

Social Partnership and the Enterprise Lessons  
from the Irish Experience by PAUL TEAGUE



## **Abstract**

This paper suggests that the Irish experience of social partnership does not fully overlap with mainstream employment relations literature on the topic. Three features in particular distinguish the Irish case. One is the importance attached to a procedural consensus that allows advances to be made on partnership at work without full agreement between employers and unions about the substantive elements of this employment relations innovation. Another is the stress placed on experimental action in the development of these arrangements: for the most part, enterprise partnership is not seen in terms of a big transformative model of organisational change, involving the immediate diffusion of complementary bundles of high performance work practices. A third characteristic is the use of an essentially non-legalistic public support framework to foster and guide the evolution of enterprise partnerships. This paper develops theoretical arguments to highlight the distinctiveness of the Irish experience and to show why it should be treated as an important departure by the employment relations academy.

## **Introduction**

An emerging theme in the comparative employment relations literature is that labour market institutions are in a period of transition. Economic and social transformations have caused established rules and procedures that incorporate people into the world of work to lose economic functionality and social coherence: they are unable to perform the tasks they were put in place to do (Osterman et al 2001, Teague 1999). But while established institutions may not be operating effectively, new arrangements to govern employment relations have yet to reach maturity. Thus, a governance gap prevails in many national labour markets: some employment relations institutions are not fully in tune with unfolding workplace practices or wider labour market patterns. This situation has encouraged new forms of public policies for the labour market as well as innovations to organisational-level human resource management regimes. These reforms, experiments is perhaps a better term, are diverse, but many share the common property of seeking to re-connect employer demands for high business performance with employee demands for meaningful and decent work.

Social partnership is a fertile field of employment relations innovations. A big debate has opened about the meaning and significance of this development. This paper contributes to this debate by putting forward ideas about how to understand enterprise-based partnerships. The motivation behind the paper lies in the difficulties experienced by the author when reviewing such arrangements in Ireland. On embarking on this exercise problems immediately came to the fore. First of all, a lot of the existing literature on enterprise partnership appeared either too prescriptive or detached in one way or another from the manner in which organisations function or change. This early suspicion was fuelled when finding that a mismatch existed between how such arrangements were unfolding in Ireland and arguments, approaches and orientations emerging in the wider employment relations literature. The scale of the mismatch was not

enormous, but it was uncomfortably large to the extent that the author found himself frequently departing from mainstream employment relations thinking on social partnership and using ideas and frameworks from other academic stables to shed light on the Irish experience. This paper sets out the thinking behind what in the end became an alternative interpretative framework to understand enterprise partnerships in Ireland. For the most part, it is an exercise in theory-building and not an attempt to substantiate the extent of social partnership in Ireland.

The paper is organised as follows. The first section sets out what is considered to be the more important sub-strands of the employment relations literature on enterprise partnership. Then the institutional character of such arrangements in Ireland is outlined, in stylised form, accompanied by additional remarks about the significance of this development. The following section identifies the key sources of the mismatch between the Irish experience and the wider employment relations literature. The remainder of the paper is given over to outlining the approach that in the end was used to evaluate the significance of partnership at work in Ireland. The paper concludes with a number of remarks about the how the Irish experience is advancing the ‘recombination’ of competitiveness inside organisations.

### **Getting to grips with enterprise partnership.**

Enterprise partnership means different things to different people. Thus, one strand of the literature, which has mostly involved conducting case-studies, has searched for a definition of the concept which would meet with wide approval (Bacon and Storey 2000, Marks et al 1998). Although some rich evidence has been generated by these studies, it is fair to say that an accepted definition has failed to emerge. In the absence of any consensus the old theoretical divide in employment relations has resurfaced on the matter. Some regard enterprise partnership as unitarism, the view that the enterprise is a tiny community in which harmonious relations exist

between management and employees. (Mohram et al 1998). Emerging from the opposite corner is the pluralist perspective eager as ever to put enterprise partnership to the ‘whose interest?’ test. In other words, does enterprise partnership reflect the interests of labour or capital? Most of these studies end up concluding that enterprise partnership is little more than a flag of convenience used by employers seeking to intensify work. (Kelly 1996 and 2001) An interesting third way literature is emerging, suggesting that established unitarist and pluralist cognitive frameworks are not particularly helpful for understanding this employment relations experiment. A frequent theme in this literature is that enterprise partnership is about placing the concept of mutuality at the centre of management-employee interactions (Coupar and Stevens 1998). While promising, it is fair to say this line of thinking still lacks theoretical richness.

Arguing that running after a precise definition of enterprise partnership may in the end prove an elusive chase eases our problem but does not eradicate it. For once we hightail it from the definitional path we immediately run into the 'categorisation' problem. In line with a long methodological tradition in employment relations, another strand of the literature has sought to develop different ‘patterns’ or ‘categories’ of enterprise partnerships. The clearest example of this approach is Guest and Pecci (2001) who develop a five-fold taxonomy of partnership set out in box 1.

<Box 1 about here>

Classifications of this kind have some merit as they bring to the fore some of the dilemmas and tensions associated with developing enterprise partnerships. Yet they also have pitfalls. For a start, as many of the case-studies on the matter testify, whether such hard and fast distinctions between enterprise partnerships hold up in practice is an open question. When is a new deal partnership not a new deal partnership? Where exactly is the demarcation line between full and employee-orientated partnership? Putting different organisations into separate partnership boxes

raises all sorts of methodological difficulties. A pigeon-holing exercise of this type encourages 'ideal type' enterprise partnerships to be constructed, either by management or employees, against which developments in any one organisation are tested. If the organisation falls short of the ideal type it is invariably cast to one side, labelled deficient or deviant in one way or other. This is only half the problem. What if the 'ideal type' contains inappropriate criteria, based on a misreading of particular developments in employment relations. This can lead to wrong questions being asked about the functioning of enterprise partnerships. In this situation, the potential significance of particular developments may be downplayed, if not overlooked altogether. Given the strong experimentalist feel to enterprise partnership it may be unwise to use rigid categories to study their development. An open-ended approach that captures the relative immaturity of many of these arrangements holds out more promise. This tact chimes with the evolutionary view of organisations which adopts an incrementalist view of change and innovation. (March 1994).

