Globalisation and the Crisis in HRM

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Abstract

In both Europe and the US for some years there has been major concern about closures, downsizings and out-sourcing in the context of globalisation. In Europe since 2004, the threat of relocation has been used to gain longer hours for the same pay and is challenging the postwar 'Rhineland' model of social partnership. Increasingly top managers not only are allocators but relocators of investment and employment. They also are resorting to relocation to lever 'hard' HRM solutions in favour of shareholders, with a threat to an end of models of stakeholder models of social partnership.

This paper argues that such cut-and-run relocation ignores that it is Schumpeterian innovation that lifts companies, economies and societies to higher levels of both income and welfare. It submits that prioritising shareholder value is likely to prove self-defeating. It claims that while the organisational logic of top management may be to enhance shareholder value, managers and other employees at plant, branch or office level have a new vested interest in cooperating to survive within corporations with global relocation options. It bases this case on the implicit logic of the Japanese lifetime employment model which has been central to Japanese companies' achievement of *kaizen* style continuous improvement (Japanese: *kai* – 'improvement'*; zen* – 'mutual benefit or advantage'.

It further submits that the rhetoric of globalisation is misplaced in the health, education and other local services yet that such sectors such a health and public administration need continuous improvement. It ends by drawing implications for innovation-by-agreement between stakeholders in both the competitive sphere and the public and social domains in line with under-recognised recommendations in the Lisbon Agenda.

Key words: Globalisation. Innovation. High Commitment HRM. Flexible Production. Continuous Improvement.

Globalisation has brought major advantage for some countries and multiple disadvantages for others (Stiglitz, 2002). A postwar era in which a handful of firms dominated national markets and needed stable industrial relations has long gone. The combination of privatisation, down-sizing and out-sourcing from the 1980's reduced the bargaining power of employees and the need for management to relate to them. Job security in Europe and the US is in question as capital relocates world wide and continental economies such as China and India have entered the global economy not only as low cost labour platforms but high tech producers of goods and services (Daly, 2004).

The success to date of China and India in gaining advantage from globalisation is remarkable. As Stiglitz (2006) has stressed, China has lifted three hundred million people out of poverty. In India the main beneficiaries of globalisation are another three hundred million people who have more than basic education and a working command of English. Even on conservative estimates, India's middle class is growing by some 15 million a year. Its proportion of those living in absolute poverty, on less than a dollar a day, has shrunk from two fifths to a quarter. Commenting on these figures, Edward Luce observes that: ‘If China did not exist, people would be talking of the India miracle’ (Luce, 2006, p. 17). Both countries still face immense development problems in widening social inclusion in such economic gains, and in reducing and offsetting environmental degradation from growth. But what both have achieved is dramatic in relation to the pessimism which gripped leading economists about their long term prospects a few decades ago when it appeared that neither could make a development breakthrough (Myrdal, 1968).They have, and globalisation and foreign direct investment have been central to this.

Allocation and Relocation

It has been a commonplace in economic theory that firms allocate resources between capital and labour, either in the degree to which they opt for capital intensity or go for more labour capital production. Foreign direct investment in the sense of locating and producing abroad also is long standing. Both the British and Dutch East India companies set the pace in opening a colonial era centuries ago. US companies such as Ford and General Motors chose to produce in Europe within a few years of establishing themselves in the US. But, in the main, such foreign investment was not at the cost of jobs in the home countries of the parent companies, and often created jobs in them. It is the new challenge from globalisation to both blue collar jobs in manufactures and white collar jobs in services that now is causing deep concern both in the US and in Europe. Global companies now have assumed a new role of both allocators and relocators, with a key and urgent priority for them to consider the degree to which they should gain a trade-off between internal and external labour.

This is more than the traditional concept of external economies or gaining from lower costs inputs from other firms. It is a relocational logic within the *same* firms. Again, it is not entirely new. For many such firms it started after the impact of the first OPEC oil price rises in 1973 (Holland, 1987). But the relocational logic now is becoming universal with the liberalisation of both trade and foreign direct investment. It is something that any leading firm needs to take into account when competitors also can do so. Also, cumulatively, over several decades, combined with more flexible labour markets especially in the US, it also has major implications for society. As they downsize, and gain agreement to reduce wages and benefits, with de-layering and the new sanction of relocating, major companies no longer are escalators for upward mobility either for employees in general or for those who otherwise could have expected to progress within a management hierarchy (The Economist, 2004,b). As Luce (2006) observes, the combined reserve armies of labour in both India and China are so large that it is hard to imagine a near-term situation where their wage rates are uncompetitive’, adding that ‘apart from a blip in the late 1990’s when the country’s booming economy lifted all boats, the real income of the median US worker has barely shifted from 1973’ (Luce, ibid, p. 18).

In December 2004, The British government published a paper claiming that the US and the UK will lose at least 5 million jobs to Asia within ten years (HM Treasury, 2004). But this could well be an underestimate. It may be that more than a tenth of total US employment is at risk (The Economist, 2004b). Leading American companies already have out-sourced routine functions to specialist business processing firms who now are out-sourcing them to Asia, and especially India. Companies such as IBM have hired thousands of Indian software engineers to do work previously done near their customers in Europe and the US. Dell has decided to double its Indian workforce by 2009 (Allison, 2006). Other big service employers are in line. Deutsche Bank has decided to shift half of its back office jobs to India, while UBS and Lehman Brothers also are expanding there. JPMorganChase plans to shift 30% of its back-office jobs offshore by the end of 2007, and Credit Suisse is considering similar moves (Wighton, 2006). And, faced with Asian competition, both from Japan and South Korea, icons of the US auto industry are deep in retreat. In its first major 'restructuring' operation in the early 1990's General Motors cut 70,000 jobs in the US only to find that its market share fell faster than it could reduce employment (Roberts, 2005).

In Europe the Lisbon Agenda of 2000 confidently assumed that the EU could combine competitiveness with reinforced employee rights. When it was re-launched in 2005, convinced believers were hard to find. Globalisation and enlargement already had hollowed it out. In Germany, since July 2004, companies have demanded and gained longer hours for the same pay under threat of closure of plant which otherwise would be relocated elsewhere. Siemens led the way in proposing in the spring of 2004 to move jobs from two factories from North Rhine Westphalia to Hungary. In June 2004, the workers at both plant agreed to work 40 rather than 35 hours a week and to do so for no increase in pay in return for a commitment not to move the jobs out of the country until 2012, Within a week, DaimlerChrysler announced that it also wanted to increase working time to 40 hours for no pay increase. Karstadt-Quelle, a major department store and mail order company, announced its intention to do the same, as did Thomas Cook in Germany, and Germany's leading tyre marker Continental (Münchau & Atkins, 2004).

This challenge quickly leapt borders. In France, within days of the Siemens deal, the engineering components company Bosch gained an agreement from a majority of its workers at a plant near Lyon to do an extra hour a week without extra pay. The sanction was otherwise relocating in the Czech Republic. By December 2005 Bosch had increased this to also seeking an extra five hours a week for no additional pay. Dozens of other companies already had followed suit including EADs, the giant high tech engineering and defence group, which is a major shareholder in Airbus. Hewlett-Packard announced that it would reduce job cuts in France by a quarter unless it gained longer hours. This was despite landmark legislation in France only a few years earlier for a 35 hour week. By the end of 2005, according to official figures, French workers on average already were working 39 hours (Hollinger, 2005).

