

Moving towards a new framework for the relationship between employers and workers

Proposal for a way forward

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Abstract

- While organisations are encouraged to pay attention to their impact on society, the focus is often on the impact of their core business activity (for example, environmental impacts) rather than the impact of their workforce practices on society.
- Workforce practice topics, such as diversity and excessive executive remuneration, have been addressed one by one in the absence of a systematic top management focus on the wider impact of organisation workforce practices.
- The impact on society of any given workforce practice may be rejected by society as unacceptable, in turn affecting the sustainability of the business.
- We ask
 - should governance regulation, such as the FRC Provisions and Guidance, include the following topic for senior management: do our workforce policies and practices support or damage our social legitimacy?
 - Should senior management set the ‘tone at the top’ to empower management to mitigate this risk?
- We propose a three-dimensional typography as a tool for senior management to assess their workforce practices.

This is a working paper. We are developing a research project to look more fully at this topic. All comments are welcome.

Introduction: observations from the CIPD

There is growing emphasis on businesses to clarify their social purpose and become accountable to a much broader range of stakeholders, beyond the business owners. The calls for a mindset shift come from the Government¹ demanding greater transparency, starting with the gender pay gap reporting, investors² increasingly looking out for evidence that businesses are sustainable in the long term, as well as the general public calling out poor practice, as illustrated by the #metoo movement.

Positioning themselves within the social context of interlinked relationships between shareholders, people, customers, local communities, and other stakeholders is a challenge for many businesses. Traditionally, operating models had one interest at their core – be that maximising shareholder returns or growing public value at minimal cost. As a result activities to mitigate negative impact of the business on the wider society have been primarily viewed through economic (the business case) and

¹ <http://press.conservatives.com/post/147947450370/we-can-make-britain-a-country-that-works-for>

² www.telegraph.co.uk/business/2018/01/16/worlds-biggest-fund-blackrock-warns-companies-find-social-purpose/

legal (compliance) lenses, rather than ethical responsibilities of organisations,³ meaning that these activities could only exist as long as they did not diminish the core business activity to create shareholder value. This is particularly true for people practices because HR functions are often seen as support services tasked with implementing the people aspects of the business plan. A number of recent corporate scandals, however, have demonstrated the potential knock-on effects of decisions about people practices on organisational reputation, for example, media criticism of aspects of DPD's treatment of its franchisee drivers.⁴

For a subset of organisations, the Companies Act already requires directors to promote the success of the company by taking into account the interests of employees and the impact on the community and environment. While some organisations are beginning to address the roles, interests and goals of stakeholders beyond shareholders in their business models, the CIPD observes many HR departments still lack the structures and the language to articulate what this way of operating could mean for the relationship between the business and its people. This paper seeks to move forward this debate and support HR in leading the conversation within management teams on how the social impact of a business translates onto the people management and development strategy and practice.

A third dimension to the relationship between business and people

Specific people practice topics, such as diversity and excessive executive remuneration, have been addressed under the pressure of public scrutiny, yet a systematic top management focus on the wider impact of an organisation's people strategy and practices is often still lacking. In the field of HRM research over the last couple of decades the focus has largely been on demonstrating the contribution of HRM to generating economic value, neglecting societal outcomes.⁵ As far back as 1984 Beer, Spector, Lawrence, Mills and Walton called for HRM to address a wider group of stakeholders than just shareholders. Their 'Harvard Model' looked not only at individual wellbeing and creating economic value through organizational effectiveness, but also at the need for organizations to have policies that will have long-term benefits for society because organizations derive their legitimacy from society. However the HRM field has become largely divorced from fields such as corporate governance, causing HRM to "fall behind the wider agenda evident among some leading-edge companies."⁶

Beer et al (2015) observe there are some recent notable exceptions coming from the CSR field. The most neglected area at the boundary of HRM and CSR is the political

³ www.cipd.co.uk/Images/creating-and-capturing-value-at-work_2017-who-benefits-2_tcm18-33097.pdf

⁴ www.independent.co.uk/news/business/news/dpd-driver-diabetic-dies-fine-take-day-off-doctor-visit-diabetic-don-lane-bournemouth-courier-firm-a8195266.html

⁵ BEER, M., BOSELIE, P. and BREWSTER, C. (2015) Back to the future: implications for the field of HRM of the multistakeholder perspective proposed 30 years ago. *Human Resource Management*. Vol 54, No 3. pp427-38.

