



Society for Knowledge Economics

Workplaces of the Future

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1. Introduction

This paper sets out some perspectives on workplace performance, and the ways in which leadership, culture and management within organisations contribute to heightened levels of employee engagement, innovation and productivity in Australian workplaces.

This paper briefly examines current statistics on workplace performance and employee engagement in Australia. The information available is limited and more research at a national level is required. It also reviews evidence that testifies to the benefits and productivity impacts of good leadership and management practices, mainly from studies conducted overseas. Last, it summarises policy initiatives implemented by overseas governments directed at lifting workplace performance. In conclusion, it introduces ideas for a 'workplaces of the future' agenda for Australia.

2. Workplace Performance: Indications of the Current State in Australia

A recent report from Gallup Consulting suggests that around 80% of people in Australian workplaces are not "fully engaged at work"¹. The study goes on to say this has a substantial impact on national productivity, costing businesses over \$33 billion a year.

The Australian Bureau of Statistics' survey of innovation in Australia finds that of the 708,000 businesses surveyed only 260,544 (or 36.8%) are "active innovators"², well below the European averages of 55-60%. Part of the reason for this low level of innovation in Australia is a lack of encouragement of employee participation in all areas of the workplace and the design of appropriate leadership styles and workplace cultures to this end³.

When benchmarked against other nations, the World Economic Forum's Global Competitiveness Report (2008-09) shows that Australia lags behind in terms of business management and innovation capabilities. For example, in the 'capacity for innovation' category, Australia ranks number 20 whilst Germany comes in at number 1, with the Scandinavian countries following close thereafter. Furthermore, on the 'sophistication of company operations and strategy', Australia ranks number 26 (the USA is number 1). A number of reasons for this are suggested including culture and leadership styles that inhibit employee engagement, collaboration and innovation at the workplace level.

¹ Australian Financial Review, February 10, 2009.

² Australian Bureau of Statistics, [Innovation in Australian Business, 2006-07 \(cat. no. 8158.0\)](#), 22 August, 2008.

³ For examples of configurations of leadership, culture and management that encourage and enable innovation at the workplace level, see the Society for Knowledge Economics (2008), *Enabling Innovation: Leadership, Culture and Management at the Workplace Level*, prepared on behalf of the Victorian Department of Innovation, Industry and Regional Development, June 2008.

A focus on continually up-skilling workers is important, however it is not necessarily the lone solution to lifting workplace performance and innovation. In fact, some Australian studies find that employees' skills are not being fully utilised by their employers. Examining the extent to which workers make use of their existing skills at work, Watson (2008)⁴ concludes that skills are underutilised in some sectors by up to 40%, with the average being around 10-15%. This lack of full use of existing skills is partly due to a failure of workplace leaders to effectively engage their workers. The fact that people at work are not given the opportunity to contribute to their full potential may well be the biggest "skills and productivity crisis" we face today.

Data, such as those outlined above, indicate that a market failure exists and that workplace environments and management and leadership practices need to be significantly strengthened to lift workplace performance and productivity. More needs to be done to maximise the participation and contribution of employees across all levels of organisations and ensure *each individual* contributes to his/her fullest potential at work.

The authors suggest that true "fairness" in the context of the world we live in today needs to be redefined beyond the important aspects of basic term and conditions of employment and protection for workers to one that ensures that every person at work is encouraged and enabled to engage and perform to his/her full potential.

Achieving this will require strong encouragement and leadership from Government, working in close partnership with business, unions, academia and others.

3. Benefits and Productivity Impacts of Employee Engagement and High Performing Workplaces

The benefits of lifting workplace practices and employee engagement are increasingly recognised.

An OECD study (2004) finds that creating a knowledge sharing culture and alliances for acquiring knowledge are becoming more widespread internationally, and that a clear association could be observed between such practices and innovation and productivity, though not one which is well researched or understood.

A 2006 Economist Intelligence Unit world-wide survey of executives and managers found that knowledge and innovation management (in areas such as marketing and product development) was the greatest source of anticipated productivity gains over the next 15 years.

⁴ Watson, I. (2008), *Skills in use: labour market and workplace trends in skills use in Australia*, Report for NSW Department of Education and Training (Skills Ecosystem Project, see www.skillecosystem.net for more details) August, 2008.

McKinsey (2006)⁵ found that the quality of management and management processes is more important to how a company is performing than business lines, government policy, or geography.

Arundel et al (2007)⁶ conducted a large cross-country survey on innovation in Europe and suggest that the way workplaces are organised can influence innovation and firm performance. They identified four types of work organisation:

- *Discretionary Learning Organisation* – an adhocracy typified by high levels of learning and task complexity with much responsibility allocated to the employee;
- *Lean Production* – a European adaptation of Japanese methods typified by low levels of employee discretion in work design;
- *Taylorist* – a hierarchical design with low employee discretion, and low levels of learning and problem solving; and
- *Traditional* – with simple management structures.