In the auto industry in Germany, meanwhile, combined cuts, closures and demands for longer hours without increased pay were proving seismic (Milne, 2005a). Early in 2006, Volkswagen both planned to make employees work an extra six hours a week for the same pay and announced that it was cutting a fifth of its German workforce (Milne, 2006a). It also was aiming to externalise much of its components supply to lower cost countries in east and central Europe (Milne & Mackintosh, 2006a). Daimler-Benz, maker of Mercedes, first threatened to relocate in South Africa or China if it did not get more work for the same pay, then gained this undertaking at plant level in Germany without committing itself to produce there for longer than 2012, yet thereafter announced a programme to reduce one in ten of its German workforce (Dyer, 2005). It then cut 6.000 jobs including management in its Stuttgart headquarters, which it also relocated (Mackintosh & Milne, 2006). GM and Ford also were planning to dismiss 30,000 workers in Europe, mainly in Germany (Milne & Mackintosh, 2006b).

The locational logic of cost reduction since 2000 has been formidable. But EU enlargement is implying both gains and losses for the new member states. The European Foundation for the Improvement of Living and Working Conditions, an EU body set up in 1975, has identified that eight of the ten sectors in employment decline among the former EU-15 member states since 2000 have been in manufacturing, with many of the jobs being transferred to the new EU member states. But these employment gains in central and eastern Europe are being offset by heavy losses in primary product sectors such as agriculture and in the manufacture of food, and in textiles and clothing where eastern Europe itself is facing formidable competition from China and Vietnam (Eurofoundation, 2006).

Challenge to Social Partnership

Popular protest against 'délocalisation' try and high levels of unemployment played a key role in the French and Dutch electors' rejection of the Constitution for Europe in mid 2005. Within six months, violence seized suburban Paris where youth unemployment was up to forty per cent. Within a year, up to four million people took to the streets in France in successive protests against a proposal to reduce rights at work for younger employees, with serial strikes in public transport, public administration, schools, and companies (Arnold, 2006). Together, the rejection of the European Constitution, followed by rioting, strikes and mass protests, were seen as calling into question the role of the France's Fifth Republic for the first time since May 1968 (Stephens, 2006).

Based on an MIT team study of interviews with managers in the US, Mexico, Europe and Asia, Suzanne Berger (2005) claims that there are two strategic choices for enterprise faced with globalisation: reorganise or relocate. She also allows what she calls the 'modular option': that it may pay to relocate some labour intensive production to low cost areas while retaining higher value production in other areas. The German and French firms which since 2004 have lowered unit costs by gaining longer hours for the same pay are playing a variant this: cooperate or we relocate. Or, in some cases, cooperate, and we shall downsize, close plant and relocate anyway. As in the case of Continental Tyre, which closed factories in Germany within months of gaining new flexibility deals, thereby gaining a seven fold increase in shareholder value (Milne, 2006b). Or DaimlerChrysler which sold its diesel units in both Germany and the US, closed its headquarter prestige headquarters in Stuttgart, dismissed thousands of middle managers, and is relocating both direct production and components supply to locations in lower cost new EU member states in central Europe (Milne 2005b).

Making employees offers they could not afford to refuse has challenged the basis of the long standing German co-determination model of social partnership. Encouraged by the success of leading companies in gaining consent for lengthening hours without increasing pay, Hans Werner Sinn, head of the Ifo institute in Berlin, who had earlier asserted that ‘Germany is the sick man of Europe, ranks lowest in growth, and is unable to keep up with its neighbours’ (Sinn, 2003) claimed that a 42 hour working week – a net average increase of seven hours – should be the German industry norm. Klaus Zimmermann, head of the less conservative DIW institute in Berlin called for more than double this increase to a standard 50 hour week (Münchau & Atkins, 2004).

Until recently some HRM specialists had been looking to European legislation and works councils on the German model to level the playing field between capital and labour, and gain scope for advocacy of at least ‘soft’ HRM. Yet the breach of national agreements on wages and weekly hours in Germany from 2004 was through a provision introduced by the Schröder government that companies in difficulties could do so gain if their works councils at plant level agreed which, under duress, they did. The significance of the Siemens agreement of 2004 therefore was not simply a matter of which hours were worked on what terms. Echoed across the Rhine, it breached an implicit postwar social contract that organised labour and the parties to which they affiliated accepted a capitalist market economy in return for social rights. Also, while an earlier amendment of labour law in Germany to allow unions in Germany at plant level to gain exceptions to national wage agreements had been intended to grant flexibility to companies in difficulties, neither Siemens nor Daimler-Chrysler were so. Overall, like other companies demanding longer hours for the same pay, both were highly profitable (Münchau & Atkins, 2004).

Yet at operational level, some of the same companies were proving themselves incompetent. Airbus Industrie, owned by EADs, could not even manage to ensure that the fly-by-wire systems being produced at its German and French plant were compatible, causing critical delays in the launch of its heralded A380 double-decker jumbo (Hollinger & Wiesmann, 2006). Siemens had problems in mobile and cordless phones in the two factories it wanted to close in 2004 despite the fact that it already was producing them in China, and losing market share there. Within a year of gaining its longer hours deal in Germany, it sold both operations to a Taiwanese company, BenQ Mobile (Wassener & Hille, 2005). Volkswagen, early into China, had seen is market share there collapse from nearly a half to a seventh because it had not introduced new models nor worked hard enough on its dealer network (Dyer, 2006). According to some commentators, the problem with such companies was not so much their need to access lower labour costs, but with their management (Marsh, 2004).

There also are contradictions between the claims of such companies that they need to reduce labour costs and social benefits, and how well they and their home base economies are performing. For instance, in 2003, Hans Werner Sinn, head of the influential Ifo institute in Berlin, had asserted that 'Germany is the sick man of Europe' (Sinn, 2003). In 2004, the year of Siemens starting the rush the rush of threats to relocate, Germany overtook the US as the world's largest exporter. This was with less than a third of US population, on which criterion it already was more than three times as export competitive as America (Eurostat, 2005) and shortly after deemed a 'picture of health' (Benoit, 2006). At the same time, output per person per hour in France was higher than in the US (Eurostat, 2005).

Shareholder versus Stakeholder Value

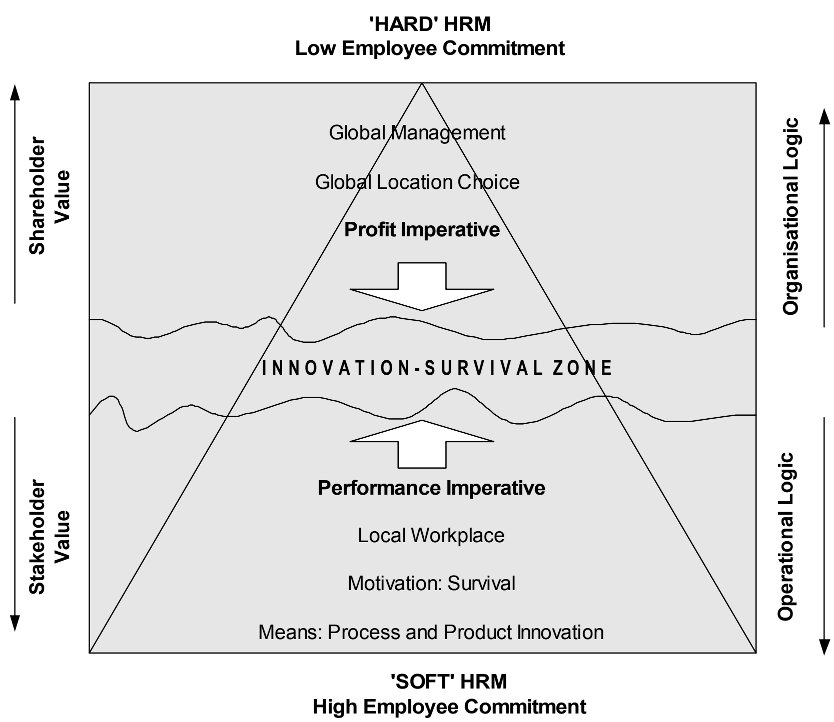
As yet, from this pyre of a half century of social partnership, it has been widely presumed that no phoenix will appear in the West, either for employees including middle managers. The stakeholding concept as meaning that employees as well as shareholders have a stake in the success of an organisation, was degraded when Tony Blair abandoned virtually any of its early sense (Giddens, 1988) in either the public or private sectors, as Giddens himself has later protested (Giddens, 200O). Globally, shareholder power now appears to be dominant and to have marginalised 'soft' HRM as a credible contender for alternatives to cut-and-run relocation. As Legge (2005) has put it:

> 'In the Anglo-American world, in the last fifteen years or so, the dominant emphasis in has been on short-term survival… Gone is the language of 'hard' and 'soft' HRM (Storey, 1987) and of 'utilitarian instrumentalism' and 'developmental humanism' (Hendry and Pettigrew, 1990), to be replaced by the US alternatives of 'high commitment management' (HCM) and 'high performance work systems'. (Legge, ibid, pp. 30, 31, 18).