⁶ BEER et al (2015) p428.

stream.⁷ In this political perspective the purpose of a firm is to fulfil its obligations to society by being a political as well as an economic actor. It offers the possibility of exploring the social embeddedness of HRM.⁸ Looking specifically at EOR, while there have been calls to add context to the psychological contract⁹ and investigation of the interaction of the psychological contract and the social contract¹⁰, there is a need to develop tools for practitioners seeking to rise to this challenge. In this section we ask how HR leaders might think about people practices through the lens of wider social norms, drawing inspiration from research on employee–organisation relationships (EOR), social exchange theory (SET), social identity theory (SIT) and ethical leadership.

The relationship between business and workforce

Exchange theories dominate research on employee–organisation relationships. These include both the contractual exchange of defined performance tasks and financial incentives, and non-specified, open-ended aspects of the relationship, such as perceived employer concern for employee well-being. Exploring the balance of inducements offered by the organisation and expected contributions from the employee, Tsui et al (1997)¹¹ divided these relationships into four broad categories and provided empirical data to support their distinction:

- **quasi-spot contract:** balanced exchange of short-term and closed-ended obligations for both parties, without additional open-ended commitments on either side
- **mutual investment:** balanced exchange of open-ended and long-term investment by both employer and employee
- **underinvestment:** broad and open-ended obligations for employee but no commitment or long-term investment from the employer
- **overinvestment:** broad-ranging rewards from employer for only specified tasks from employee.

Tsui et al (1997) recommended mutual investment or overinvestment approaches because these produced better performance of core tasks, more citizenship behaviours and greater levels of affective commitment. Our focus is different: rather than seeking to recommend a particular approach, we seek to draw managers' attention to the impact on society of whichever practices they adopt.

⁷ VOEGLIN, C. and GREENWOOD, M. (2016) Corporate social responsibility and human resource management: a systematic review and conceptual analysis. *Human Resource Management Review*. Vol 26, No 3. pp181-97.

⁸ VOEGLIN and GREENWOOD (2016) p194.

⁹ GUEST, D. (2004) The psychology of the employment relationship: an analysis based on the psychological contract. *Applied Psychology: An International Review*. Vol 53, No 4. pp541-55.

¹⁰ EDWARDS, J. and KARAU, S. (2007) Psychological contract or social contract? Development of the employment contracts scale. *Journal of Leadership & Organizational Studies*. Vol 13, No 3. pp67-78.

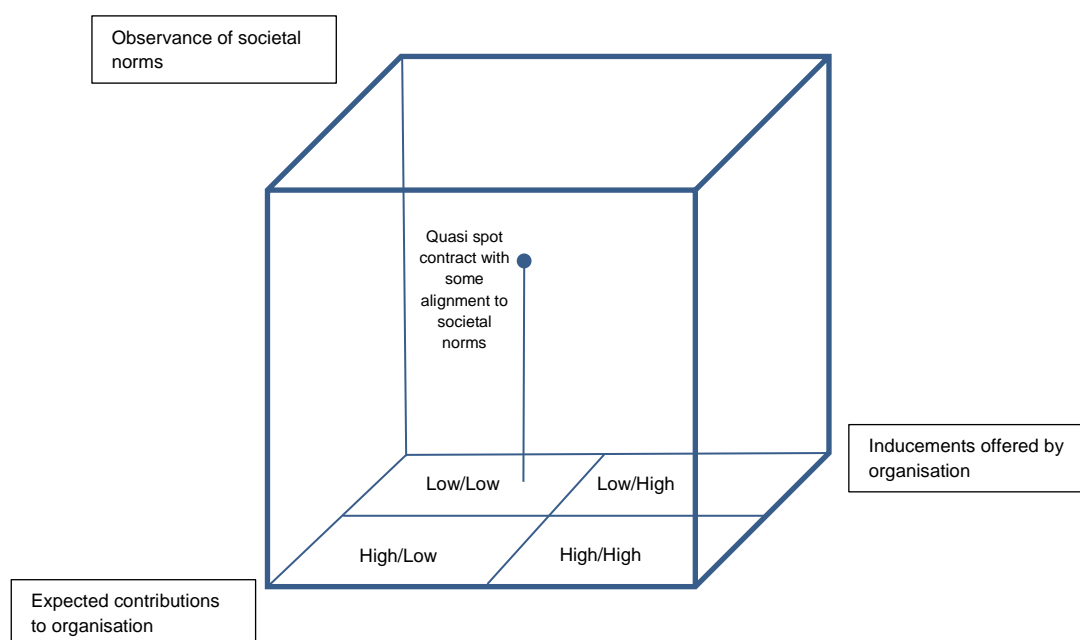
¹¹ TSUI, A., PEARCE, J., PORTER, L. and TRIPOLI, A. (1997) Alternative approaches to the employee-organization relationship: does investment in employees pay off? *Academy of Management Journal*. Vol 40, No 5. pp1089–121.

