effective operation of high performance workplaces.

Now it is true that there is a huge growth in new forms of employment (eg. short term contracts, self-employment, temporary help agencies etc.). In the past it has been possible to deliver some of the institutions of social security in ways that are dependent primarily on the workplace, via employer-based insurance schemes for health or retirement income or disability insurance. The growth in new employment relationships increases the importance of welfare state social insurance and of the delivery of the package of needed benefits through social institutions that transcend the individual workplace. The way to go is not to try to erode the job security of core workers, because that will fundamentally wound the long run team cohesiveness which is essential to the performance of high performance workplaces. The way to go is to avoid magnifying the distinctions between core and contingent workers, which would be the inevitable outcome of tying social policy more directly to workplace delivery mechanisms.

In terms of the industrial relations framework, one can put the question “should public policy aim at eliminating the constraining role of unions, or alternatively is the industrial relations status quo just about perfect already?”

Putting the question in such an extreme way invites the answer of “no” to both. There is a fundamental and appropriate role for unions in the collective bargaining mechanism, because ensuring a fair division of the rewards for work and ensuring workers have a voice in workplace governance are core functions of unions. In the new high performance workplace, these functions are more important than they ever were. However, one cannot really expect unions to involve themselves positively in new methods of workplace governance if their existence is under attack. Unions really do face a new identity crisis in thinking about these new modes of commitment of workers to the enterprise, but you can’t really expect people to think of new ways of reshaping the collective bargaining framework in an atmosphere of union insecurity--so I think union security is probably a prerequisite for some of the innovation in workplace industrial relations which I also think are essential.

Finally, since I am running out of time and this is an OECD conference and the subject is jobs, I think that one of the most fundamental questions of today’s social reality is “Can social cohesion survive continued mass unemployment? Can we really expect intermeshed complexes of high performance workplaces to thrive in a milieu of social disintegration?”

Unemployment in Canada, today, is 10%, and, like much of Europe, it has been at a comparable level through the 1980’s and 1990’s.

I would like to congratulate the OECD secretariat for three aspects of their recent Jobs Study. First of all, there are a number of eloquent statements in the Jobs Study of the social costs of mass employment, both to individuals, and to the political and social stability of democratic

capitalistic systems.

Second, in talking about the determinant of mass unemployment, the OECD secretariat lists first macro-economic policies and their crucial role. There is a clear recognition that the demand for labour is a derived demand which is driven by the aggregate demand for goods and, therefore, the creation of jobs depends essentially on the macro-economic policy settings which determine the level of aggregate demand.

A third important congratulation is in order -- because The Jobs Study did at least ask the question clearly on page 59, "Does the present situation call for any change in the medium term strategy of sound public finances, low inflation and structural reform which was agreed by OECD member countries in the first half of the 1980's?"

Now the answer provided, is that there have been a few errors of execution but, fundamentally we have been on the right path for the past 15 years and it is only "coincidence" that this last 15 years simultaneously has seen unemployment reach unprecedented levels in the OECD nations. To those that were not involved in the decision-making, that answer might be thought to be somewhat less than convincing. It might also be thought to be somewhat less than convincing to argue that because we have seen unemployment continue to ratchet up over the last 15 years, unemployment can be relabelled as primarily structural, because, after all, it did continue to go up, so it must be structural. Although the OECD does not provide a particularly convincing answer, at least the question of whether or not macro-economic policy has focussed excessively on inflation control is being asked.

To summarize: within high performance workplaces, social organization, worker motivation and a high level of cooperation are essential to efficiency. Internal job security and internal pay equity are prerequisites at the establishment level for high performance workplaces. However, the public policy issue is not how to create a single high performance firm, but how to create a high performance economy and how to enable intermeshed complexes of high performances firms to thrive. Equity in incomes and job security is just as important at the social level as at the plant level. Fundamentally, social cohesion and social organization are major national assets. The key elements of the required public policy framework are macroeconomic policies which emphasize full employment, social policies that provide adequate social protection for individual workers and industrial relations policies that ensure a voice for labour in the process of change.