Guest has stressed of holistic HRM that 'you have to buy whole-heartedly into the HRM culture or get out' (Guest, 1999, p.6). But, at organisational level, top managers in companies with global location options are less 'buying in' to soft HRM than being hard in either 'getting out' or leveraging longer hours at the same pay by the threat to do so. The logic of this is ruthless rather than wilful. Top managers in companies with global location options need to respond to shareholder pressure to improve performance, or they themselves will be removed.

The new 'hard HRM' logic is summarised in stylised form in Figure 1. It does not suggest that the institutional form of an organisation is pyramidic. It may be vertical, multi-divisional, centralised or decentralised, de-layered, networked, hub-spoke-wheel. But organisational power, whatever its multiple organisational forms in companies with global reach, now is pyramidic. Managers at national level who for most of a century had relatively autonomy, such as for Ford UK at Dagenham, or GM's Opel in Germany, for some time have had to think and act for Ford Europe, or GM Europe, and now increasingly are subject to management decisions taken at the apex of the global corporate pyramid on comparative global performance criteria.

Figure 1.
'Hard' and 'Soft' HRM in a Global Context



Source: Own Formulation

The trend to dominance of shareholder over stakeholder value has been accelerated by the rise of hedge funds whose speculative volume has overtaken that of the speculation before the collapse of the dotcom bubble (Saigol and Politi, 2006) and whose *raison d'être* is to maximise short term returns for investors rather than long-term commitment to individual companies, which had been the case with the Rhineland model. And, under shareholder pressure, concentrated through pyramidic hedge funds, whose top allocators can decide overnight on whom to support or not support, decisions on cuts, closures and relocation may need to be announced the next day. This is the new reality of what Guest (1998) foresaw as a 'Mad Max' sudden death or survival syndrome. And, as in his 'Mad Max' metaphor, survivors in such a zone may tend to be the enclaves within organisations which can enhance high cost but also high value added locations by sustained process or product innovation.

Local Not Global

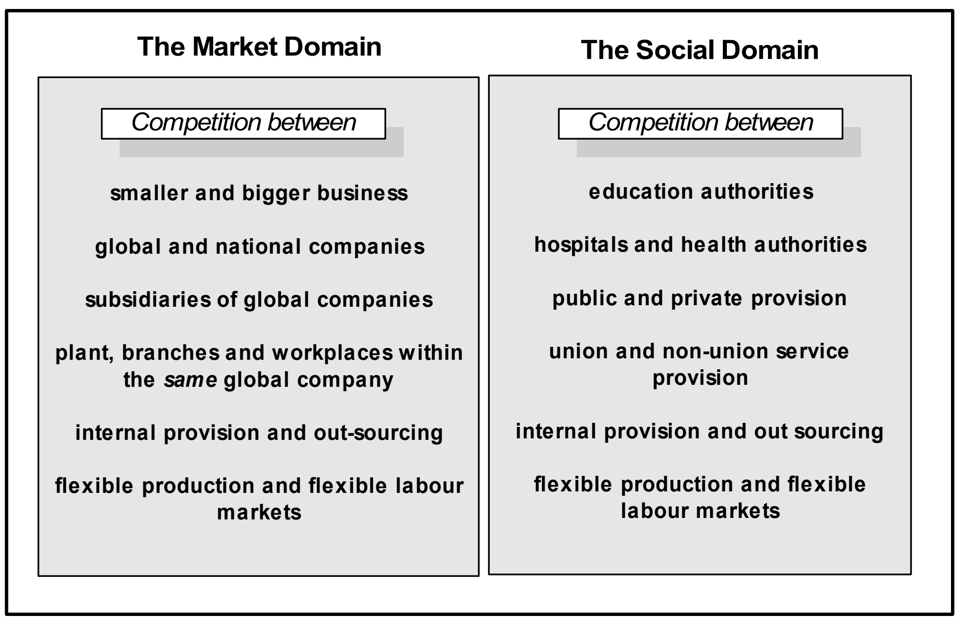
Yet far from all employment is affected directly by globalisation. Especially, most public sector employment is local rather than global, and cannot readily be relocated. For instance, seven out of ten jobs in most of Europe are in services, while up to two fifths of these are in the social spheres of education, health, other public services and public administration (Eurostat, 2005).The Eurofoundation study (2006) stresses that much of the growth in the former EU-15 member states has been in the 'largely public (and) not for profit' sectors of health and education (Eurofoundation, ibid, p. 3). And while there is major concern with the out-sourcing of manufacturing, and business processing jobs, neither central nor local governments have the option to relocate their services to the other side of the world.

Thus manufacturing, finance, data processing and support services are going global on a cost reduction basis. But child care centres, schools, universities, hospitals, local health clinics, social services for the young or elderly, or local transport and other local government services are not. Nor are such services directly exposed to global competition rather than an indirect sense that an efficient society may promote an efficient economy. Only a few universities, hospitals, health clinics, or secondary schools are in competition on a global scale and, where they are so, this mainly is to their advantage for specific reasons such as high repute in a particular specialisation. Unlike manufacturing, their survival does not depend on reducing costs but in the main needs to be high costs to attract and retain either full time or part time specialists. Child care centres, public primary and secondary education, or hospitals and clinics are providing local services, and are not exposed to global competition rather than competition for national or local resources. To presume that they are or could be so lacks locational logic.

Yet governments are introducing market disciplines and 'hard' HRM into such services within the rhetoric of 'needing to compete in a global era'. This is not the long standing need to take decisions on how to allocate scarce resources, as between health and education, or within them, but an attempt to legitimate 'internal markets' and 'harder HRM' by implying that, with globalisation there is no alternative to such a neoliberal agenda. This rhetoric is a key stone of the Bologna Agenda for establishing a common market in higher education through Europe (Bologna Declaration, 1999). It also is explicit in the 'internal market' reforms introduced in the UK by the Thatcher governments and replicated by those of New Labour under Tony Blair. It also is reinforced by the reality for those governments whose countries are members of the Eurozone, that they are under pressure to reduce public investment and spending to observe the 3% deficit and 60% debt limits of the Stability and Growth Pact for a single currency.

As summarised in figure 2, this has meant change within both the market and social domains which have significant implications for HRM. Competition now not only is between big and small business, nor only between national and multinational firms, but also *within* companies which have global location options, between their own subsidiaries and different plant, offices and workplaces. It is paralleled in the social domain of health and education by competition between education and health authorities to attract a higher share of limited budgets. In the UK case, in health, this has descended to the level of individual general practice by local doctors, who now only have to perform on a series of benchmarked criteria for health care provision to what previously were known as patients, but now known as clients, but also need to introduce Taylorist time and motion comparisons of their own use of time within practices, with a recommended average of not more than ‘x’ minutes per client.