Employment relationships and societal impact

In the context of an organisation a manager might choose a preferred type of employment relationship for a given position, thinking about the exchange of inducements the organisation can offer and desired contributions from the employee. For example, a relationship based on minimal inducements from the employer could be the most appropriate category for a highly specified task performed by the worker, such as in the case of a short-term zero-hours contract. However, if this relationship is viewed in the wider social context, questions arise about the impact of low-security employment on the employee and the local community, for example, the ability of an individual to get a mortgage and the sustainability of family life. While the impact may not be obvious in a single case, when a practice is widely adopted it can have a significant impact. Multiple stakeholders will be affected in differing ways and their concerns will not necessarily be reconcilable.

Whether the practice is accepted or not by society will be influenced by prevailing wider societal norms, or accepted standards of behaviour at a given time. A practice may be seen as acceptable within the context of the organisation, yet break wider societal norms. We are depicting this as a third dimension to be added to the existing typography of employment relationships (see Figure 1).

Figure 1: Adding a third dimension to Tsui and Wu (2005)¹²



Source: adapted from Tsui and Wu (2005, Figure 5.1)

¹² TSUI, A. and WU, J. (2005) The new employment relationship versus the mutual investment approach: implications for human resource management. In: LOSEY, M., MEISINGER, S. and ULRICH, D. (eds). *The future of human resource management*, pp44–54. New Jersey: Wiley.

This third dimension draws attention to the range of practices within a given category and how these might vary by their acceptability within wider society. This new dimension prompts management to articulate the position the organisation wants to take on relevant issues in society, and apply it to people practices. For an example of such an approach in practice, see the extracts from a previous CIPD Isos Housing case study in Appendix I.

We suggest directors have a duty to take account of this bigger picture, not least because the sustainability of any practice affects the long-term success of the company.

Why does this matter?

The reasons organisations – and HR leaders more specifically – should look at the impact of people practices on wider society relate to how people practices ensure sustainable business practice and sustainable people performance¹³.

People performance

Research suggests there are a few mechanisms linking an organisation's regard of societal norms and workers' performance:

- **Social identity theory:** A criticism of the exchange theories that dominate discussions of the employment relationship is that they explain some but not all behaviour in the workplace.¹⁴ According to social identity theory, some behaviours of workers are explained by their attempts to conform to their perception of the prototype organisation worker. Workforce policies and practices are part of the organisation and contribute to the perceived identity of the organisation. If workplace policies and practices do not observe wider and changing norms in society, employees may perceive that they should follow organisational behavioural norms, even when these diverge from norms in wider society.
- **Moral contracts:** It has been argued that the workforce looks to the company to uphold moral obligations within society as well as its obligations to the individual. Proponents of the 'moral contract' argue it can be breached by unethical leadership behaviours (Greenbaum et al 2011¹⁵).
- **Reciprocity:** Ethical leadership positively correlates with organisational citizenship behaviour (going the 'extra mile' for the organisation) and negatively correlates to deviant workplace behaviour (violating organisational

¹³ See BEER et al (2015) for arguments in support of taking a stakeholder approach to HRM.

