

Inside this issue of Acas' Employment Relations Matters

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Employment Relations Matters is intended to provide accessible articles, focusing in particular on Acas' experience working with and helping managers, employees and their representatives in the world of work.

Features are normally written by members of the Acas strategy unit and there are regular contributions from colleagues in the research and evaluation section. From time to time articles may be commissioned or submitted externally.

We welcome your comments and opinions. These should be addressed to the Editor, John Purcell – [jpurcell@acas.org.uk](mailto:jpurcell@acas.org.uk)

The views expressed in Employment Relations Matters are those of the Editor and not the Acas Council.

## Employment relations, economic growth and the regional agenda

*The Government's pursuit of greater devolution of power from the centre to the local level in England means local government will increasingly take on responsibility for economic growth in their area. In the following article we consider the role that employment relations have in contributing to the social and economic wellbeing of the regions.*

### Sub-national Review

The *Review of sub-national economic development and regeneration* (SNR), published in June 2007<sup>1</sup>, is aimed at maximising prosperity for all English regions. The Government is seeking to make economic policy more regionally and locally responsive and to address disparities between regions. Regional Assemblies in their current form are to disappear and Regional Development Agencies (RDAs) are to take on responsibility for a single economic and spatial strategy.

The main tiers of local government, namely upper tier and unitary authorities, will have a strengthened role in economic development, but they may also have a duty to carry out an assessment of economic challenges facing their area. Local Area Agreements (LAAs) will form the central delivery agreement between central government, local government and their partners. But where functional economies cross regional or local boundaries, local authorities will be encouraged to collaborate with their neighbours to establish Multi-Area Agreements (MAAs) or Economic Development Companies.

### Implementation

Exactly how this will be implemented is yet to be decided. The Government is currently consulting on implementation of SNR proposals, including the new duty for local authorities.<sup>2</sup> But some of the questions that commentators have raised to date include:

- Is it possible to ask all regions to improve productivity in their regions while also expecting the gap between richer and poorer regions to close?
- What will happen to local authorities who do not succeed in pulling together broader partnerships with neighbouring authorities? Will they get left behind?
- How will economic growth and social wellbeing be measured by LAAs and MAAs?

### Missing link

Noticeable in its absence from the SNR is any mention of the impact of employment relations. Indeed the topic is similarly invisible in many regional economic strategies drawn up by the RDAs to date. And yet if local authorities are to truly assess the social and economic wellbeing

of their citizens and the contributors to economic prosperity they will be missing a trick if they do not attempt to include employment relations as an indicator in their future reports to government. Employment relations are a fundamental aspect of all the key objectives for regional economic growth from creating economically sustainable new business to competing in the global economy.

### When things go wrong

Industrial action has been on the wane over the past two decades but we are now seeing a rise particularly in the public sector as a result of wage restraint. Industrial action – whether it is a full blown strike, or a lesser form of collective action – can have a huge impact on the local economy. This impact can reach far beyond the confines of the organisation where the dispute takes place, as highlighted in the accompanying article on the NIESR research on the economic impact of Acas services (see page 6). Levels of industrial action vary across the regions, and the potential costs and savings related to the way in which disputes are dealt with can impact dramatically on economic productivity at a local level.

Individual employment claims are also a potentially costly affair. There are now over 100,000 employment tribunal cases a year, with costs not only to business and individuals in financial terms but also serious repercussions in terms of health and wellbeing of employees taking cases. One reason for the growth of cases in the past two years has been the increase in equal pay cases in the public sector, predominantly in the north and east of the country but the rise is likely to make steady progress across the UK as a whole in the coming months. To date, cases have been concentrated in local authorities, but

they are now appearing in the NHS, generally the biggest employers in any local area.

### Employee engagement

Strike action and individual claims that often signal a complete breakdown of employee relations are a potential drain on the local economy. But there is a growing body of evidence that shows a link between organisational effectiveness and employee engagement strategies. Here the benefits relate not to resolving conflict but to managing change in a way that reduces the potential for conflict and finding ways of working that enhance commitment and raise productivity.