<Box 2 about here>

A third strand of the literature concentrates on developing rules to guide the diffusion of enterprise partnerships and similar type experiments. Kochan (1999), for example, suggests six guidelines that should influence the diffusion of new forms of work organisation such as enterprise partnerships. These are set out in Box 2. Kochan argues that enterprise partnerships that exhibit these six characteristics are more likely to be sustainable. Individually, some of these guidelines make a great deal of sense. For example, guideline four, which suggests that enterprise partnerships may not reach their full potential if there is not full 'buy-in' from all organisational constituencies, is a very important insight. But others should be treated with caution. For example, at first blush, guideline five seems reasonable, but on closer examination ensuring that a corporate strategy accommodates fully the competing interests of stakeholders is a mighty burden to be carried by any enterprise partnership. More worryingly, it may be simply

over-demanding to expect an enterprise partnership to contain all six attributes at any one time. Only an enterprise partnership that has reached full maturity can be expected to pass the threshold set by these six guidelines. To insist on all six attributes to be present before conferring the title of enterprise partnership on an organisation would unquestionably require the enterprise to have undergone root and branch reform. The suspicion would be that the list containing the number of 'actual existing' enterprise partnerships would be very short indeed. Thus the positive value from this academic can be gained if the six 'rules' are treated as loose guidelines and not preconditions for the successful diffusion of partnerships at organisational level.

A fourth strand of the literature is less preoccupied with either creating a pigeon-box for different categories of partnerships or developing guidelines that codify the right and wrong way to diffuse partnership. Instead, it is more concerned with establishing what represents the key constitutive elements of enterprise partnerships. In other words, what are the employment policies and practices most closely associated with these new organisational arrangements. Guest and Peccei (1998 and 2001) have done the most useful work on this issue. They suggest that six key benchmark principles underlie the partnership organisation and these are set out in Box 3. Guest and Peccei regard the six identified benchmarks as important as their empirical work shows them to be a statistically significant measure of a mature enterprise partnership. This is the strand of the literature that holds out most appeal, not least because it reveals employment practices on which some advances need to be made should an organisation be considering setting up a partnership arrangement. The focus is on a pragmatic investigation of what the evidence is telling and allows an *aide memoir* to be developed for human resource managers and trade unions working at the 'coal face' on this matter. All these attributes are very positive. At the same time, it has limitations. An important part of the story about enterprise partnership, at least for the employment relations academy, is to uncover the type of management-employers

interactions that emerge in partnership companies. Moreover, it is about addressing difficult-to-answer questions such as whether enterprise partnership is a stakeholder model of the firm in another guise or some other looser organisational arrangement. Whether this strand of the literature would reveal insights into such matters is open to question. Nevertheless, an approach that enables a more informed assessment of the constitutive elements of partnership is to be welcomed.

<Box 3 about here>

Thus a number of question-marks can be raised about the usefulness of the employment relations literature to give meaning to enterprise partnerships as they are developing either in Ireland or elsewhere. Some parts of the literature are too prescriptive, setting down overly fixed and rigid boundaries for what does or does not constitute an enterprise partnership. This approach is hard to square with the increased diversity of business life which is fragmenting taken-for-granted organisational forms. Other parts of the literature are too programmatic laying down rather detailed guidelines and pre-conditions about enterprise participation which sit uneasily with the experimental nature of this new departure. A further blemish is that a series of methodological difficulties can be detected with some of the approaches. In particular, it is hard to see how some of the frames of reference developed to understand and interpret enterprise partnerships can be used in practice. These identified shortcomings may be of a piece with the wider problem set out at the beginning of the essay - the emerging gap between labour market rules and actual work patterns. It may be that it is not only that inherited institutions used to govern the employment relationship are becoming outmoded but also established way of thinking and codifying working life.



## **The Institutional Design of Enterprise Partnership in Ireland**

Since 1987 an innovative institutional structure has emerged for social partnership in Ireland. In the past, so-called corporatist economies were characterised by fairly centralised, encompassing employer and trade union organisations negotiating and implementing collective labour market deals. By giving the representatives of labour and capital a privileged position in economic and social policy-making, governments secured industrial relations stability. This in essence was the *quid pro quo* at the centre of the corporatist bargain. Ireland has departed from this traditional approach. In particular, a model of social partnership has been developed that allows a wider range of social groups to be involved in economic and social governance (O'Donnell and Thomas 1998). The result has been the weakening of the special public status conferred on organised labour and employer groups and a change in the style of economic and social policy-making. Agreements emerge not simply from tough negotiations between the 'two-sides' of industry, but also through a high-level process of analysis and deliberation (preference-changing dialogue), involving a wide range of civil associations. Problem-solving as much as bargaining shapes the national social partnership framework in Ireland. By reconciling the competing demands and needs of economic and social actors in a series of interconnected policies, Irish social partnership has fostered a shared national understanding of the key opportunities and constraints shaping the country's prosperity (NSF 1997).

In the mid-nineties, concern emerged that the formation of shared understandings focused too heavily on national public policy and not enough on the activities of enterprises and organisations. Thus replicating the sustained 'shared understanding' ethos characteristic of national social partnership inside enterprises has been given a greater priority in the more recent centralised agreements. Creating enterprise partnerships is seen as holding out much promise for organisational performance. Fostering shared understandings between managers and employees

is viewed as a way of promoting organisational flexibility and continuous improvement while at the same time, modernising the procedures through which fairness and equitable treatment are assured at the workplace. Consensus-orientated organisational strategies of this kind thus have the double-barrelled objective of rewriting the social contract at work and improving the competitive position of the enterprise (Government of Ireland 1996 and 2000).