¹⁴ For a comparison of SET and SIT with regards to the psychology of the employment relationship, see VAN KNIPPENBERG, D. (2012) Social Identity-based leadership and the employee-organization relationship. In: SHORE, L., COYLE-SHAPIRO, J. and TETRICK, L. (eds). *The employee-organization relationship: applications for the 21st century*. pp85-111. New York: Routledge.

¹⁵ GREENBAUM, R., FOLGER, R. and FORD, R. (2011) Moral contracts. In: GILLILAND, S., STEINER, D. and SKARLICKI, D. (eds). *Emerging perspectives on organizational justice and ethics*, pp199–221. Charlotte, NC: Information Age Publishing.

norms) (Mayer et al 2009¹⁶). It has also been suggested that unethical treatment of employees is reciprocated by increased unethical behaviour from the workforce (see Schminke 2012¹⁷).

- **Relevance to incentives:** The efficacy of various HRM practices could be affected by the character of the organisation. Dur and Tichem (2015)¹⁸ argued that in an organisation characterised by altruism, the threat of redundancy is less of an incentive than the possibility of a bonus payment. HRM practices should be appropriate to the character of the business.
- **Recruitment:** Failure to meet societal norms could lead to difficulty recruiting the best people.¹⁹ More specifically Dur and Tichem (2015) suggest the presence of altruism increases the willingness of employees to work for an organisation.

Sustainable business practice

The extent to which an organisation aligns itself to wider societal norms is linked to business sustainability in three ways.

First, there is a reputational point. Just as organisations can fail to adapt to a changing competitive environment, we suggest organisations could get out of step with changes in societal norms relevant to workforce policies and practices. As societal attitudes and expectations change, periods of adaptive, or incremental, organisational change are interspersed with periods of revolutionary change for the organisation. Becoming out of step could attract public scrutiny, which in turn could cause a reputational issue, forcing revolutionary change on the organisation and affecting sustainability (see Figure 2).

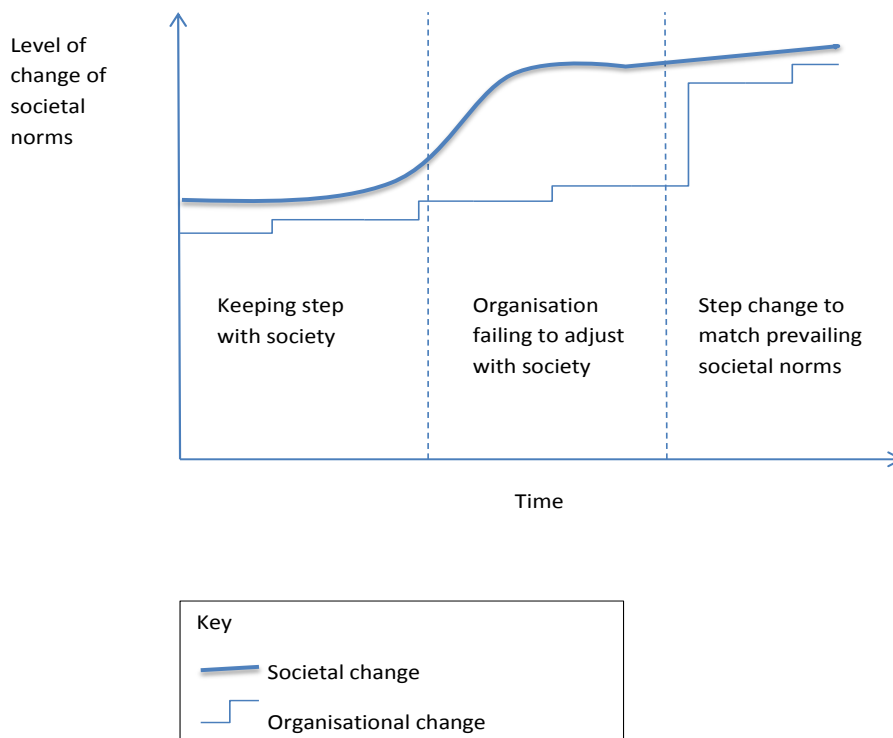
¹⁶ MAYER, D., KUENZI, M., GREENBAUM, R., BARDES, M. and SALVADOR, R. (2009) How low does ethical leadership flow? Test of a trickle-down model. *Organizational Behavior and Human Decision Processes*. Vol 108. pp1–13.