For example, in a recent three year longitudinal study of 46 mental health teams in the NHS researchers<sup>3</sup> found that a leadership style that encourages staff engagement through shared decision-making, ongoing consultation and information, non-hierarchical teams etc increased employee's motivation, job satisfaction and commitment, while reducing job-related stress. Researchers also found that this style of leadership was also a significant predictor of performance and increased productivity.

Regional analysis of the Workplace Employment Relations Survey 2004<sup>4</sup> found significant differences between regions of the incidence of practices associated with 'high involvement' management. And yet, the ability of employers to engage staff is paramount to a successful local economy. A regional skills agenda, for instance, needs to include an emphasis on the skills and behaviours required to effectively manage, engage and inspire an increasingly diverse workforce. For smaller businesses

without an internal HR resource, this means ensuring that there is easily accessible and locally based support and information.

One danger of not including employment relations in local and regional strategies is that new employment opportunities created by broader strategies for job creation will ultimately be unsustainable as people move out of organisations where they do not feel engaged, or feel they are unfairly treated.

### Recognising the benefits

This Government does recognise the importance of employment relations and the cost to the economy if it goes wrong. The Department for Business, Enterprise and Regulatory Reform (BERR), includes within its strategic programme for 2008-2011<sup>5</sup> on promoting free and fair markets a commitment to the reform of employment dispute resolution. It has committed up to £37 million to Acas over the next three years to resolve disputes at an earlier stage before the employment relationship has broken down to such a degree that an employee leaves their employment for good and takes their employer to a tribunal. The proposed reforms acknowledge that prevention is better than cure, and yet, the Government could do more to mainstream the message of good employment relations within its broader policy agenda on regional economic growth.

### Local authorities and employment relations

Local authorities will, it is assumed, shortly be held to account for the economic development of their area. Where local authorities are drawing up LAAs and MAAs they need, therefore, to be looking at a range of employment relations indicators. Inevitably they need to account for



the negative impact of strike action, employment tribunal claims, and levels of employee absence. But they also need to focus on ways in which the local area, or sub region can boost productivity and economic growth through enhanced support and information for employment relations in their patch.

Acas is a regionally based organisation; its advisers have day to day contact with workplaces across Britain; it conducts research on key employment relations issues. It is therefore ideally placed to support local authorities and RDAs in their efforts to incorporate meaningful indicators and measures of the role of employment relations in local economic development.

As Pam Meadows, author of the NIESR research, states:

In the longer-term there are likely to be dynamic impacts on the whole

economy from the existence of more productive and harmonious workplaces, both through the potential it offers for a more relaxed macroeconomic policy, and through a greater level of confidence among investors, both domestic and international, in the UK as a place in which to risk their money. This higher investment in turn offers the potential for a higher growth rate.'

### Notes

1 Review of sub-national economic development and regeneration, HMT, BERR, DCLG, June 2007.

2 Prosperous places: Taking forward the Review of Sub National Economic Development and Regeneration, March 2008. [www.berr.gov.uk/regional/sub-national-review/page40430.html](http://www.berr.gov.uk/regional/sub-national-review/page40430.html).

3 The impact of leadership factors in implementing change in complex health and social care environments: NHS plan clinical priority for mental health crisis resolution teams, DOH NHS NIHR SDO, project 22/2002), B Alimo-Metcalfe, J Alban Metcalfe, C Samele, M Bradley and J Mariathasan, 2007. [www.sdo.lshtm.ac.uk/sdo222002.html](http://www.sdo.lshtm.ac.uk/sdo222002.html)

4 A regional perspective on employment relations: tabulations from the 2004 Workplace Employment Relations Survey, Ref: 02/06, [www.acas.org.uk/index.aspx?articleid=1212](http://www.acas.org.uk/index.aspx?articleid=1212)

5 BERR, *Our commitment to business*, November 2007. [www.berr.gov.uk](http://www.berr.gov.uk)

## Social enterprises as a new type of employer

*Why do some companies have consistently good employment relations and people management while other companies struggle?*

Some argue that modern business conditions are to blame for poor employment relations. After all, global instability – where take-overs, outsourcing and job insecurity are exacerbated by a single focus on shareholder value – can hardly help build effective and stable employment relations. This instability reduces the possibility of employees contributing to business success and makes it harder for local management to build effective people management.