An open-ended definition has been used to define enterprise level partnership in various agreements. The 1996 and 2000 national social partnership agreements viewed enterprise agreements as

*“An active relationship based on recognition of a common interest to secure the competitiveness, viability and prosperity of the enterprise. It involves a continuing commitment by employees to improvements in quality and efficiency; and the acceptance by employers of employees as stake holders with rights and interests to be considered in the context of major decisions affecting their employment.”*

*“Partnership involves common ownership of the resolution of challenges involving the direct participation of employees/representatives and an investment in their training, development and working environment” (1996, p.62, 2000, p.14).*

### **Institutional Attributes of Enterprise Partnerships in Ireland**

The extent to which partnerships have been created in either the private or public sectors has yet to be researched properly. But interviews with trade unions, employers and public officials who are actively involved on this matter as well as some selective case-studies suggest that the enterprise partnerships that have been established approximate to the following institutional design

-Figure One about here-

A number of the institutional features of enterprise partnership are worthy of more detailed comment. Enterprise partnership is normally set up by an agreement involving management and

employees (normally represented by a trade union). This agreement sets down the institutional character of the envisaged arrangement. It is normally signed only after management and unions have carried out a lengthy diagnostic review. A diagnostic review is a set of procedures which organisations conduct to give management and unions a better understanding of the type of partnership agreement an organisation can 'hold' in prevailing commercial circumstances. Furthermore, it is an opportunity for employees and management to forge a consensus about the shape and character of a prospective partnership deal. A partnership agreement is less an elaborated model of how the organisation should be and more the institutional expression of the consensus reached by management and employees during the diagnosis review. At the same time an agreement usually sets up a company-wide partnership forum or committee. Invariably, the partnership forum established is an overarching, open-ended, arrangement charged with the responsibility of initiating, co-ordinating and reviewing partnership activity.

To advance these objectives, partnership committees frequently establish sub-groups or projects. Case-study evidence suggests that well functioning sub-groups are the engine room of a successful enterprise partnership. Project groups work on matters such as reforming the company pension scheme, devising a new financial participation arrangement, and establishing the ground rules for the introduction of new employment practices such as team-working. By working on specific tasks, or attempting to invent solutions to agreed problems, these bodies drive purposeful joint action between management and employees. Sub-groups, which encourage management and employees to search for superior ways of doing things, make enterprise partnership simultaneously process and task driven: the boundary between process and outcome becomes blurred. Enterprise partnership is thus a distinctive trust-creating institution in that the search for greater fairness and co-operation is placed in the context of working life. It is at least tacit recognition that matters relating to fairness at work can only be agreed, analysed and

changed in the context of addressing concrete problems. The operating assumption is that a shared understanding between management and workers can fulfil its promise only if it can be translated into practices that guide actual behaviour.

The emerging 'model' of enterprise partnership stands apart from, but nevertheless is associated with, both the 'works council' and 'HRM' approaches to employee involvement and participation. These two established approaches use distinctive and contrasting practices and procedures to organise the employment relationship. First, work councils are representative and indirect forms of worker participation, and thus epitomise collective employment relations. In contrast, HRM approaches espouse decentralised forms of involvement that tend to focus on the individual. Thus it lays greater stress on direct forms of involvement. Second, whereas work councils cover strategic matters as well as operational and implementation matters, HRM tends to concentrate on the last two matters. Third, an important function of work councils, at the least in the German model, is to oversee the implementation of substantive and procedural rights proscribed in German labour law whereas the HRM model is about solving problems that arise in the day-to-day running of the business or productive system. Fourth, work councils are mandatory institutions in the sense that managers are obliged by law to follow a proscribed list of rules and procedures when consulting with employees. HRM, on the other hand, is an instrument of management which leaves the depth and scope of any employee involvement scheme more or less in the hands of the managerial team. Fifth, the 'value system' underpinning works councils is integrative bargaining whereas HRM is heavily orientated towards 'empowerment' and performance (see Muller-Jentsch 1995).

The 'Irish' version of enterprise partnership contains elements of each approach, but cannot be considered a full-blown version of either. It is a 'borderland' institution that interfaces with both

approaches. It is fully compatible with new employment practices such as direct participation or team-working, total quality management and job rotation. At the same time, there is a collective and strategic dimension to its activities. Thus, for example, project or sub groups of the enterprise partnership have the potential to deal with matters that are once removed from the immediate operation of the business and have far-reaching implications for the organisation as a whole – a new pension scheme or a new system of work-sharing for example. To properly design and introduce such work innovations requires managers to share information of a strategic kind with employees. At first blush, the Irish model is nearer to the HRM model when we consider the matter of mandatory rules. But this is less the case now with the recent adoption of the new EU Directive on information and consultation rights of employees. Although this law falls short of the German co-determination legislation, it nevertheless establishes a broad legal framework for employee involvement. Management has no longer an unilateral prerogative on this matter in any of the member-states. All in all, the value system of the Irish version of enterprise partnerships is a hybrid of the work councils and HRM approaches as it seeks improved organisational performance and competitiveness through procedures and relationships closely associated with integrated bargaining. Thus if functioning properly enterprise partnerships blur the distinction: between direct and indirect participation; between operational and strategic matters; between expertise and authority; between process and outcomes; between bargaining and co-operation.

Enterprise partnership does not substitute or supplant established collective bargaining procedures. Frequently they sit check-by-jowl with each other. It is not the case that once an enterprise partnership arrangement is created then management and unions completely abandon tried and tested mechanisms for governing the employment relationship. The evidence from Ireland is that it is wise to keep emerging partnership activity separate from conventional

bargaining procedures largely because it is not possible to identify a correct boundary between the two. Nevertheless, the unspoken expectation is that partnership will sooner or later modify the approach all sides take to employment relations negotiations, replacing conflictual and adversarial approaches with problem-solving and co-operative approaches: in Walton and McKersie (1965) terms from distributational to integrative bargaining. Thus the relationship between collective bargaining, new employment practices and partnership procedures differs from organisation to organisation: sometimes the interactions are complementary, in other cases they are not. This characteristic reflects the customised nature of enterprise partnerships. Overall, the core organising principle behind the development of partnerships in Ireland is that such arrangements should be rooted as far as possible in actual developments in co-operative employment relations and be ‘owned’ by the various constituencies of the organisation.