¹⁷ SCHMINKE, M. (2012) The employee-organization relationship and ethics: when it comes to ethical behaviour, who is the organization and why does it matter? In: SHORE, L., COYLE-SHAPIRO, J. and TETRICK, L. (eds). *The employee-organization relationship: applications for the 21st century*, pp55–84. New York: Routledge.

¹⁸ DUR, R. and TICHEM, J. (2015) Altruism and relational incentives in the workplace. *Journal of Economics and Management Strategy*. Vol 24, No 3. pp485–500.

¹⁹ GREENING, D.W. and TURBAN, D.B. (2000) Corporate social performance as a competitive advantage in attracting a quality workforce. *Business and Society*. Vol 39. pp254-80. Cited in BEER et al (2015).

Figure 2: A punctuated equilibrium model of change



Source: adapted from a strategic change model in Balogun and Hope Hailey (2008, Figure 1.1, p3),²⁰ in turn adapted from Romanelli and Tushman (1994) and Tushman and Romanelli (1985)²¹

Second, an issue of interest to the public could directly affect sustainability, for example, the future availability of a skilled workforce. An organisation might have the choice of offering training that results in widely recognised transferable qualifications, or job-specific training that is less transferable. For the purposes of contributing to the workforce of tomorrow, an organisation might aim to offer the former.

Finally, recent CIPD research suggests investors are increasingly willing to interrogate the extent to which businesses protect their long-term sustainability.²² Public criticism amplified by social media communications might affect shareholder value quickly (for example, a consumer boycott²³), so it should be part of

²⁰ BALOGUN, J. and HOPE HAILEY, V. (2008) *Exploring strategic change*. Edinburgh: Prentice Hall.

²¹ ROMANELLI, E. and TUSHMAN, M. (1994) Organizational transformation as punctuated equilibrium: an empirical test. *Academy of Management Journal*. Vol 37, No 5. pp1141–66; TUSHMAN, M. and ROMANELLI, E. (1985) Organizational evolution: a metamorphosis model of convergence and reorientation. In: CUMMINGS, L. and STAW, B. (eds). *Research in organizational behaviour* 7. Greenwich, CT: JAI Press.

²² CIPD (2017) The intangible workforce: do investors see the potential of people data? www.cipd.co.uk/Images/do-investors-use-people-data-when-making-investment-decisions_tcm18-28747.pdf

²³ SEN, S., GURHAN-CANLI, Z. and MOROWITZ, V. (2001) Withholding consumption: a social dilemma perspective on consumer boycotts. *Journal of Consumer Research*. Vol 28. pp399-417. Cited in BEER et al (2015).

organisational practice to pay attention to potential public scrutiny issues in all areas, including concerning people practices.

How might organisations think about the social impact of people practices?

If organisations were to consider their people practices in the context of wider societal norms, how might they go about it? We do not seek to recommend or impose any one employment model. Rather we propose organisations should inspect their people strategy and practices in the light of societal norms.

First, however, we should consider who in an organisation could be tasked with inspecting the people strategy and practices. A broad outline shows the EOR can be considered from various levels. The role of the 'organisation' is to set '*the mission statement, strategy, structure, physical setting, human resource management practices, espoused values and norms*' (Ashforth and Rogers 2012, p27, citing Shore 2004)²⁴. The strategy would be set by the executive directors or equivalent. Senior managers and HR specialists specify parts of the employment relationship at the '*strategic level (pay, career development, job security)*' (Coyle-Shapiro and Shore 2007, p173)²⁵. An immediate manager may be '*the face of the organisation in a day-to-day sense and executes the strategy*' (Ashforth and Rogers 2012, p27).

We see a need for research in three areas of organisational practice:

- the extent to which company boards hold executive teams to account on the societal impact of people practices
- empowering HR leaders to take the societal impact of people practices into account
- developing practical ways for HR leaders to articulate the challenges and make decisions about people practices in relation to their potential societal impact.

Role of the boards

At the time of writing this paper, the FRC is consulting on draft changes to the UK Corporate Governance Code. The Code contains a set of principles for UK listed companies designed to ensure high standards of corporate governance and reporting to shareholders. This set of revisions seeks to achieve a wider stakeholder focus in recognition of the increased public scrutiny of large companies. To this end the revisions address corporate culture, diversity, employee voice and executive remuneration.