However, some organisations do manage to take a stakeholder approach to the way they operate. They make sure that customers,

the environment and employees are all part of the decision-making process. This socially sensitive way of doing business is nothing new – the Cooperative movement has been going since the 19th century – but in recent years there have been growing efforts to promote a new organisational form called 'social enterprises'.

Social enterprises cover a wide range of organisations in many sectors of the economy. The two essential features of these organisations are:

- at least half of their revenue comes from traded services

- this trade is engaged in for social or environmental purposes.

For some this means 'people before profits'. The DTI (now the Department for Business, Enterprise and Regulatory Reform – BERR) definition of a social enterprise is 'a business with primarily social objectives whose surpluses are principally reinvested for that purpose in the business or in the community, rather than being driven by the need to maximise profit for shareholders and owners.'<sup>1</sup> This is often called 'the triple bottom line'.

## Maximising social welfare and economic performance

Social enterprises have a particular focus on economic viability, creating surpluses for re-investment. At the same time they have strong social aims such as job creation, training and the provision of local services to serve the community. They are accountable to their members and the wider community for their social and economic impact. There are a wide variety of legal forms for social enterprises including a new entity called a 'community interest company'. The common features of these organisations are:

- wider representation in governance via employees, community groups and trustees
- an 'asset lock' which prevents share purchase and takeover by a 'traditional' joint stock company.

A good example of a social enterprise is the hugely successful Eden Project in Cornwall with its emphasis on environmental awareness. It now employs some 500 full-timers, three quarters of whom were previously unemployed. Many employees – up to 40 % – are over 50. As is standard for social enterprises 'surpluses' are returned to the project for reinvestment. Training, development and innovation are strong features of the organisation's people management approach. Other examples of social enterprises are:

- Welsh Water (Glas Cymru) – the only utility company to take this route
- Loch Fyne Oysters – which is owned by its employees
- the Cooperative Group
- fair trade companies like Cafedirect and Divine Chocolate.

The 'social firm' is a sub-group of social enterprises with a specific social purpose of employing

vulnerable workers with disabilities. These firms pay at or above the national minimum wage, make staff development a priority and have an organisational structure that encourages staff to participate in business decisions.

## An expanding sector

Estimates by the DTI Social Enterprise Unit in 2004 suggested that there were around 55,000 social enterprises (1.2 % of all enterprises in the UK). These enterprises employed around half a million people, two thirds of whom were full-timers. In addition, there were around 300,000 volunteers. Most are small yet their combined turnover was £8.4 billion, equating to one percent of GDP. They are of particular significance among small to medium-sized enterprises especially in the third sector.

Two large, well-established enterprises, which have attributes similar to social enterprises are the well known John Lewis Partnership (JLP) with its Waitrose subsidiary and the Nationwide Building Society. The former is owned by the employees, called partners, and the latter by the Society's customers, the members. In neither case has ownership itself led to success since both organisations were in the doldrums a generation ago but the longer term security that their ownership structure brings them has been an important factor in reversing these organisations' fortunes. This is why 'asset locks' are so important to social enterprises. In both these firms regeneration programmes focusing on customer service delivered by motivated and well trained employees have led to outstanding success.

The consumer magazine *Which* says JLP has become 'the nation's favourite retailer'<sup>2</sup> with excellent

trading results in the last two years. It aims to be 'an employer of distinction' arguing that the way partners feel about the employer brand is key in determining both partners' happiness and the commercial success of the business.