### **The Mismatch Problem**

This idea of enterprises partnership functioning as ‘borderland’ institutions dismantling chinese walls that divide alternative procedures and thinking about how to organise work systems fits uneasily with the existing employment relations literature on partnership. There are four key dimensions to this mismatch problem. One is that whereas the wider literature searches after a definition or categories, the Irish experience virtually celebrates the open-ended character of partnership at work. Developing neat ‘patterns’ has been regarded almost as a hindrance to understanding such arrangements and certainly as an obstacle to taking positive developmental action. Second, while the literature makes a great play about the ‘complementarity’ between practices, the Irish case attaches greater importance to experimentation. Third, in Ireland, partnerships are seen developing through a process of guided evolution whereby new practices are introduced incrementally and tried and tested procedures mutate. In the wider literature more emphasis is given to the notion of transformative change so that a partnership arrangement can

be more sustainable from the outset (Kochan and Osterman 1994, Roche and Geary 2000). Finally, the Irish experience sits at odds with some of the literature that emphasises the importance of mandatory or legal rules to make meaningful progress on the theme of enterprise partnerships. Thus the existing employment relations literature on enterprise partnerships and the Irish experience are at odds with one another. As a result, it is a moot point whether the established employment relations literature on enterprise partnership is an altogether useful point of departure to deepen understanding and give meaning to such developments in Ireland. This mismatch throws up the following conundrum: do we stay with the pre-existing normative approach, thereby writing off the Irish case as deviant, or do we seek to reformulate the way we think about enterprise partnership by recognising that the Irish experience holds important lessons. In the rest of this paper it will be argued that we should travel the latter route.

## **Understanding Enterprise Partnership in Ireland**

### **The ‘Whose Interest?’ Question**

The competing perspectives of pluralism and unitarism have been the source of the most enduring theoretical debates in employment relations. But neither of these approaches captures the drive towards the new mutuality and interdependence between employees and employers sought by enterprise partnerships. On the one hand, the unitarist perspective, which encourages the view that enterprise partnership is a form of ‘benevolent co-operation’ between employees and employers, is too naïve if not inaccurate. On the other hand, the pluralist argument that a balance or an accommodation of interests between employees and employers can only be secured if the former enjoys some form of countervailing power is too restrictive an understanding of enterprise partnership. Partnership at the workplace is not a surrogate for collective bargaining and as such must be analysed in a different way. The still not fully developed concept of mutuality goes some way to understanding the organising principle of

enterprise partnership. For it is an attempt to go beyond the dichotomous and binary thinking behind the unitarist/pluralist divide and to suggest that management-employee interactions involves an overlapping combination of co-operation and rivalry. To develop this observation involves stepping outside the discursive framework of the employment relationship and entering the parallel sphere of the theory of the firm.

### **Transactions Costs, Competing Interests and Enterprise Partnership**

Mainstream economics no longer treats the firm as a black box: the old Cobb-Douglas production function is now in the attic. In the past twenty years or so, a rich and diverse body of literature has developed that throws greater light on the economic nature and behaviour of enterprises (Blair 1995). Two ‘alternative’ approaches to the theory of the firm, the resource-based view and the new institutional or transaction cost perspective, can be used to advance our understanding of the development of enterprise partnership in Ireland. For the most part, the new institutional account of the firm focuses on governance aspects of the firm, the institutional rules and procedures to reduce opportunistic behaviour such as shirking or free riding and to promote high performance. By contrast the resource-based view of the firms pays greater attention to the learning and competencies aspects of the enterprise. In the theoretical literature on the theory of the firm these two approaches are frequently treated as alternatives, if not in collision with one another (see Coriat and Dosi 1998). Harnessing both approaches to shed light on enterprise partnership suggests that the divide between the two may not be wide as often portrayed.

The transactions cost view of the firm can be utilised to show how the mutuality principle behind enterprise partnership has an important bargaining dimension, thus highlighting that the interests of managers and employers are not automatically contiguous but have to be negotiated. More specifically, the notion of ‘equilibrium contacting’ can be usefully employed for our purposes



(see Wachter and Whyte 1990). This concept treats employees and managers inside the firm as a bi-lateral monopoly, as they enjoy certain proprietary advantages over certain aspects of the enterprise. In many organisations employees have greater knowledge about the operational aspects of the business than managers. On the other hand, managers have privileged access to strategic information, such as market or financial trends, which is not always shared with employees. Clearly, it is in the interests of both parties to collude as they have complementary assets. At the same time, collusion cannot be assumed *ex ante* as neither side will want to sell themselves short. Thus unlike the unitarist perspective, which sees co-operation between managers and employees emerging spontaneously, partnership assumes that the terms of collaboration have to be bargained. The nature of this bargaining game is to create an incentive system inside the organisation to ensure that information flows freely and is processed more effectively. Thus enterprise partnership is about promoting collusive behaviour between managers and employees to advance corporate strategy by changing the governance structure of the enterprise. The goal is joint action between different constituencies inside the organisation to push opportunistic behaviour to one side and achieve superior performance.

Financial participation is the most common instrument used to encourage collusive behaviour. The use of a employee share or profit scheme or gain-sharing plan is closely associated with enterprise partnership, at least in Ireland. Internal files of Ireland's largest trade union – SIPTU – suggest that about 80 per cent of the enterprise partnership agreements signed by the union involve a financial participation plan. By introducing a financial participation plan, particularly if it is a profit-sharing or share options arrangement, the organisation is seeking to reshape the risk burden between managers and employees so to create a 'common fate' between them (see Gomez-Mejia, 2000). A sceptic could argue that financial participation could be introduced without an enterprise partnership agreement. But as frequently pointed out in the literature design

problems stand in the way of using ‘stand alone’ pay innovations as an incentive measure to promote collusion between managers and workers. One is establishing the variable component in the pay package at a level that will have an appreciable impact on attitudes and behaviour without over-exposing employees (and managers) to excessive risk. Another is to ensure that if bad commercial times arrive there is not a hostile backlash from employees as they experience a fall in the variable component of pay. Potentially enterprise partnership can help organisations meet both challenges.