²⁴ ASHFORTH, B. E. and ROGERS, K. M. (2012) Is the employee-organization relationship misspecified? The centrality of tribes in experiencing the organization. In: SHORE, L., COYLE-SHAPIRO, J. and TETRICK, L. (eds). *The employee-organization relationship: applications for the 21st century*, pp55–84. New York: Routledge.

²⁵ COYLE-SHAPIRO, J. A-M. and SHORE, L. M. (2007) The employee-organization relationship: where do we go from here? *Human Resource Management Review*. Vol 17, No 2. pp166-79.

Board directors should promote the long-term sustainable success of the company, generate value for shareholders and contribute to wider society (Section 1, Leadership and purpose: Principles). A company's annual report should contain the information necessary for shareholders to assess the company's position, performance, business model and strategy (Section 1, Leadership and purpose: Provisions). The social legitimacy of business practices could affect the sustainability of the business model. The focus on the specific topics of executive remuneration, equal pay and diversity addresses public concerns about the impact of large companies in these specific areas and is therefore to be welcomed.

There is an absence, however, in the Code and the Guidance, of equal focus on a general question for boards to ask themselves if further aspects of their workforce practices could attract public scrutiny, for example their use of zero-hours contracts. While Section 172 of the Companies Act creates such a requirement in the sense of having to take account of the interests of employees and the impact on the community, the emphasis in the corporate governance regulations directs the attention of boards to specific topics. The Revisions concerning Remuneration in Section 5 appear to start to address our concern, in Principle O:

The board should satisfy itself that company remuneration and workforce policies and practices promote its long-term success and are aligned with its strategy and values.

There are also revisions promoting the mechanisms for listening to the views of the workforce, which could help draw attention to problems the board might need to address.

There are, however, two problems:

- subsuming 'workforce policies and practices' inside 'remuneration' puts the emphasis mainly on financial incentives
- the subsequent Provisions and related Guidance direct attention to whether incentives, policies and practices are aligned with the desired culture and promote behaviours consistent with the purpose, strategy and values; they do not also ask how the incentives, policies and practices themselves might impact the community and attract public scrutiny.

In essence, the Revisions make welcome progress on the topics of diversity, executive remuneration and equal pay. This recognition of the importance for directors of considering wider social issues could perhaps be strengthened:

- The impact on society of workforce practices could be included expressly as part of the business model conversation at board level.
- The revised Provisions and Guidance could include the following topic for boards: do our workforce policies and practices support or damage our social legitimacy?

- Directors could set the ‘tone at the top’ to empower management to mitigate this risk.

Developing a set of recommendations for executive directors and HR leaders

Our aim is for directors to include the social impact of workforce policies and practices in high-level discussions about what the purpose, strategy and values of the business should be, to set the ‘tone at the top’. Historically there has been a tendency to view the HR function in organisations as a support service, tasked with meeting, rather than defining, the needs of the organisation²⁶. HR professionals have been encouraged to adopt commercial values to improve their perceived legitimacy within commercial organisations. While this strategy has brought greater attention to the importance of HR, there is a growing argument that this has been at the expense of adequate focus on the impact of HR practices on wider society²⁷, and HR functions continue to struggle with their perceived legitimacy²⁸. It is therefore important for executive directors to expressly set the ‘tone at the top’ to empower HR functions to address societal impact issues, in spite of these legitimacy issues.

We suggest executive directors could answer the following questions:

- Who are we? What do we stand for?
- Which societal norms are relevant to our workforce strategy, policies and practices?
- Is the impact on society of our workforce policies and practices in alignment with our purpose, strategy and values? How can we achieve our ambition?

Within the broad questions we propose using a framework to ensure a systematic review of EOR. Two initial suggestions are:

- plotting the main relationship types in the organisation on the three-dimensional typology
- considering the organisation’s HRM practices in each relationship category, domain by domain.

In the first step an organisation would identify the different employee–organisation relationship types dominant in the organisation. Comparison between these would potentially highlight some issues. From the employee perspective, De Vos et al

²⁶ HOPE, V., KNIGHTS, D. and WILLMOTT, H. (1988). The ambivalence of personnel in life insurance: the challenge of change. *Personnel Review*. Vol 17, No 1. pp32-7.