Figure 2
Changing Market and Social Domains



Source: Own Formulation

Rethinking Principles and Paradigms

We have addressed the issue of internal markets in health in a parallel joint paper demonstrating that in the UK case it has raised rather than reduced costs, ran into financial crisis in 2006, with mass dismissal of nurses on a flexible labour market model. The paper indicates that internal markets in the social sphere neither are more efficient nor assure high quality in patient care if they are premised on flexibility by constraint rather than consent (Oliveira & Holland, 2007b), nor has gained legitimation in doing so (Bolton, 2004; Pollock, 2004). This remaining part of this paper suggests that flexible labour markets and cut-and-run relocation as a response to globalisation will not work in the longer run even for the leading firms now pursuing them if it is based only on a neoliberal paradigm of seeking to reduce costs rather than rethinking their operational or organisational logic.

For some companies the logic of cut-and-run is not working even in the short-term, as Siemens has found when the Taiwanese company BenQ Mobile, to whom it had sold its German handset and mobile phones business, closed it within a few months because of the mess it was in, and then sought to sue Siemens for damages. Public reaction to the prospect of sacking the three thousand German employees transferred to BenQ caused Chancellor Angela Merkel to call Siemens' chief executive Klaus Kleinfeld to express her concern. Siemens' management reacted by cancelling its own scheduled pay rises (Milne, 2006c). But, of more general significance, in December 2006 Merkel then called for German companies to match gains in companies' performance in their treatment of employees, and indicated that she would introduce legislation for profit-sharing. This would make sense inasmuch as average German household's income in 2006 was lower than it had been fifteen years earlier. The internal logic of management's pushing for lower real wages within companies had the external illogic of lowering demand for all companies' goods and services (Benoit & Atkins, 2006).

Within less than two years of its threat to relocate if it did not gain longer hours for the same pay, the potential costs of cut-and-run too fast also were recognised by DaimlerChrysler when, early in 2006, it decided not to dispose of its loss-making Smart small car division rather than try to turn it around (Milne, ibid). By November 2006 Volkswagen declared that it had decided to reverse its earlier outwards relocation trend and make a higher commitment to production in Germany, including bringing jobs back there (Milne, 2006e), while the management of its SEAT subsidiary has reversed an earlier decision to relocate production to Bratislava when it found that lower labour costs alone were insufficient to offset the ongoing efficiency gains achievable in Catalonia by its Catalan employees. While, also, although Klaus Kleinfeld of Siemens had been heralded two years earlier as a chief executive who could take 'hard decisions' on staffing, disposals and relocation, these did not achieve one of his main explicit aims, which had been to improve Siemens' share price (Milne, 2006d). Siemens need to rethink its organisational logic also hit headlines in 2006 when a major bribery scandal at the German group caused investors and leading experts to ask 'is Siemens just too complex to control?' (Milne, 2006f).

The Lisbon Innovation Agenda

Although not anticipating the seismic shift in 2004 when Siemens breached the dyke protecting the 'Rhineland' model of social partnership, an understanding of the long term logic of globalisation, and the trend of multinationals to combine high tech capital with low cost labour in intermediate economies (Holland, 1987, 1993), informed preparation for and advice to the Portuguese European Council in the spring of 2000, and the resulting Lisbon Agenda (Holland, 2000). But, aided by more people citing the Lisbon Agenda than have read it, different actors have appropriated it for their own ends. Thus, aided by more than one vested interest, it has been widely claimed as ‘the Lisbon reform agenda’ in the sense of a call to reduce employee rights and end an inflexible European social model. Whereas the Lisbon Agenda in fact called for:

> ‘giving higher priority to lifelong learning as a basic component of the European social model, including encouraging agreements between the social partners on innovation and lifelong learning; by exploiting complementarity between lifelong learning and adaptability through flexible management of working time and job rotation (and) reducing occupational segregation, and making it easier to reconcile working life and family life. (European Council, Lisbon, 2000).

The driver for this focus on innovation in the Lisbon Agenda was Schumpeterian in the sense that it is not cost and price that shifts economies and societies to higher levels of income and welfare, but process and product innovation (Schumpeter, 1949; Holland, 2000; Oliveira & Holland, 2007a). The EU Commission then followed this through with two documents: ‘The European social dialogue, a force for innovation and change’ (COM, 2002), and the Communication on ‘Partnership for change in an enlarged Europe – Enhancing the contribution of European social dialogue’ (COM, 2004) grasping and pushing the point that Lisbon was not simply about e-learning but innovation by social partnership. Lisbon, therefore, was less a call for reform of labour markets and flexibility-by-constraint, than for a renewal of the European social model on the basis of reinforcing rights at work and gaining flexible production and continuous improvements in operational efficiency through flexibility-by-consent. One of the key concepts behind it was that of innovation-by-agreement between social partners at plant, branch or other local level to gain and sustain efficiency (Holland, 1993; 2000). It was this, which underlay the call for Europe to become the most competitive global economy by 2010, not by flexible labour markets weakening employee rights, but by flexible production and reinforcing them.

Flexible Production versus Flexible Labour Markets

The flexibility debate in Germany since reunification has been much influenced by the Lindbeck-Snower (1988) ‘insider-outsider’ model. This claims that protective employment legislation means that trades unions can defend high wages and benefits against outsiders who would be prepared to work for less on both accounts, and that such insider privilege undermines competitiveness. Yet there appears to be no evidence for such a claim (Esping-Andersen and Regini, 2000, Kelly, 2005).

Underlying this are differences in how western mainstream economics conceptualises ‘the firm and industry’. The foundation of microeconomics in western teaching is a Cobb-Douglas production function which assumes that capital is fixed and labour is variable and therefore disposable. With lifetime employment, this logic is inversed. With lifetime employment labour becomes a fixed factor of production, implying that Japanese manufacturers have to gain continually better use of it. In the western production function, innovation is a residual from technical progress. In Japanese flexible production it is central to the labour process. Western microeconomics assumes that firms cannot grow beyond at a point at which their marginal costs will rise to meet marginal price. Japanese producers are constantly reducing marginal costs through continuous improvement. Therefore, in contrast with western neoclassical economic theory, the commitment to lifetime employment in Japan meant that management in leading Japanese firms had to treat labour as a fixed rather than a variable cost. They could not dismiss employees in the event of a recession or slowdown in growth. The outcome was the need to reduce costs or improve products by enhancing skills and gaining innovative work practices rather than making labour redundant. The resulting practical logic (Bourdieu, 1977, 1990) was commitment to a constant innovation trajectory. The implicit logic of this high commitment HRM was more flexible use of both capital and labour through continuous improvement. As Ohmae (1982) illustrated a quarter of a century ago, Nissan and Toyota doubled output per employee from the late 1960's to late 1970's, while GM and Ford since then have hardly increased it at all. Toyota is about to overtake GM as the world's no. 1 auto producer.

Figure 3
Flexible Production and Flexible Labour Markets

Flexible Production: Toyota Production System	**Flexible Labour Market:** Lindbeck-Snower
Labour Fixed Cost	Capital Fixed Cost
Capital Variable Cost	Labour Variable Cost
Insider Employee Commitment	Minimal Employee Commitment
Lifetime Employment	Shorter Term Contracts
Profit Sharing	No Profit Sharing
Process Innovation Focus	Cost Reduction Focus
Fault Free Production	Similar/ Higher Fault Rate
Self-Direction n	Other Direction

Source: Own formulation, derived from Lindbeck, A., & Snower, D. J. (1988). *The Insider-Outsider Theory of Employment and Unemployment.* Cambridge, MA: MIT.

Lindbeck and Snower (1988)'s analysis is replete with algebra, *a priori* reasoning and generalisation but entirely lacking in any empirical support for their central claim that insiders necessarily are less efficient that outsiders would be if they gained their jobs. Notably, they not only do not consider and argue the respective merits or otherwise of 'insider' lifetime employment in Japan. They neither refer to it nor to Japan at all. What they have undertaken also is a displacement both of German companies being so efficient that the country still is the world's leading exporter, and of displacing external evidence from Japan by purely theoretical presumption. We summarise some of the main differences between flexible production and flexible labour market paradigms in Figure 3.