Consider the first problem. No easy to apply formula exists whereby a financial participation measure connects incentives to motivation. Even a rule of thumb guide appears unsuitable. For example, McKersie (1996) has argued that an ESOP needs to provide employees with a 12 per cent stake in the company before any discernible change in their expectations and behaviour can be realistically expected. While this may be appropriate for some sectors it may not be feasible in others. To apply this rule to parts of the petro-chemical industry, for example, would turn employees into multi-millionaires overnight. Thus, no golden formula exists to guide the instalment of pay innovations like ESOP. Diffusion can only come about through a process of negotiation and deliberation inside the company.

Enterprise partnership facilitates this process for its *raison d’etre* is to prompt collaborative management-employee interactions that lead to organisational innovations. It can also be used as a procedure to monitor and evaluate the ESOP or whatever financial measure may be in place. Finally, it can act as the arena for the settlement of disputes that may arise about the operation of a financial participation arrangement. Thus partnership is a piece of employment relations machinery that speaks to the diverse objectives of agents inside the organisation. It sets in train active procedures and relationships that continually challenge management and employees to

modify their behaviour in a manner that benefits both parties. The desired outcome is the embedding of reward systems that balances fairness and performance inside the organisation.

### **The Resource-Based View of the Firm and Enterprise Partnership**

The neo-classical theory of the firm is not solely challenged by transaction costs or new institutional economics, but also by the resource-based view of the firm (Penrose 1958). The resource-based view of the firm treats the organisation as a nexus of competencies (as opposed to a nexus of contracts which is the transaction costs perspective). From this standpoint, why one organisation performs better than another is attributed to the internal alignment of intangible, hard-to transfer, competencies. Thus the resource-based view of the firm is primarily about the mobilisation of learning and knowledge capabilities inside the organisation rather than the formation of contracts and incentives. The connection with enterprise partnership should be self-evident for both assume that people are the core competency of an enterprise and seek to improve organisational performance through enriching the skill levels and work experience of employees.

Thus enterprise partnership has an important learning dimension. But mainstream theory tells us that developing skill formation strategies at organisational-level is fraught with problems. It is well understood that creating well functioning skill formation systems is a complex, even hazardous task. A key problem is that enterprises for a number of reasons have a tendency to under-invest in skill formation. For example, enterprises are frequently reluctant to invest in general skills - those skills recognised through an economy-wide certification procedure - either because the company will have to pay the employee the going rate for the job or because they may quit. Paying employees the market wage reduces companies' incentive to make the initial

investment in training because it would be cheaper for them to hire workers with the necessary skills from the external labour market or to poach them from another firm.

An alternative route open to firms is to invest in company-specific training. Certainly such a system has its advantages since it can fine-tune worker skills to the particular needs of the company. In addition, it insulates the company from the threat of poaching since the skills acquired by employees are not transferable. But company focused training systems have a downside. On acquiring skills, employees become more indispensable to the company - in economic terms they become a quasi-fixed factor of production. In such a situation, a firm is exposed to rent seeking by employees - an attempt may be made to pursue wage claims that exceed productivity performance. Enterprise partnership can help address these problems by creating credible commitments between management and employees. Credible commitments arise when one party provides an assurance about its own behaviour and gains a reciprocal assurance from the other party. Predictable and stable interactions of this kind create an organisational environment that facilitates the deepening of competencies among the workforce. Thus enterprise partnership strengthens the tacit knowledge of the enterprise by operating as a trust-building institution.

One view is that partnership, especially at the formative stage needs time away from the commercial 'front-end' of the organisation so that management and workers can develop sufficient confidence in each other when facing the vagaries of business life. An uneasiness exists about this view in Ireland, largely because it is seen as an overly 'process'-driven approach to partnership development. The suspicion is that enterprises have neither the time nor resources to engage in such trust creating activity. In most circumstances enterprise partnerships make a pragmatic trade-off between trust and time. Thus a preference has emerged for enterprise

partnership to link trust formation with ‘hard’ tasks associated with business performance. A ‘surfeit’ of trust is not seen as necessary to make enterprise partnership meaningful. (Kern 1998). This is why ‘projects’ are such an important feature of enterprise partnership. These essentially problem-solving arrangements foster a shared understanding between management and workers by ensuring that credible commitments can be translated into practices that guide actual behaviour: the boundary between process and outcome becomes blurred. This view is in line with the theoretical literature that argues trust between economic or social actors can deplete if it is not tested (Gambetta 1988). But in adopting this view means deviating from established thinking on how to install enterprise partnerships.

An influential idea in the economics of organisations is that enterprises should strive for complementarity between structures, practices and procedures. (Milgrom and Roberts 1992) The thinking is straightforward enough: organisations where a strong ‘fit’ exists between different competencies are more likely to steal a march on rivals. Complementarity allows the collective impact of competencies to be greater than the sum of the individual parts. Aoki (1994) used this approach to deepen understanding of the dynamics of the Japanese firm. The thinking also has left a strong imprint on the literature about the diffusion of high performance HRM practices. A feature of this literature is the assumption, even belief, that it is more advantageous to introduce new work practices in bundles. This thinking has made its way into the literature on enterprise partnership. Thus for any arrangement of this ilk to be robust and properly ‘embedded’ it must involve a series of interdependent and mutually reinforcing changes. The significance of this approach is that introducing enterprise partnerships must involve transformative organisational change.