The Nationwide Building Society, meanwhile, fought hard to retain its status as a 'mutual' by defining what was meant by 'mutuality' for customers and staff. As a mutual, 'by putting the customer first, rather than the shareholder, the Society is able to operate on narrower margins and reduced planned profit so that customers receive long-term benefits in terms of improved rates and better service'.<sup>3</sup> For employees it meant a raft of practices designed to induce high engagement and commitment. It is consistently listed as a 'top company to work for' and a national survey in 2007 of customer satisfaction showed it to be 'streets ahead of its rivals when it comes to keeping customers happy'.<sup>4</sup>

## Social enterprise in the public sector

All the major political parties have shown interest in social enterprises. One reason is the potential for these new forms of organisation to provide an alternative to public and private ownership in the provision of community based services, especially in health. In 2006 the Office of the Third Sector was established in the Cabinet Office, headed by the Minister for the Third Sector, Phil Hope. A Social Enterprise Unit set up in the Department of Health invited expressions of interest to become 'path-finding' social enterprises and around 400 organisations or groups responded. Twenty-five winners in primary and community care, backed by a £1 million development fund, were announced in January 2007. The Social Enterprise

Investment Fund is now worth £100 million over a four year period to 2010/11.

This development fund is there to help solve one of the key problems faced by social enterprises – namely, access to start up funding and debt guarantees. Provided two other difficulties can be resolved – the transfer of pension rights and the provision of medium to long-term contracts – there is a huge possibility for expansion that could cover other areas of the public sector. At national level there is union unease at this development on the grounds that it may be creeping privatisation with accompanying job insecurity – there is a vigorous ongoing debate on this issue. At a local level, there are reported to be good relationships between unions and social enterprises.

### Sunderland Home Care Associates

There are many examples of social enterprises in primary and community health and care services.<sup>5</sup> One of the longest established is Sunderland Home Care Associates (SHCA), a women-run organisation which initially provided domiciliary care for Sunderland Council in 1993 but has now expanded with contracts from other local authorities, further and higher education institutions and private clients. It has 160 employees with a further 300 in Care and Share Associates established in 2004 to work outside North East England. SHCA is owned by the employees. There are eight board members including three elected care workers and staff are invited to a democratic general meeting every other month.

SHCA recruits from the disadvantaged communities it serves. With a stake in the company and above-market rates of pay, the

company achieves very low levels of employee turnover of around 3.5%. 'This saves the company a significant amount in recruitment costs and enables staff to develop better relationships with clients. It also means SHCA is able to invest in long-term training, something that is of crucial importance given that three-quarters of new recruits are unemployed and many lack formal education and have difficulties with literacy and numeracy'.<sup>6</sup> The founder, Margaret Elliot, brings all this to life:

*"Most of the people who come in the SHCA offices have a couple of bairns, they might be single mothers – or not, but they'll have no qualifications, no self-confidence, no job. They'll start getting their training and that lifts them a bit. Then they get their NVQ and the change is amazing. They really start to feel better about themselves as they feel valued and you can see the result in how hard they work. They feel they have a real stake in the company."*

The evidence suggests that social enterprises are able to achieve low levels of employee turnover and absence and recruit from their local communities, often taking on disadvantaged workers and the unemployed. They create a sense of community, are able to tap into staff creativity and take decisions to meet client needs much more quickly than is the case in traditional public sector organisations.

### A model for the future?

Tales of corporate renewal and stakeholder emphasis, better employment relations and people management practices and greater staff engagement are not, of course, restricted to social enterprises. But this form of organisation enables us to draw out some broader lessons on what makes a 'great employer'.

First, company values need to recognise the crucial contribution of employees to economic success. Benign ownership may help but there are enough examples of top management leadership espousing and living these values to know it is possible even in a traditionally owned company. Second, employees' belief that jobs are relatively secure make it easier to achieve long-term commitment and real gains in organisational performance and effectiveness. New forms of ownership structure can aid this but well-designed people management practices built around the contribution that people can make to organisational success are essential whatever the type of company. Lastly, social enterprises do have an important role in the re-configuration of public services for as long as governments wish to continue in this direction. This is especially significant because of the opportunity social enterprises give to empowerment and innovation at the service delivery level and their ability to engender staff engagement – with the consequential benefits of cost effective, long-term training and employment in the community.