Innovation rates are highest in the Learning Organisation, which encourages and facilitates interaction between people with diverse skills and competencies. By delegating responsibility for problem solving to a wider range of people, ideas can be transformed into new products and processes and new competencies developed.

The findings from an overseas study tour by Innovation and Business Skills Australia in 2008⁷ concluded that enterprise innovation requires:

- Leadership that encourages, recognises and rewards innovation at all levels in the enterprise;
- A conscious desire for innovation to support growth and profitability;
- A culture that embraces diversity, tolerance, talent and technology;
- The foresight to make change that is relevant to companies and individuals, and useful for the world.

⁵ Stephen J. Dorgan, John J. Dowdy, and Thomas M. Rippin (2006), *The link between management and productivity*, McKinsey Quarterly, Feb. 2006.

⁶ Arundel et al, (2007), *How Europe's economies learn: a comparison of work organisation and innovation mode for the EU 15*, Industrial and Corporate Change, Volume 16, Number 6, pp. 1175–1210, November 12, 2007.

⁷ Innovation and Business Skills Australia (2008), *Innovation Inside*.

A small selection of *larger-scale, empirical studies* demonstrates that the quality of leadership, culture and management inside organisations directly impacts upon economic productivity and a nation's capacity to innovate:

- A study in the USA by Black and Lynch (2003)⁸ used data from the US Bureau of Labor Statistics and Worker Employer Surveys and found that innovations to workplace practices (such as re-engineering, job rotation and organising workers in teams) was an important component of total factor productivity and accounted for as much as 30% of output growth amongst US firms; - that is, up to one third of US output growth stems from productivity-enhancing innovations at the workplace level;
- The UK Work Foundation's (2003, 2005) study, *Cracking the Performance Code*, found that the best managed 30% of UK companies achieved higher growth, sales per employee, profitability and exports. The study also found that increasing the performance of just 10% of companies in the bottom third to the average level would add GBP 2.5 Billion to UK GDP and 0.25% to trend growth;
- A London School of Economics / McKinsey (2007) study of *Managerial Practices and Productivity* across 16 countries found that "improving management practice is... associated with large increases in productivity and output. Across all the firms...a single point improvement in management practice score is associated with the same increase in output as a 25% increase in the labour force or a 65% increase in invested capital".⁹
- A study on behalf of the Irish Government's *National Centre for Partnership and Performance* by Professor Floyd (2008) found that adoption of high performance work systems (such as strategic human resource management and others) was associated with a 15% increase in labour productivity, or EUR 44,000 per employee, equivalent to EUR 12 million per median company. Good management practices were also associated with an 8% reduction in employee turnover, or the equivalent to retention of an additional 2 employees per median company;
- The Watson Wyatt study (2008/09), entitled *WorkUSA Survey*, found that when employees are highly engaged, their companies achieved 26% higher labour productivity, lower turnover, and 13% higher returns to shareholders over a 5 year period. This supports earlier research that posits that organisations with

⁸ Black, S.E. and Lynch, L.M. (2003), *What's Driving the New Economy ? : the Benefits of Workplace Innovation*, FRBSF Working Paper, 2003-23.

⁹ This study is currently being conducted in Australia, surveying approximately 436 Australian manufacturing companies and will afford a benchmark view of Australian performance against other countries. Research Title: Department of Innovation, Industry, Science and Research, Reference: ATM ID : EntCon-Research-1308, *Impact of Managerial Practices on Firm Performance*, \$460,035, Professor Roy Green, Professor John Mathews, Dr. Christina Boedker, Dr. Renu Agarwal, Associate Professor John Buchanan, Professor Danny Samson, Professor John Van Reenen, Professor Nick Bloom, Associate Professor Paul Gollan, Dr. Phil Toner.

strong cultures and aligned, engaged workers outperform those with weaker cultures.

There are additional potential benefits associated with improving leadership, culture and management practices and lifting employee engagement. Some of these include:

- Social and economic benefits of positive work environments for home and family life as well as an individual's mental and physical health;
- Retention of workers in Australia (and their intellectual and corporate knowledge);
- Improved employee fulfilment and wellbeing at work;
- Better management-employee relationships (leading to fewer industrial relations disputes);
- Social benefits of workplaces that value diversity and social inclusion, including engagement of disadvantaged social groups, retention of older, more experienced workers, heightened levels of workplace participation and innovation due to diverse thinking;
- Potential to build a sense of new 'management values' post the global financial crisis and recession that instil a stronger commitment to sustainable management practices across the Australian economy;
- Improved leadership capability resulting in more resilient organisations better equipped to deal with changes, such as climate change and the subsequent greening of the economy;
- Improved leadership and management of public sector enterprises and improved efficiency and effectiveness of public service delivery; and
- Greater capacity for small and medium size organisations to grow and strengthen their contribution to the Australian economy.