Intuitively, this argument is persuasive and in some instances captures the experience of

particular organisations. The Saturn factory developed by GM motors would be an example (Rubenstein and Kochan 2000). But the Saturn experiment is an exception and does not reflect the general pattern of organisational change. Many organisations introduce change incrementally. Root and branch transformations are seldom involved as organisations mainly opt for the gradual mutation pathway where established routines and procedures are ‘recombined’ in one way or another with innovatory practices (see Nelson and Winter 1982). This is true for partnership as it is for total quality management or business process re-engineering or even the diffusion of high performance work practices. Thus the big play made about complementarity in the theoretical literature appears not to be reflected in organisational practice. As a result, it might be inappropriate to conceive enterprise partnership as tightly integrated bundles of employment practices. One could even go further and suggest that the pragmatic character of enterprise partnership development in Ireland calls into question the usefulness of ‘complementarity’ as a normative framework to explain organisational change (Favereau 1994). If the Irish case is anything to go by experimentalism and disequilibrium are more appropriate metaphors. The evidence, such as it is, suggests that partnership deepens through the existence of asymmetries and discontinuities arising between work rules and practices.

Thus the envisioned pathway to partnership is that organisational disequilibrium promotes problem-solving between management and employees (Sabel 1994). In turn, such deliberative action encourages new work roles and identities based on mutuality and co-operation to take shape among employees and employers in the context of jointly analysing and developing remedies to problems. This procedure evolves and strengthens over time as iteration between management and employees deepens. This approach should not be taken too far as big tensions, or what Boxall and Purcell (2000) call ‘deadly combinations’, between employment practices, can lead to self blockage inside organisations. Nevertheless, the notion that partnership inside

companies can be driven by misalignment in organisation structures and practices has merit.

These ideas are at odds with the ‘holistic’ approach to partnership. This approach only truly acknowledges a radical organisation transformation of the firm, and thus sets a high admission fee for an enterprise to join the partnership club. For example, it is an approach that has encouraged exchanges about the relative merits of the Toyota and Scandinavian models of teamworking (see for example European Foundation 1997). The latter is seen to more worker-friendly than the former. But for an organisation’s team-working arrangements to be deemed ‘Scandinavian’ it must fulfil a testing list of conditions. Firms falling below the threshold are not seen to be experimenting with ‘genuine’ partnership work practices. This approach is excessively prescriptive, not least because recent research suggests that these contrasting models of team-working are converging on one another thus making hard and fast distinctions between the two difficult to sustain (Pils and MacDuffie 1994). Thus driving a wedge between different varieties of the same employment practice by developing categories is hard to sustain in a faster moving competitive environment.

This view of the development of enterprise partnership also sits uneasily with a lot that has been written about how to make the process sustainable. A common argument is that partnership is more likely to be sustainable if it involves big changes to the overall administrative system of the enterprise. Powerful signals are sent out that the organisation has changed its *identity* to embrace the organising principles of social partnership. As a result, the durability of the innovation is more likely to be permanent. This thinking is not flawed in principle. But again the Irish experience does not fully chime with this argument. It envisions a process in which enterprise partnership changes the identity of organisations by gradually amending the governance and learning functions of the enterprise. Greater stress is placed on an enterprise partnership

installing a value or belief system in the organisation. An enterprise when faced with external or internal challenges can respond in a number of equally viable strategic ways. Enterprise partnership encourages the organisation to choose the alternative that promotes competitiveness and fairness. Thus partnership is about reshaping the attitudes, behaviour and roles of people inside the organisation. On this view enterprise partnership becomes more sustainable when it acts as an internal change agent guiding the evolution of the organisation. The assumption is that enterprise partnerships have different starting points and develop at different speeds and thus must be seen first and foremost as institutional procedures and practices that deepen management and employee co-operation. Thus sustainability is tied up with the process of embedding partnership inside the organisation and not so much with whether big transformations occur at the start of the process (Charny 1999). This idea of enterprise partnership as guided evolution is set out in the figure below.

< Figure 2 about here >

### **Beyond Mandatory Rules and Open Coordination**

A common argument in the employment relations literature is that without legal rules organisations fight shy of establishing institutionalised bodies such as works councils that seek to advance representative relationships between management and employees. But this begs the question, seldom asked by industrial relations scholars: if institutional arrangements such as works councils are so beneficial why are laws required obliging firms to set them up? Surely if they were so advantageous, organisations would create them voluntarily? Freeman and Lazear (1995) seek to provide a theoretical answer to these questions. They suggest that employees and employers may not engage in mutually advantageous co-operative interactions even if it is in the self-interest of both parties to do so. This is because a range of negative externalities, mostly in the form of information asymmetries, prevents the creation of adequate incentives to install institutionalised forms of employee involvement. On the one hand, management will vest them



with too little power. On the other hand, workers will demand more power than is considered optimal by managers. As a result a type of market failure arises that cannot be credibly reduced on a voluntarily basis. This is a tidy argument given plausibility by the evidence that where there are no mandatory rules representative institutions promoting employee involvement tend not to exist.

The negative externality identified by Freeman and Lazear plays a prominent part in the debate about enterprise partnerships in Ireland, although the problem goes under the less imposing term 'buy-in'. A multitude of distorting expectations and perceptions are seen to exist about enterprise partnerships, slowing down their diffusion (O'Donnell and Teague 2000). Some managers, at both senior and middle level, see partnership as a threat, encroaching on their prerogative to make decisions unilaterally. For their part, many trade unionists have unrealistic expectations of such arrangements. Frequently enterprise partnership is seen as the direct descendant of the worker democracy movement of previous decades and thus involve a decisive transfer of power and authority from management to employees. Any arrangement falling short of this litmus test is dismissed as an incorporation ploy by management. Perhaps the most prevalent tendency is widespread misunderstanding, among managers and trade unions alike, about the meaning, purpose and outcomes of enterprise partnerships. These muddled expectations and perceptions have fuelled a 'buy-in' problem – managers and employees are uncertain about what partnership entails and as a consequence are reluctant to fully embrace such a development.