This is not to claim that insider labour alone has been responsible for Germany's export success, nor necessarily is as flexible through a range of industries as in Japan. Since the war, machinery and plant for industry, machine tools, and chemical products have constituted some four fifths of its exports. Much of the flexibility in process innovation in Germany also comes from the *Mittelstand* of medium firms supplying such larger industrial giants, rather than internally within them. Besides which, Germany's recent success in overtaking the US as the world's leading exporter has been substantially due to demand for plant and machinery for industry from China, which is likely to aid its own global rise as an industrial competitor. Germany's pre-eminence as the world's first exporter therefore may well wane before long. But to claim that it is inefficient because of insider employment is as counter factual as in the case of Japan.

There also are many nuances to this. Some US companies have mastered customised production through flexible specialisation and still are flourishing Dell has managed customisation it to high effect. There are different kinds of lifetime employment in Japan, varying between sectors, within them, and even within the same *keiretsu* holding companies (Moriguchi & Ono, (2004). Different Japanese firms have been more or less successful in achieving continuous improvement while some sectors such as banking and financial services, exposed to little external competition, have failed to achieve it, over-reached their lending and helped compound the banking crisis which in large part caused the recession of the 1990's. Many Japanese companies are high-tech high volume producers of standardised products rather than customising them to individual specifications (Womack & Jones, 1996). Some which recently have gone for more arms' length relations with their suppliers, such as Sony recently have suffered damaging design faults which have compromised their reputations for reliability. Toyota itself is not immune.

Michael Porter (1998) has claimed that US producers have had continuous improvement 'coming out of their ears', and that it has failed. But this misses that are central differences between the implicit logic in management which has been failing many companies in the US and Europe and has succeeded for so many in Japan. In Europe and the US companies have been trying to increase efficiency by reducing employee rights, while Japanese companies have gained long-term by reinforcing them. Western management is calling for more flexible labour markets. Japanese companies have achieved and sustained more flexible labour in production.

All the leading companies in Japan exposed to global competition are high commitment employers and most are still gaining rather than losing from continuous improvement. While, contrary to widespread presumption in some HRM literature (e.g. Sparrow and Marchington), lifetime employment has survived the recession of the 1990's in Japan. In their long-term survey of lifetime employment in Japan, Moriguchi and Ono (2004) recognize that that: 'Despite pessimistic predictions, however, empirical studies have found no major changes to the practice pertaining to core employees' in the 1990's (Moriguchi & Ono, ibid, p.1). The ratios of long-term male employees to total workforce increased in the 1980s and remained stable throughout the 1990s (Rebick, 2001). Despite increasing pressures to let workers go, management continued to uphold the lifetime employment practice (Genda and Rebick 2000; Rebick 2001). Job retention rates and employment durations remained virtually unchanged in comparison to the 1980s, including data for medium firms with over 30 employees, as well as female employees for whom lifetime employment has been less prevalent. Kato (2001) found that employment remained stable for core workers in the 1990s as reviewed previously, but less so for younger workers and middle-aged workers with short tenure.

Other commentators such as Wood (1989) and Berggren (1989, have suggested that both Toyota and the auto industry are special cases and that other sectors of the Japanese economy are more typical of inflexible Fordist mass production. The latter claim, in some cases, is correct enough. Many leading Japanese producers of consumer electronics such as Toshiba and Hitachi are, in effect, high-tech high-volume rather than flexible specialisation producers (Womack & Jones, 1996). Flexible specialisation as earlier argued by Piore and Sabel (1984), also has not been enough to save the Italian industrial districts from net employment decline since later in the 1980s' (Holland, 1993). The firms in such districts in the main were small, were formidable at process innovation, but did not commit to lifetime employment, and therefore had no inbuilt incentive to diversify into entirely new products which, with relocation on Berger's (2005) 'modular option', has been the main cause of the employment decline in such districts.

But to suggest that the flexible production based on lifetime employment and continuous improvement is 'over' in Japan is counter factual even in the case of the high-tech high-volume producers. Wood (1989) has argued of Japanese continuous improvement and flexible production that 'nothing in these innovations implies an end to mass production' (Wood, ibid, p. 33). Clearly, Toyota is into mass production, otherwise it would not be about to overtake General Motors as the world's no.1 independent auto producer (Box 1 below). But it is not inflexible mass production that has gained Toyota a global competitive advantage, but flexible specialisation. It is flexible production as a response to individual demand that enables Japanese consumers to identify near any combination of specifications that they want in or on 'their' Toyota, or Nissan, and have it delivered to and for them within days.

Until some Japanese firms more recently loosened their external ties with other firms within their conglomerate *keiretsu* groups, it was fault-free production through quality control at source, rather than superior styling, that gained Japanese producers global market share. It also is long term commitment to employees, and stakeholder value, rather than short term pressures from shareholders, that has enabled leading companies in Japan to achieve continuous improvement at a pace and rate that no western competitor has managed to match. And this still is typical of those Japanese firms which have retained stakeholder 'voice and loyalty' (Hirschman, 1970) links with others in a joint innovation trajectory, rather than 'gone West' in shorter term pursuit of shareholder value (Pilling, 2004; 2006).

Berggren (1989, p. 172) has claimed that the Japanese are 'the modern masters' of standardisation and Taylorism'. But Toyotist flexible production is not Berggren's (1989) 'modern mastery of Taylorism' but its inverse. It was central to Taylor's (1911) 'scientific management' that labour should be single tasked which also deskilled it. In his operational logic, what was to be done and decided top-down meant that the instruction needed to do a job was minimal because the task was so, with Taylor notoriously claiming that if you gave him a man for minutes he would train him for life. Taylor did not want craftsmen who were multi-skilled and multi-tasked because his design was to reduce labour to its least possible task, thereby de-skilling rather than re-skilling (Lacey, 1987). It was because his shop floor experience showed him that workers skilled in multiple tasks could slow down the pace of work that he had designed such a de-skilled production system (Monin, *et al.*, 2003).

Taylorism therefore, in terms of operational logic, is the inverse of the Toyota production system in which the main aim is to achieve multi-tasking through multi-skilling, and continuous improvement in methods of work operation suggested base-up by employees rather than imposed top-down according to 'scientific management' design (Womack *et al,* 1990; Womack & and Jones, 2005). Taylorism also is by definition inflexible. His presumption that there was 'one best way' meant that it could not be changed once achieved unless, again, top-down by a new 'scientific' operational design. Such a Taylorist logic excludes operational learning. Continuous improvement is based on it.

Continuous improvement for years has been integral to all Japanese management thinking in bigger business (Nonaka, 1994a, 1994b; Nonaka and Takeuchi, 1996; Colenso, 2000; Ichijo, & Nonaka, (2007). Within the Japanese auto industry, Toyota certainly has been exceptional rather than typical. It has been up to five times more productive per employee than other vehicle producers such as Mazda. Mitsubishi for a while ran into quality control difficulties. Nissan's own problems prompted its joint venture with Renault, while these have been less than wholly resolved by Carlos Ghosn's break-up of its *keiretsu* conglomerate cross shareholdings and insistence on Taylorist performance benchmarking (Sapsford, 2006).

Box 1
The End of the Flexibility Debate?

If it is to be claimed that the flexibility debate is 'over', in terms of operational logic it could simply be because Toyota has won it.

□ In 1946 Toyota was only making 7.000 vehicles a year, whereas General Motors was making as many every day.

□ By the early 1980's Toyota was producing and selling half as many vehicles as GM (Ohmae, 1982).

□ Since the 1980's it has consistently been making a return on investment of between 7% and 8%, while European producers were struggling to make 2% to 3%, and the US auto major were incurring regular losses. Half of its global profits by 2005 were coming from its operations in the US.

□ In 2007 Toyota was set to overtake GM as the no. 1 auto producer in the world (Nakamoto & Reid, 2006).