²⁷ BEER et al (2015).

²⁸ GUBBINS, C. and GARAVAN, T. (2016) Social capital effects on the career and development outcomes of HR professionals. *Human Resource Management*. Vol 55, No 2. pp241-60.

(2005)²⁹ specify five content domains for psychological contracts: career development, job content, financial rewards, social atmosphere and respect for private life (Ashforth and Rogers 2012, p34)³⁰. We propose looking at pay, access to training and career development, job security and working conditions in relation to each relationship type, because these all appear likely to affect societal wellbeing.

Yet, looking at the exchanges between employers and workers on their own would not reveal a broader mismatch between business practices and normative expectations in wider society. For example, looking at the fairness of the exchange between an employee and the organisation would not reveal a problem with diversity across the workforce. Such a problem is revealed by listening to the public's concerns about the impact of big business, aggregating the relevant data across employer–employee relationships in the organisation and then comparing it with the desired societal outcome. Just as an organisation might set itself a target to achieve on diversity in the organisation, in this way an organisation could develop targets relevant to other societal issues impacted by workforce practices.

There are organizations aspiring to a higher standard of workforce practices. For an example of an organisation that applies a 'moral compass' to HR practices, see the extracts from a previous CIPD John Lewis Partnership (JLP) case study in Appendix I. In contrast to the current pay disparity seen across businesses as a whole, JLP has a limit on the ratio between the lowest- and highest-paid employee written into its constitution. Even in tough market conditions when redundancies become necessary, JLP directors seek to ensure their workforce decisions are made thoughtfully for the 'right' reasons and with regard to the impact on individuals, not as knee-jerk reactions thinking only about the bottom line. These two JLP examples illustrate two different types of people decisions our future study will need to address: ongoing, more stable aspects of people practice, and sudden, reactionary decisions. We are seeking to develop a tool which can be adapted to both.

Next steps

In this working paper we have set out our initial thoughts in this area and proposed an extended typography for analysing employee–organisation relationships. These are early ideas and we would welcome comments.

We are developing a research project to improve our proposals in this area. Our correspondence addresses for comments are K.Zheltoukhova@cipd.co.uk and imogen_cleaver@hotmail.com

²⁹ DE VOS, A., BUYENS, D. and SCHALK, R. (2005) Making sense of a new employment relationship: Psychological contract-related information seeking and the role of work values. *International Journal of Selection and Assessment*. Vol 13. pp41-52.

³⁰ As above.

Appendix I: Case study examples

Isos Housing

Isos Housing is guided in its HR practices and policies by an idea of the type of employer it wants to be. The following are extracts from the CIPD case study on Isos Housing, 2015³¹:

Isos Group is a housing association in the north-east of England, providing affordable houses through a network of 17,000 homes. In addition, it offers a range of specific support services to residents, including mental health and learning disabilities support, financial advice, as well as accessibility support, for example for older residents. [...]

Keith Loraine, Group CEO, says:

'Everything we do is about the long term. We are in the business of building and leasing homes, dealing with time horizons of 20–30 years long. A lot of our work is about managing risk, building relationships, based on commitment and trust, and supporting the livelihoods of our customers.'

'So for me, taking a short-term view is a false economy. Yes, we are commercial and we want to make a profit, but we reinvest it wisely into building new homes.' [...]

One leader said:

'People set our reputation. They are the ones dealing with the customer on a day-to-day basis.'

'One of the areas we've been really successful in growing from a commercial point of view is our trade staff, who do all the repairs. In one instance we initially lost an external contract in that area to an organisation that was purely looking at the amount of money that it was going to cost. However, choosing a low-cost provider over us, the sponsor got to a point where they were getting really poor customer service feedback. So they've come back to work with us, as they are recognising the added value of quality and the customer service that our staff are able to deliver, and that we pride ourselves in.' [...]