From the standpoint of Freeman and Lazear this is a situation in need of legal rules obliging firms to create some type of employee involvement arrangement. Yet in Ireland using the law to advance employee involvement has never been seriously countenanced, largely for contextual reasons. Extending the information and consultation rights of workers through legislation is seen

as putting the attractiveness of Ireland as a site for inward investment in jeopardy. The extreme openness of the Irish economy has led Irish governments, irrespective of political hue, to exercise self-restraint in the sphere of labour market regulation. There is ample evidence indicating that social partnership plays second fiddle to the country's overall economic strategy of encouraging mobile investment projects to locate in Ireland. At the same time, there is wide recognition that if enterprise partnerships are to become the dominant method of managing the employment relationship at enterprise level a comprehensive public support system must be created that provides high grade facilitation and training. This is because many managers and employees have not got the competencies to engage in meaningful partnership activity.

Thus as a substitute for mandatory rules an extra-firm public programme has been developed to promote partnership at organisational level. This has four overlapping components. One is the sponsorship and co-ordination of learning networks which involves companies setting up partnerships connecting with one another to share experiences and to gain knowledge about how to solve problems associated with partnership building. These networks are closely monitored with a view to creating diagnostic instruments and training modules. The second is a research and dissemination function. A variety of focused research projects have been sponsored to deepen understanding of the partnership process in action – the extent to which employee and management attitudes change with the introduction of collaborative employment practices. A third function is building verification and assurance focal points outside the organisation. Very often employees and managers inside organisations seek assurance from external agents, normally in the form of national trade unions and employer associations, that meaningful value-added activities will emerge from embarking upon the partnership road. To facilitate this demand, IBEC and ICTU, the national employer and trade union bodies respectively, have developed a number of important projects and advisory services. These initiatives are important

as they guarantee organised labour a central role in the supportive framework for enterprise partnerships. In addition, the main agency charged with promoting organisational partnerships, the National Centre for Partnership and Performance, has increasingly taken on the role of external verifier. In essence, this role involves the Centre given its imprimatur to various training agencies and experimental actions which organisations and trade unions regard as a quality standard. The fourth function can be called experimental public policy. For the most part, this involves the NCPP co-ordinating new joint action by different arms of government and semi-public bodies to advance partnership at enterprise level.

All in all, the public support framework that has emerged for enterprise partnership can be labelled an open method of co-ordination . The emphasis is on the use of ‘soft’ regulation rather than hard law to build a supportive public framework for installing the principles of social partnership inside organisations (see Ogus 2000). The open method of co-ordination is distinctive. It is not like most HRM models which seeks to internalise the governance of the employment relationship inside an organisation. HRM assumes that there is little need for an active public policy regime to help shape and guide enterprise-level employment practices. The open method of co-ordination emphasises that a public framework for employment relations is essential not least to address labour market (and institutional) failures. But it departs from the traditional social democratic model of labour co-ordination, which relies heavily on constraining laws and procedures. Open co-ordination emphasises support structures over constraining rule, pragmatic problem solving over adversarial bargaining social consensus over militant mobilisation.

This approach to public policy for the labour market is not the product of a master plan for Irish employment relations, but emerged largely as the unintended consequences of a series of

decisions and practices. At the same time, having reflected and learnt from these unintended consequences it is fair to say that key policy-makers do have a coherent vision of the open method of co-ordination and how it should influence labour market governance. The theoretical inspiration behind this method is derived from a number of interrelated sources. One is the 'pragmatic' school of political philosophy that was influential, mainly in the USA, in the early part of this century. The writings of John Dewey are representative of this tradition. According to Dewey most of what we know and conclusions we derive from 'facts' and 'evidence' are fallible and provisional and will be moderated in one way or another in light of experience. This standpoint leads him to argue for a 'pragmatic' approach to public policy which emphasises adaptive problem-solving. Thus, for Dewey experimentalism, iteration and dynamic adjustment are the hallmarks of good governance.

Another overlapping influence is what political scientists call deliberative democracy which stresses the importance of 'collaboration' and 'reasonableness' to economic and political governance (Elster 1998). This approach has an impressive historical lineage. Its imprint is unmistakable in the writings of the founding fathers of American federalism such as Madison and Jefferson. Connections with Rousseau and the early Greek philosophers such as Plato are also evident. Deliberative democracy sees governance largely about the identification and resolution of policy problems through informed debate and preference-changing dialogue. The collection and interpretation of evidence to monitor and evaluate the effectiveness of individual social and economic programmes are also conferred key strategic importance by this approach. Thus deliberative democracy focuses on how political and social institutions can promote collaborative action that aims to mobilise effort and knowledge to advance widely supported economic and social priorities. All in all, the two mainstays of the open method of co-ordination are flexible-decision-making structures and consensus-building activities. These are the two

underlying principles guiding the still unfolding governance regime for enterprise partnership.

## **Conclusions**

This paper contains many arguments that depart from the established employment relations literature on social partnership at enterprise level. Most of this literature has been inspired to ensure that the principle of equity is not forsaken by organisational strategies seeking change and improved performance. Thus it may be appropriate by way of conclusion to offer some remarks about how the Irish model advances fairness at work. Probably, the most significant aspect of the Irish experience is that it promotes a distinctive approach to the matter of organisational change. In the management literature, heavy emphasis is placed on leadership models of organisation to guide such change. Some of these models place too much emphasis on the actions of an elite group of managers to bring about such things as continuous improvement. A number of distortions can be produced by such approaches. First of all, over-ambitious managers eager to stamp their presence may find the 'vision thing' too enticing and inflict major organisational upheavals on enterprises which may not have been warranted in the first place. Furthermore, managers, trying to display leadership qualities, may engage in cavalier delegation practices that cause resentment and disengagement amongst employees. In these circumstances, active participation and information-sharing by employees, which are indispensable to improving performance, become well nigh impossible. Managerial unilateralism of this kind is challenged by enterprise partnership through encouraging a more encompassing, more inclusive approach to the change process.