On such a data driven basis, and whether its high commitment flexible production paradigm has relevance also for other sectors, such as public services, the factors underlying Toyota's remarkable success in high commitment flexible production merit recognition.

This is not least in view of the degree to which, although it for decades has been producing in both the US and Europe, and now is beginning to do so in China, Toyota's main production base still is in high wage and social benefit Japan (The Economist, 2005).

This is not to suggest that Toyota is flawless. In some markets, it made initial mistakes in presuming that reliability would assure it success irrespective of design. It needed also to hire western sales experts to help it penetrate key markets, not least in the US. It also found itself challenged in 2006 by the Japanese government for not recognising design faults when they occurred (Sanchanta, 2006).

Nonetheless, these flaws were in design and marketing, rather than in where Toyota has main claim to paradigm status: continuous improvement in process innovations in assembly. In product innovation Toyota has defined the global frontier for emission-reducing hybrids combining both internal combustion and electric power systems. While demanding a central commitment from employees, it also has committed itself to lifetime employment and profit sharing, and prototyped what amounts to a 'mutual advantage' paradigm that, to date, has been world beating.

Main Sources: The Economist (2005). The Car Company Up Front: Special Report Toyota. January 29th. Sanchanta, M. (2006). Japan to penalise Toyota over recalls. The Financial Times, July 21st

As illustrated in Box 1, Toyota itself has come from next to nothing in 1946 to be about to overtake GM as the world's no. 1 auto producer. It still is the global production pacemaker in terms of both process and, now, product innovation. Among Asian producers in the US, only Honda and South Korea's Hyundai compare with it (The Economist, 2005). Its hybrid Prius is gaining global volume at over 200.000 vehicles a year at a time when US companies are calling for federal subsidies even to develop hybrid technology (The Economist, ibid). To claim that the Toyota Production System does not represent a paradigm for other industry is as useful as to claim that Fordism as a production paradigm is meaningless because it also originated in the auto industry. We elaborate some of the main distinctions between an inflexible Fordist production paradigm and post Fordist flexibility in Annex 1.

Influence on the Lisbon Agenda

The innovation focus of the Lisbon Agenda also was influenced by the high commitment model of lifetime employment and continuous improvement in operational efficiency of leading Japanese firms. Successive claims for the demise of the gains from lifetime employment in Japan have been premature. Since the 1990's, some redundancies, especially with senior staff being prematurely retired, have occurred, as they did with the 'stationary' low or no growth, or sectoral 'decline' variants of lifetime employment in the 1970's. Where the seniority system of automatic promotion by length of service has been changed in some cases, this as yet has not been with notable success, as in Nissan with such changes introduced by the French-Brazilian Carlos Ghosn. There have been some widely reported down-sizings, often under the heading of 'lay offs'. Yet these such as those undertaken by Sanyo, have been by non-replacement of employees rather than redundancies (Turner, 2006).

Lifetime employment still remains central to the logic of 'implicit equity' and mutual advantage of leading Japanese firms which is crucial to their competitive advantage. As Pilling puts it, Japanese companies 'have managed to reinvent themselves without aping the Anglo-Saxon model' (Pilling, 2006). Or, as Sako (1997) has evidenced, the principle of lifetime employment continues to be upheld by management because, without it, motivation and workers cooperation would falter. Cannon, which for a time appeared to be considering shorter term performance related contracts, has reconfirmed the principle of lifetime employment for the central reason of keeping workers' knowledge, skills and experience 'in house'. As Fujio Mitarai, President of Cannon, has stressed, the company thereby gets a workforce which is constantly relearning while Cannon also keeps the secrets of its process innovation inside the company (Pilling, 2004).

Economic and Social Logic in Lifetime Employment

Moriguchi and Ono (2004) in a literature review on a near century long experience of varieties of 'lifetime employment' in Japan claim that this has been:

> ‘an economic as well as social institution, characterized by an implicit contract and reciprocal exchange of trust, goodwill, and commitment between employers and workers. We argue that this institution emerged as an equilibrium outcome of the dynamic interactions among management, labor, and government and became an integral part of the nation's employment system over the past hundred years, reinforced by complementary institutions such as state welfare policies, labor laws, corporate governance, social norms, family values, and the education system’ (Moriguchi and Ono, 2004, p.1).

The text of this claim by Moriguchi and Ono (ibid) is not difficult to understand at face value. Yet as illustrated in Figure 4, the above paragraph contains twenty ‘first order’ sets of meaning by which they describe what they mean the use of the two words ‘lifetime employment’, which we have broken down into two encompassing sets of their implicit internal and external logic.

Figure 4
Internal and External Logic of Meaning in ´Lifetime Employment’

Internal Logic	External Logic
management	government
corporate governance	national employment system
economic institution	historical context
social institution	complementary institutions
labour	state welfare policies
implicit contract	social norms
reciprocal exchange	family values
trust and goodwill	the education system
commitment	integral
equilibrium	dynamic interactions

Source: derived from Moriguchi and Ono (2004)

The phenomenal efficiency and export competitiveness of leading firms in Japan has never included more than a seventh of its economy. But what emerges from Moriguchi and Ono’s (2004) analysis is that, for a century, lifetime employment not only has been central to achieving such efficiency in the competitive sector for leading Japanese companies. It also has enabled an efficient society in the sense that it has been able to finance social inclusion to a degree unmatched in either the US or in much of Europe other than Scandinavia. The hyper efficiency of leading firms in the sphere of production in Japan, is what has enabled it to sustain inefficiency but also high levels of employment in both agriculture and services.

Yet within this there has been a powerful symbiosis between *inverse* economic and social logics. If Japanese had pursued only the criterion of economic efficiency and productivity in all sectors of its economy, it now would be facing levels of unemployment comparable with those of Europe. It has not because part of its implicit social contract since WW2 has been that agriculture and services can afford to absorb labour whose productivity is less than comparable global standards because the hyper productive manufacturing sector can sustain it, without balance of payments constraints

Efficient Societies and Efficient Economies

Also, while so much of the rhetoric on third ways, middle ways and other ways of introducing 'market discipline' into public and social service provision recently has commanded attention, there has been relatively little top level reflection on the degree to which the implicit logic of doing this contradicts some of the most basic principles of the value of public service. This goes especially for the cardinal principle of Taylorist time and motion study of output and throughput and its focus on productivity. For such an explicit productivity focussed logic is implicitly counter productive in the social sphere. An efficient company gets more for less. An efficient society does not. No one judges a school with more pupils per teacher, or a hospital with more patients per doctor as better than a school with smaller classes or a hospital with more personalised health care. Stefan Stern (2006) has made this point well in relation to the limits of the very concept of economic productivity, arguing that:

> 'conventional notions of productivity are pretty hopeless when it comes to describing what doctors, teachers and social workers actually do. Consider a classroom with a sensible number of pupils. Want to increase that teacher's productivity? Add 30 per cent more kids. What about those hospitals that take so long to get patients well and return them to the community? Speed it up, for goodness sake! Get them out of bed and back on the streets if you want to hit that productivity target – in the UK's case, that of waiting times. And, while you are at it, fix revolving doors to the front of the building so they can get back in quicker when they fall ill again' (Stern, ibid., p. 10).

Clearly Stern's comments are ironic. Yet they point to a central dysfunction of paradigms of institutional change which draw explicitly on performance criteria such as productivity from the commercial sphere without recognising their illogic as means to ends in the social sphere. For the implicit logic of an efficient society is that it would employ more people rather than less, both in the sense that doing so is central to economic and social cohesion, and precisely because people want smaller classes in teaching and more personalised care in health or social services. And the market itself shows this in the degree to which those who can afford it pay for it. Not that this in itself means that either education or health or other social services cannot also achieve efficiency gains. One of the main areas of focus in is on how paralleling flexible production in health provision can reduce the under-utilisation of overheads such as operating theatres or wards by increasing their flexible use, as well cut waste in patient's waiting time for treatment (Oliveira & Holland, 2007a,b). But this is different from the operational logic of British health and education reforms which have tried to gain more for less by increasing pupil/student or patient throughput within an unchanged organisational paradigm. It means recognising and changing the implicit organisational logic of the system in order to gain more operational efficiency and doing so on the basis of flexibility-by-consent, as advocated in the Lisbon Agenda, rather than flexibility-by-constraint.