The evidence appears to be clear and conclusive; there is a strong link between workforce practices (including leadership, culture and management) and national productivity and prosperity, including the wellbeing and fulfilment of people at work. Understanding and exploiting this link represents fertile ground and offers substantial economic and social potential benefits to nations that enact change to this end.

4. International Trends and Developments Directed at Lifting Workplace Performance and Enterprise Innovation

A number of overseas programs have recently been identified to create what has become known as 'High Performing Workplaces'.

Those initiatives, in countries such as Ireland, Finland, Canada, the UK and New Zealand, look to create uplift in national productivity through practical programmes designed to improve standards of leadership, culture and management practices in participating organisations.

These newer programs support a more informal approach to workplace transformation and learning by offering and running workplace development projects, providing access to informal learning networks, disseminating information and running collaborative research projects on high performance work practices with the business community. Examples¹⁰ include:

- Ireland's National Workplace Strategy – Workplaces of the Future - with a 11 million Euro budget per annum, sponsored by the Prime Minister;
- Finland's Workplace Development Program with a 14.5 million Euro budget per annum, led by the Finish Minister of Labour;
- New Zealand's Workplace Productivity Programme with approximately \$2 million in funding per annum, led by the Department of Labour;
- Canada's Workplace Skills Initiative (budget unknown); and
- UK's Department of Innovation, Universities and Sciences 'Train to Gain' programme with a 30 million GBP budget per annum.

Also recently, the UK Government started to inquire into the attributes and effects of employee engagement at work and announced that Business Secretary John Hutton is to conduct a review to examine employee engagement within UK enterprises and find new ways to boost workplace performance and improve British business success¹¹. John Hutton said:

“The most successful companies recognise that their employees are their most valuable asset..... Research suggests engaged employees

¹⁰ The examples given here have been gathered in a research projects by the SKE in collaboration with the Department of Education, Employment and Workplace Relations. It included a review of international policy initiatives and phone conversations with key agencies overseas. For more details, see Society for Knowledge Economics (2008), *Leading Australia to More Innovative, Productive and Fulfilling Workplaces, - The Role of Government*, prepared on behalf of the DEEWR, November 2008.

¹¹ The review is led by David MacLeod, a leading expert on employee engagement, working with Nita Clarke, Director of the specialist workplace involvement body, the Involvement and Participation Association (IPA).

perform better and stay in their jobs longer and that if a business invests in boosting skills and engagement, profits will increase.... We need to better understand what drives some businesses to engage with their workforce and invest in their people more than others and look at how we can urge others to do the same”.

Evidence from these overseas programmes suggests that focusing on the workplace as a key area to drive productivity improvements is both practical and effective. They also support the contention that focusing on supply side inputs (i.e. skills development) alone may not be the only lever to pull to create more innovative and productive organisations.

Experiences such as those outlined above from overseas nations indicate that to increase workplace performance and productivity in Australian workplaces, more can and should be done to improve ways of leading, managing and organising.

5. Workplaces of the Future in an Australian Context

Not since the Karpin report of 1995¹², commissioned by the Hawke/Keating Government, has significant attention been paid to a vital lever of economic and social outcomes in Australian workplaces, – the quality of leadership, culture and management practices. The Karpin report provided comprehensive insights into the way Australia prepares its managers for work and presented policy recommendations and options based on the Task Force findings and extensive research:

“As the business environment changes, so do the skills and characteristics required of those employees who are best positioned to interpret and influence future changes; namely managers”.

Undoubtedly, the success of Australian workplace (large and small, public and private) will increasingly depend on the quality of our people and how they are led and managed inside organisations. As workplaces become more flexible and responsive in a changing competitive environment, the emphasis of economic reform will need to evolve to address the leadership, culture and management of Australian organisations, as well as the infrastructure and programs required to support the development of innovative capabilities and heightened levels of employee engagement at work.

A high performance workplace agenda in Australia will help to redefine the notion of ‘fairness at work’ from the traditional industrial relations agenda oriented towards protective terms and conditions of employment to one that promotes the development of workplace environments that enable people to perform to their full

¹² Karpin D. (1995), *Renewing Australia's Managers to Meet the Challenges of the Asia-Pacific Century Industry Task Force on Leadership and Management Skills*, Canberra, 1995.

potential. Such an agenda will serve to further lift our nation's productivity, prosperity and sustainability.

The concept *Workplace of the Future* offers an opportunity to contribute to the development of a new workplace agenda. It is an opportunity to identify what needs to be done to build a better future, better companies, more engaged workforces, and more productive and innovation organisations with highly skilled and capable people. To identify what each one of us, both individually and as part of our respective organisations, can do. It is a chance to challenge orthodoxies and vested interests that have resulted in our present situation.