1 *Social Enterprises: A Strategy for Success* July 2002  
([www.dti.gov.uk/socialenterprise](http://www.dti.gov.uk/socialenterprise))

2 *Guardian* 20 August 2007

3 *Understanding the people and performance link: unlocking the black box*. CIPD 2003 p18.

4 *Guardian* 15 September 2007

5 See examples in *Healthy business: a guide to social enterprise in health and social care*. Social Enterprise Coalition

6 *Healthy business: a guide to social enterprise in health and social care*. Social Enterprise Coalition



## Acas = good value for money

*It is often said that good employment relations can help improve productivity, although the evidence for that has been in short supply. However, there is a growing body of research that investing in work and well being makes business and organisational sense. Acas is now in a position to contribute to that evidence base. Independent research by the National Institute of Economic and Social Research (NIESR) has revealed that, for every pound of taxpayers' money spent by Acas, over £16 is returned.<sup>1</sup> At a conservative estimate, this means that almost £800 million of benefits a year are generated across UK businesses, employees and the economy.*

Pamela Meadows, author of the report, likens Acas' role to that of the fire service: like Acas, a large proportion of the time of fire service personnel is spent in training and preventative work. The fire service undertakes inspections and provides advice to businesses and householders. Acas undertakes training and consultancy activity aimed at promoting more positive relationships at work as a means of preventing potentially costly conflicts, some of which might lead to disputes involving industrial action.

The report highlights the winners and losers of industrial conflict. Although Acas services provide benefits to the parties using those services and to third parties affected by conflicts, some businesses and individuals earn all or part of their income from conflicts. For example, lawyers can lose out financially if fewer claims go to tribunal, and taxis and hotels benefit from public transport disruption.

### Robust research

Measuring and understanding the impact of their services on the wider economy is a key task for public sector bodies, and is the reason why Acas commissioned the research. The first challenge facing Pamela Meadows was how to estimate the impact of preventative services – after all, measuring the absence of something is much more difficult than measuring its presence. This methodological issue applies equally to other employment relations activities in the workplace, as there is no universally accepted standard evaluation procedure in these cases. Nonetheless, using Acas surveys and case studies of Acas users and making cautious assumptions about impact, there is evidence associating better outcomes across a range of organisational performance indicators.

The evaluation analysed Acas' six principal service areas:

- individual conciliation

- collective conciliation
- the Acas Helpline
- the website, publications and communications activities
- workplace projects
- open access training.

For each of the six service areas, the economic impact in 2005/06 has been estimated in relation to the employers and employees who have directly received Acas services, on other businesses (whether customers, competitors or those facing disruption), other individuals (either as consumers or as potential employees) and the public purse. The report notes that this approach does not consider the extent to which the boundaries between different Acas activities are sometimes blurred, and that the work of Acas is more of an integrated whole. The single year 2005/06 was chosen because it represents the most recent year for which complete data were available.

**Summary of the costs and direct and immediate benefit of Acas activities 2005/06**

Acas Activity	Net cost £ million	Net economic benefit £ million	Benefit/cost ratio £ million
Individual conciliation	24	153.9	6.4
Acas helpline	6.7	353.6	53.1
Website and publications	1.2	32.1	26.7
Collective conciliation	1.6	158.6	98.8
Workplace projects	1.3	71.3	55.3
Open access training	1.1	17.9	17.7
Other Acas expenditure not included	13.2		
<b>Total</b>	<b>£49 million</b>	<b>£787 million</b>	<b>16.1</b>

The research focuses on the net benefits – that is, the benefits taking account of both gainers and losers in terms of the immediate impact. In the case of employers, the main benefits relate to savings in management time in dealing with problems. For employees, the main benefits come in terms of avoiding loss of earnings. The costs and the net economic impact of each of the six service areas are summarised in the table on page 6.