Failure to address both what is an efficient economy and an efficient society, also carries external and internal costs in the political sphere. This is evident as a reaction to both globalisation and European enlargement, not only in western Europe but also in central and eastern Europe, where Kregel *et al.* (1992) correctly forecast that 'market shock' and the lack of counterpart policies for social cohesion would cause 'withdrawal' to earlier models of the primacy of nationhood, increased xenophobia and also more overt racism (Boyes, 2006; Wagstyl, 2006). And this concerns HRM since prioritising 'hard' models of privatisation and liberalisation without rethinking and reshaping institutions may be counter-productive within wider society.

Mutual Advantage and Operational Logic

The ashes of the apparent pyre of high commitment HRM and the demise of stakeholding as an *organisational* logic also may yet give rise to an unexpected phoenix in terms of stakeholding as an *operational* logic. The implicit logic of its apparent eclipse by global shareholder power may be to reinforce it at operational rather than organisational level. At organisational level, top management in companies under shareholder pressure and with global relocation options, cannot concern themselves with outcomes in individual plant, branches and workplaces. But both their management and employees can do so, either in the production sphere or in finance and business related services. Such local management and other employees have a mutual interest in survival, and demonstrating to top management that they merit it rather than closure of their operation and its relocation elsewhere. Stakeholder value therefore may be due for re-birth at operational level just when global shareholder value appears to have buried it.

Employees suggesting a better method of work operation need assurance that in doing so they will gain from it. This implies not only an organisational and operational culture that tacitly recognises initiative, innovation and learning but also explicitly recognises and rewards it. Employees also need to be able to see that doing so is to the mutual advantage of the organisation and themselves. This has several implications for gaining mutual value through mutual advantage and thereby enabling organisations to achieve both economic and social efficiency.

First, employees proposing innovative methods of work operation, including middle managers, must know that they are not thereby innovating themselves or colleagues out of a job, and know that they will gain from such innovation. The principle of commitment to no involuntary redundancies for the lifetime of a product or service in large part can achieve this, as it had in our auto assembly plant case study.

Second, not every organisation can commit to profit-sharing on the model of the Toyota Production System, not least those which are non-profit such as most public services. Not everyone can be promoted, nor paid more than efficiency allows. But gaining work-life balance through being able to customise individual working time is a key motivator.

Third, multi-skilling and multi-tasking may not reduce stress, but skill profiling and skill path planning can enhance individual fulfilment, while horizontal mobility both can provide job variation and lessen the incidence of intensive 'front line' work pressure.

Fourth, innovations in methods of work operation focussed on cutting wasted time and better utilising fixed resources, are a key alternative to longer hours or cutting jobs. Not every organisation can innovate new products, but any can in principle innovate new methods of work operation and thereby improve operational efficiency.

Fifth, the best resource for gaining this within an innovation trajectory rather than cut-and-run relocation is employees themselves. It is they who best know the tacit rules and implicit norms that are frustrating operational and organisational learning and feasible innovations in methods of work operation.

Work-Life Balance and Flexible Working Time

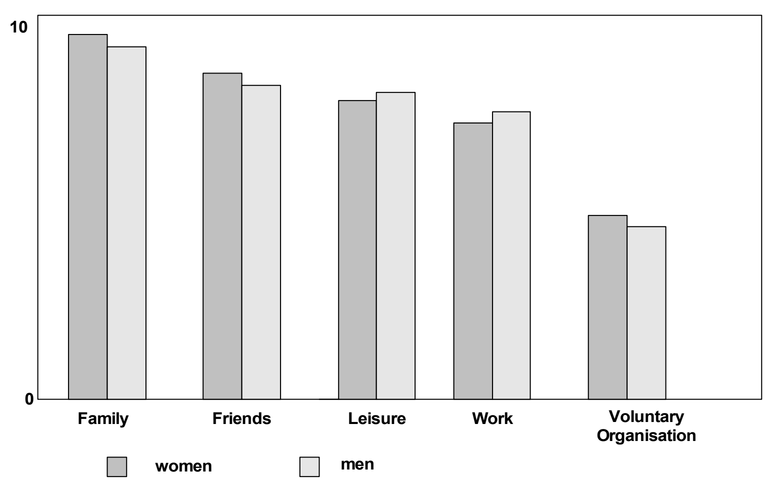
Few European or US companies faced with globalisation are going to commit themselves to Japanese style lifetime employment. When since July 2004 trades unions at works council level agreed longer hours without an increase in pay the only reciprocal commitment they gained from management was not to relocate before 2012. Where the Japanese high commitment HRM model leading Japanese companies, is that its leading firms have paid little attention to issues of work-life balance, tending to demand that workers centrally commit themselves to its priorities and fit its flexible production schedules. Yet motivation through offering employees the right to negotiate the incidence of work time and life time, on a longer term life-cycle basis, may be one of the main regards in which western firms can achieve higher employee commitment to flexible production and innovation-by-agreement.

For instance, as stressed by the contributors to a special issue of European Societies the proposal of better work-life balance in the Lisbon Agenda already has prompted a host of national government initiatives since 2000, including what Hildebrandt and Littig (2006) have called resonance with:

‘the many aspects of transformation within the family, the multiple types of employment and working time models in new management strategies, the wide range of services to facilitate every-day life offered by the service industry; the demands of civil society to obtain social cohesion and ensure access to common goods; and the different ideas about individualization, identity and subjectivity, including work-related aspects such as health or education or training, but also about consumption and free time’ (Hildebrandt & Littig, ibid., p. 218).

For such reasons the proposal for a right to work-life balance gained resonance. But there was a key difference from the presumption of social ‘science’ that explicit hypotheses first have to be formulated, then tested, with. Proposal of the principle was not the result of inference from painstaking empirical research on social trends, but simply intuitive and based on the personal work and life experience of its proposer to the Lisbon Presidency. It was rationalised on the basis: first, that the value attributed to personal life probably counted higher than that derived from work or professional life for most people; second that this tended to be neglected in economic theory and policy with its focus on instrumental returns such as income; third, that Europe needed to gain high commitment policies to and from employees if it were to register similar gains to those which Japanese flexible production had been able to achieve by commitment to lifetime employment and profit sharing without being able to offer either, although perhaps could do so by confirming the right to work-life balance. But the proposal nonetheless was intuitive rather than inferred from any previous empirical research (Holland, 2000).

Figure 4
Attributions of Importance in Life and of Work



Source: Jowell, and European Social Survey 2002/2003:

The right to flexible working time customised to individual needs, and to ‘time credits’ for all or a share of overtime, would challenge the principle of fixed limits to working hours per week. But it was indicated at the outset that the fixed 35 hour week in France is in question, with average hours already approaching 39 per week. In Germany, significantly longer hours have been gained by management at work place level with the consent of works councils. Yet where trades unions have accepted this it has been as a defensive reaction to the increased power of top management with global options to make them offers they could not afford to refuse. Defence of the principle of the 35 hour week in France is contentious. Segolène Royale, at the time of writing one of the candidates for the presidency of the republic, already has questioned it. Yet trades unions either in France or elsewhere could be well advised to anticipate alternatives to fixed weekly hours which can reinforce employee rights rather than deny them.