About the Society for Knowledge Economics

The Society for Knowledge Economics (SKE) is a not-for-profit organisation founded in June 2005. Members and supporters include organisations such as Microsoft, Westpac Banking Corporation, CPA Australia, EDS - a HP Company, PricewaterhouseCoopers, the New South Wales Department of Lands, the University of New South Wales, Sydney University, Copenhagen Business School, and others.

The SKE believes that Australia needs collaborative, cross-sectoral programs and efforts, supported by industry, academia, policy makers and others, who work together to make Australian organisations (large and small, public and private) the most innovative, productive and fulfilling places in the world to work.

A leading knowledge economy is one that aims to better understand, develop and leverage the most potent force in creating economic and social value today – its people and collective knowledge.

To this end, the SKE conducts industry-based research projects and prepares policy submissions, research papers, thought leadership pieces and editorials to influence policy directions and management and leadership practices in the Australian economy. Visit www.ske.org.au for more information.

SKE Research and Collaborative Projects

The SKE Industry Partnering and Research Program brings together representatives from private, public, research and community organisations to investigate, research, test and develop practical programs and tools for the benefit of Australian workplaces as a whole.

Some of our research partners include the:

- Business Council of Australia
- CPA Australia
- Department of Education, Employment and Workplace Relations, Canberra
- Department of Finance and Deregulation, Canberra
- Department of Innovation, Industry and Regional Development, the Victorian government
- Innovation and Business Skills Australia
- Microsoft Australia
- NSW Department of Lands
- OECD World Intellectual Capital Initiative
- University of New South Wales
- US Enhanced Business Reporting Consortium (the US Securities Exchange Commission)
- Westpac Banking Corporation

Research and Reports include:

- Society for Knowledge Economics (2009), *Enterprise Innovation*, prepared on behalf of Innovation and Business Skills Australia, for the IBSA Innovation Summit, Parliament House, Canberra, June, 2009.
- Society for Knowledge Economics (2009), *Development of an Innovation Capability Framework and a Library of Resources and Intervention Strategies*, prepared on behalf of Innovation and Business Skills Australia, January, 2009.
- Society for Knowledge Economics (2008), *Leading Australia to More Innovative, Productive and Fulfilling Workplaces, - The Role of Government*, prepared on behalf of the Department of Education, Employment and Workplace Relations, November, 2008.
- Society for Knowledge Economics (2008), *Enabling Innovation: Leadership, Culture and Management at the Workplace Level*, prepared on behalf of the Victorian Department of Innovation, Industry and Regional Development, June, 2008.
- Society for Knowledge Economics (2008), *Australia's National Innovation System*, submission to Dr. Terry Cutler's National Innovation Review Panel, sponsored by the Business Council of Australia, April, 2008.
- Society for Knowledge Economics (2008), *Submission to the Enhanced Business Reporting Consortium for the U.S. Security Exchange Commission's Advisory Committee on Improving Financial Reporting*, January, 2008.
- Society for Knowledge Economics (2007), *Leadership and Culture – the Missing Pillar of the National Innovation Agenda*, a response to the Victorian Government's proposed National Innovation Agenda, November, 2007.
- Society for Knowledge Economics (2005), *Intangible Drivers of Organisational Productivity and Prosperity, - International Trends and Developments in Extended Performance Management, Measurement and Reporting*, prepared on behalf of the Department of Finance, February, 2007.
- Business Council of Australia, in collaboration with the Society for Knowledge Economics (2006), *New Pathways to Prosperity – a National Innovation Framework for Australia*, November, 2006.
- Society for Knowledge Economics (2005), *Australian Guiding Principles on Extended Performance Management, - A Guide to Better Managing, Measuring and Reporting Knowledge Intensive Organisational Resources*, prepared in collaboration with CPA Australia, November, 2005.

Recognition

SKE has received recognition for the quality and contribution of our work. The Australasia Reporting Award on Knowledge Capital, first announced in 2006, is modeled on the SKE Guiding Principles. Other achievements include the:

- **Emerald Literati Network 2009 Awards for Excellence**
Awarded for our research on Enhanced Business Reporting in collaboration with the US Enhanced Business Reporting Consortium for the US Securities Exchange Commission, published in the *Journal of Human Resources Costing and Accounting*, 2008.
- **Honorable Mention for Outstanding Achievement in Research and Development Collaboration at the Business and Higher Education Roundtable Awards 2008**
Recognition for the SKE Industry Partnering and Research Program, including 12 collaborative research and industry projects with Australian organisations, academics, policy makers, associations, and others.
- **Emerald Literati Network 2006 Awards for Excellence Emerald Publications**
Awarded for our research on Intellectual Capital Measurement and Reporting with the NSW Department of Lands, published in the *Journal of Intellectual Capital*, 2005.



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