The restructure and cultural change led to some individuals choosing to leave the business. However, the leaders believe the process allowed the organisation to become more commercially minded while ensuring fairness of the change process, taking into account individual circumstances. This was

³¹ CIPD (2015) From best to good practice HR: Developing principles for the profession. Case study – Isos Housing. https://www.cipd.co.uk/Images/best-good-practice-hr-developing-principles-profession_2015-case-study-isos-housing_tcm18-8768.pdf

enabled in particular by articulating the behaviours that all staff were expected to demonstrate. One leader explains:

'We know that there's not an unlimited pot of gold. But, it's about using what we've got wisely. [...]

Richard Fryer, Executive Director for Business and People, adds:

'We wouldn't apologise that there is an ethical dimension to this as well. We know that if we are really good at employee engagement, our performance and productivity will improve. The work that we've done with the Best Companies organisation demonstrates that win-win approach.

'But if somebody produced a piece of research tomorrow that said, "What you need to do is get all your people in a room every day and whip them. That's the way to get productivity," that's not the kind of employer we would want to be.

'One of the choices that we still wrestle with is between commercialism and social purpose, and that definitely was a debate in setting out our vision. We could've settled to be much more commercial, focusing on profitability. [...]

One of the examples of how sustainable two-way relationships with staff are formed is the commitment to listening to the employees' voice and involving people in important decisions. [...]

Another example is the fairness in how people are treated by the organisation. This includes offering development opportunities (for example, apprenticeships and professional qualifications) and a range of benefits (for example, medical insurance). Despite operating in a market competing on cost, Isos deliberately set the reward package in a way that does not compromise the quality of service delivery. Mark Reid, Executive Director for Finance, said:

'When applying for external contracts, we find we are perhaps less competitive when it comes to cost but not when it comes to quality. So we could revise the terms and conditions of people who deliver commercial contracts, even though they still work for Isos, to have a competitive advantage on cost.

'However, we're looking at it from a long-term view. If we provide the right terms and conditions, the right benefits and pensions, which was the particular issue, we are going to attract the right staff in terms of the overall package. That might cost us a bit more in the short run, but in terms of the long-term benefits, in terms of the service and the quality of staff, in terms of the customer relationship, we need to get the people who will be able to do the job for us.'

John Lewis

John Lewis is famous for operating by a 'moral compass'. As demonstrated by the following extracts, the moral compass is applied to workforce policies and practice just as to the rest of their John Lewis and Waitrose retail operations.

First, a CIPD case study explored how John Lewis maintained the trust of its workforce through a programme of redundancies.³²

In the whole of its illustrious long history, the partnership has never had to restructure jobs nor face the possibility of people taking voluntary redundancy on this scale out of the partnership.

The redundancy programme was part of their 'Branch of the future' strategy, or BOF.

One HR director said that the lessons they learned are several. First is for the partnership to ask itself whether the actions being taken are for the right reasons, in terms of the long-term needs of the business. BOF is about the future of John Lewis, not a knee-jerk reaction to the recession. Second is to always consider the decisions and the implementation of those decisions in terms of what it means for individuals. Third is to always emphasise that it is about jobs that are going, not people, and to emphasise that work and the business is a two-way relationship – the senior managers have responsibilities, but so do the workforce.

Second, John Lewis has attracted the attention of the business press for its model of employee ownership and constitutional fair pay policy too. As *Management Today* commented:

The JLP business model of employee ownership has attracted increasing interest in recent years. The organisation has done very well in testing times. Its staff are engaged, focused and pull together. They are the creme de la creme. While not fully Athenian, JLP has democratic elements. It isn't in a dogfight at the bottom of the value market. It has relatively flat pay structures in an era when the gap in UK business between the poorly paid at the bottom and those at the top is the widest ever. Street appears to earn between £750,000 and £1m a year, a healthy sum, but relatively low compared with his peers [...]. Rule 63 in the company constitution states that the ratio of the highest to lowest-paid employee can never exceed 75. The average current figure in the UK is currently 180 times, and in the USA 204. As we suffer from the effects of an era of excess when a lot of wrong was done, it feels as if John Lewis tries to do the Right Thing.³³

³² CIPD (2012) www.cipd.co.uk/knowledge/culture/ethics/has-trust-gone-report

³³ www.managementtoday.co.uk/john-lewis-boss-andy-street-becomes-west-midlands-mayor/leadership-lessons/article/1323420#aTb7juxQIpHCHspl.99

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