It is in such a context that unions could draw on the success of annualised hours, as apparent already in several companies, such as the National Westminster bank in the UK (Bendall, *et al*, 1998). This would a sphere in which they could respond to the new option for top management of global relocation by a strategy of manoeuvre, rather than of position, offering even multi-annual hours not simply on the defensive basis of reaction to group management and what it considers its needs, but that on the basis of the time credit principle on the basis that this can ‘fit’ individuals’ ‘life cycle’ needs better than an inflexible working week. And this could especially be the case in the public sector and social domain where, even with new ‘internal markets’ and shorter contracts, long term employment is probable on two grounds: the first, that closing a school of a hospital may be feasible, but relocating them on the other side of the world, or cutting total employment in education or health, is not: the second, that no head teacher or manager of a hospital wants to lose skilled staff.

The question what would happen to such time credits of a company went under or were taken over is simple enough to address. Legislation compatible with that of the principle of national insurance would oblige companies to commit to the time credits of employees in those which they take over. If companies go under, their former employees should be entitled to drawn on such credits as paid time funded by governments as an extension and enhancement of unemployment benefits. Governments in turn would be likely to consider that prudent financing should mean that companies bank such credits on a current basis with them as insurance against possible closure, or down-sizing. Such principles, as again with national insurance contributions paid by companies, have been accepted in much of Europe for up to a century, and in Germany since the 1880’s. Time credits would simply customise them.

Conclusions

In the public sector, if trades unions are to ‘buy into’ the new scope for flexibility-by-consent opened by the Lisbon Agenda, in the sense of a strategy of manoeuvre to pre-empt cuts in costs, benefits and staffing, this would represent a challenge to them to move beyond collective bargaining on pay and working conditions, but one which several of them, and the leadership of the ETUC, already support. Welcoming the right of individual employees and groups of employees to propose new methods of work operation and skill path planning is straightforward enough, and offers the potential to gain better utilisation of tacit knowledge, latent abilities and implicit skills. The case for professionalisation of vocational services, for instance for nursing staff as patient flow coordinators, could take this administrative burden from doctors could liberate them for more time for research, or private practice, already has been applied in a reactive defensive manner in the National Health Service when, in 2006, the new finance for reforms reached a limit (Oliveira & Holland, 2007b).

Continuous improvement negotiated through innovation-by-agreement therefore need not be limited to the production sphere or private services. It can include:

1. the right of workers and managers in both the private and public sectors to expect negotiation to range beyond wages and working conditions and to include the relation between their work and non-work lives as well as retraining, job redesign, skills path planning and horizontal mobility.

2. the degree to which this and the personalisation of service and 'continuous improvement' in education, health, public administration and other public services can directly benefit the wider public, enhance social efficiency and improve the quality of life.

Innovation-by-agreement as a process, based upon flexible production rather than flexible labour markets, thereby offers efficiency both within organisations and for society. It can achieve a positive sum internal logic in terms of new methods of work operation based on consent because the process reinforces individual rights. But it also can imply a positive external logic for society as a whole. Internally, by recognising individual needs and reinforcing individual rights, Innovation Agreements include the potential for job variation, job redesign, new methods of work operation and skill path planning. In so doing they offer an alternative to the typical alienation of employees in large public sector organisations. At the same time, by allowing employees more scope from time saving through new methods of work operation, they offer the potential externality for them to be able to relate better to individual patients, pupils, or those claiming benefits. .

This obtains for health, but especially so for education, where class size in schools, and especially in universities, reduces the feasibility of teachers being able to get to know the needs or potential of pupils or students other than in a cursory manner. This is a central issue for lifelong learning inasmuch as many of the skills which people need to extend by customised training are implicit in their learning-from-work or learning-from-life, rather than formally or professionally acquired. Especially, skills profiling as the basis for skill path planning can and should personalise or customise retraining for individual workers or groups of workers to already given skills. Thereby, employees can learn to reinforce and extend what they already can do well at work and in life, rather than being formally trained to do things they have never done, nor are sure they can do. In this regard, Innovation Agreements directly reflect the concern of the Lisbon Council to encourage ‘agreements between the social partners on innovation and lifelong learning by exploiting the complementarity between lifelong learning and adaptability through flexible management of working time and job rotation’ (European Council, 2000).

The Essen European Council (EU Council, 1994) agreed to more labour intensive employment in the social sphere, i.e. following through Stern’s (2006) lament on productivity obsession in the social sphere with more teachers and smaller classes, more health workers and shorter waiting lists. Overall, Europe not only can afford it in the sense that, unlike the US it has no external deficit in trade with the rest of the world. Arguably, in terms of the job loss from relocation in the productive sphere, evidenced by the Eurofoundation findings (Eurofoundation, 2006) it cannot afford to neglect the social spheres of health and education as a source of job creation.. It could especially afford to do so if more use were made of the Lisbon remit to the European Investment Fund to finance investment in education and health since most EU member states do not count borrowing from the EIB against their national debt, and it therefore is not constrained by the Stability and Growth Pact for a single currency (Holland, 2006).

In both and private and public sectors mutual advantage practices similar to the *kai* of improvement and the *zen* of mutual gain or benefit, combined with commitment to innovation-by-agreement should make it possible to achieve higher levels of continuous improvement in both the production and social spheres than merely seeking to cut costs. In Weber’s (1947) sense of a ‘soulless’ bureaucracy, many public sector services have become bureaucratic not because they have no profit motive, but because those who best know how this could be remedied have no ‘voice’ (Hirschman 1970) through social dialogue to propose innovation in methods of work operation or organisation in return for mutual gains. In these regards, innovation-by-agreement arguably represents both a project for economic efficiency in organisations and a project with wider social implications. In enhancing operational and organisational learning on the basis of mutual advantage, its focus on process innovation also could improve economic efficiency and in those sectors exposed to globalisation through continuous innovation trajectories rather than once cost reduction through cut-and-run relocation. In public services it could avoid the efficiency sprints tried and failed in sectors such as health by successive UK governments. In these regards, it may offer new roles for both operational management in a new high commitment HRM model, and also increased social efficiency for a wider public.

Annex 1
Contrasts of Inflexible and Flexible Production

	Fordist Inflexible Production	Post Fordist Flexible Production
Mode of Competition	Price	Price and Quality
Method of Production	Economies of Scale	Economies of Scope
Product or Service Strategy	Inflexible Specialisation Standardisation Long Lead Time	Flexible Specialisation Diversification Short Lead Time
Attitude to Capital & Investment	Fixed cost Gradual amortisation	Variable cost Rapid amortisation
Attitude to Labour	Variable cost	Variable or Fixed cost
Wages and Salaries	No profit sharing Inflexible costs	Significant profit sharing Flexible costs
Division of Labour	Single-tasking Single-skilling	Multi-tasking Multi-skilling
Learning & Training	Minimal Taylorist specialisation Operational Learning Nil	Maximal Skill diversification Operational Learning Maximal
Management-Labour Cooperation	One-way and centralised Implicit confrontation	Two-way decentralised Explicit cooperation
Production or Service	Routinised	Customised
Technology	Special purpose	General purpose
Product or Service Innovation	Specialised Internal	Diversified Internal and external Joint innovation trajectories
Process Innovation	Limited Internal	Extensive Internal and External Continuous Improvement [*Kaizen*]

Quality Control	Supervisory Management	Self-Managed
Factory/Branch/ Outlet Organisation	Inflexible and Serial	Flexible and Variable
Inter-firm relations	Arms-length Independence Price competitive	Hand-in-hand Networking Product and R&D cooperation
Voice Relations with Suppliers	Negligible	Substantial Joint innovation trajectories
Exit Sanctions on Suppliers	Substantial	Negligible
Components/ Service Delivery	Intermittent	Constant
Stocks on Site	Substantial	Negligible
Response to Cyclical and Competitive Pressures	Cut costs Disinvest Unemploy labour Rationalise Pressure distributors Delay innovation	Cut costs Re-invest Re-deploy labour Diversify Assist distributors/ clients Intensify product and process innovation

Source: Own Formulation

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