### Individual conciliation

Acas has a legal duty to offer conciliation in most cases where someone has a complaint about their employment rights. Most often, Acas conciliators step in when an employee has made a claim to an employment tribunal. Acas' role is to help find a solution that both sides find acceptable instead of going to a tribunal hearing. On average, three-quarters of tribunal claims are settled or withdrawn before they reach a formal hearing.

The overall impact of Acas individual conciliation activities is £154 million.

### The Acas Helpline

Acas runs a national telephone helpline service providing advice on employment relations issues to employers, employees and their representatives. In the operational year 2006/07, the helpline dealt with over 800,000 calls.

According to the NIESR research, the overall impact of the Acas Helpline is £354 million. Employers save just under £200 million as a result of calls that they or their employees make. Employees themselves gain £135 million, and third parties around £650,000. Taxpayers' save around £19 million as a result of fewer employment

tribunal claims. Although the savings attributed to each call are relatively small (around £390), the large volume of calls handled means that the net impact on the economy is very large, the report notes.

### Website, publications and communications

The overall impact of the website and publications activities is around £32 million. Meadows says that the main beneficiaries of the information provided in Acas publications, either those downloaded from the website or received in hard copy, are employers. Of the £32 million total benefits, £30 million comes from savings in management time in developing policies and procedures and by avoiding unnecessary mistakes as a result of having access to reliable information about their responsibilities. This helps them to avoid unnecessary grievances and ET claims.

### Collective conciliation

As the table shows, the highest benefit/cost ratio is for collective conciliation, where each pound spent in 2005/06 produced benefits to the economy of £98.80. This means that Acas' traditional work in resolving collective disputes generates benefits worth £159 million. The report notes that the main beneficiaries of Acas collective conciliation activities are businesses who have no connection with the disputes, but whose activities are disrupted by them. These account for £66 million of the overall impact of the £159 million. Businesses more closely connected with the dispute, as customers of the organisations where the dispute takes place, are also major beneficiaries at £56 million.

According to Meadows, these statistics illustrate the importance of Acas' role in collective disputes in terms of mitigating the impact on third parties.

### Workplace projects

Meadows' work includes an assessment of the economic impact of around 300 workplace projects, where Acas advisers provided in-depth support to organisations. Within this small sample of British workplaces alone, the overall estimated economic impact is valued at around £71 million. This includes over £32 million in improved productivity and £36 million in improved quality of goods or services. Lower absenteeism, fewer discipline cases and fewer grievances are together worth around £2.5 million.

### Training

Acas open access training generates around £17.5 million of net economic benefits. These training events are aimed primarily at small and medium-sized businesses. The benefits are mainly due to lower absenteeism in 7% of organisations. The study notes that all estimates in relation to training are likely to underestimate the longer-term impact of Acas training on productivity and quality which, as the estimates for workplace projects show, are likely to make up a large proportion of the benefits. A key purpose of training is to reduce the potential for future conflict, some of which might lead to industrial action – and therefore the need for collective conciliation. In many ways, Meadows says, collective conciliation and workplace training and projects are just two ends of the spectrum of the same activity.



### Immeasurable benefit

The research commissioned by Acas focuses on the direct and immediate benefits of Acas interventions. It does not examine in detail the longer-term and wider economic advantages of a better employment relations climate. In her report, Meadows comments that: "for several reasons, it has only been possible to provide a partial estimate of the impact so that, overall, the impact is likely to be larger than that

estimated here." It can be assumed the latter are likely to show further benefits worth hundreds of millions of pounds resulting from the work undertaken by Acas staff.

What is clear from the Meadows research is the value of the much wider influence Acas has in the workplace, beyond its traditional role of conciliating in collective dispute – although this role continues to be very valuable. Its wide remit has a

positive impact not just on those directly involved in the employment relationship but on communities and the public purse.

1. A Review of the Economic Impact of Employment Relations Services Delivered by Acas, Pamela Meadows, National Institute of Economic and Social Research, <http://www.acas.org.uk/index.aspx?articleid=1328>

For more information visit [www.acas.org.uk/index.aspx?articleid=1411](http://www.acas.org.uk/index.aspx?articleid=1411)

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