Second, the novel institutional framework to promote enterprise partnership is potentially a

useful vehicle to advance fairness at work. To be sure, the open method of labour market co-ordination downgrades the special status of trade union as the core guarantor of economic citizenship. The manner in which people are incorporated into the world of work relies on a wider range of institutions. At the same time, trade unions have a crucial role to play in ensuring the new framework does realise its full potential. The more pro-active and constructive the trade unions are in institutions of open co-ordination the more likely they will be able to agenda-set on the matter of fairness at work. But this will be a challenging political and organisational task. Like all organisations in the enterprise partnership game, trade unions are operating with imperfect and variable knowledge and understanding. Thus to affect change inside the new institutional machinery they will also have to undergo change. To identify, understand and adapt practices that advance social justice at work may require internal trade union reform. They will have to forge new external organisational alliances and adopt new internal procedures. Under a labour market regime that emphasises the fallible and thus provisional character of labour market rules and procedures, trade unions will have to continuously renew and modernise the ways they do things. Flexible organisational structures are at a premium. To be sure, the Irish experience does not provide all the answers about how to combine fairness and competitiveness in the one labour market, but it has generated important new thinking and procedures which require careful deliberation from the employment relations academy.

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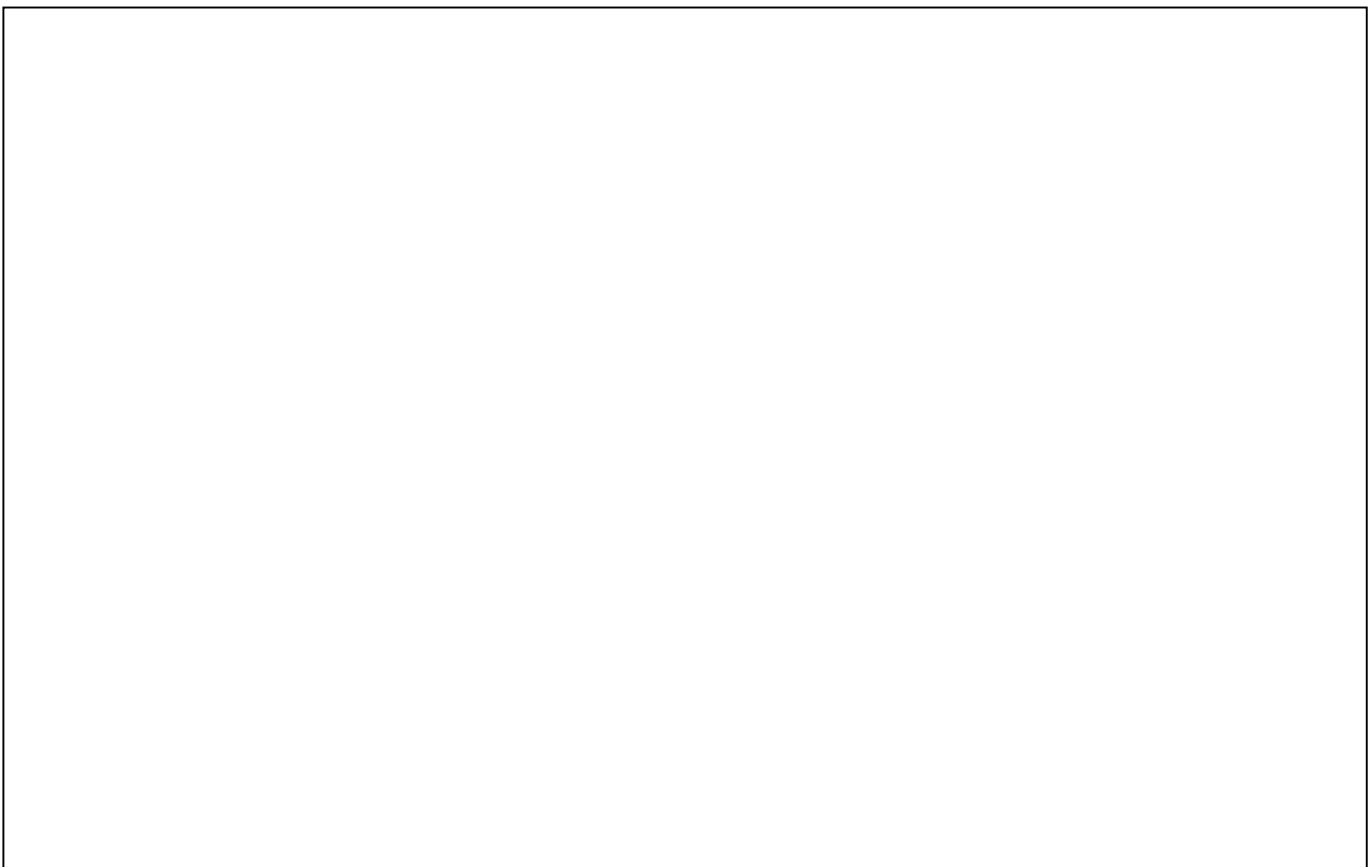
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### Box 1: Categories of Enterprise Partnerships

- **Managerial partnerships** which are essentially about employers diffusing enlightened human resource management practices with or without trade unions.
- **Employee-orientated partnerships** which place trade unions at the centre of the arrangement by building on collective bargaining or by introducing an indirect representative form of worker consultation such as a works council.
- **New deal partnerships** which ground management- employee interactions on the principle of mutuality. They seek to reach a balance between the interests of employees and management. Thus for example, increased employee flexibility is off-set by greater job security. Implicit in this model is that partnership is a winning, mutual gains, formula for both management and labour.
- **Full partnerships** are those organisations that do not follow any of the three partnership approaches listed above yet devise arrangements that embody the ethos or values of each. Thus, for example, the information structure of the organisation contains co-determination, consultation and communication elements in a manner that reflects 'pluralist', 'middle-way' and 'unitarist' employment relations.
- **No partnerships** is the situation where the employment system of the organisation remains untouched by the values, principles and practices of the 'partnership approach' to employee relations. Adversarial industrial relations or managerial unilateralism normally prevails.

### Box 2: Diffusion 'Rules' for Enterprise Partnerships

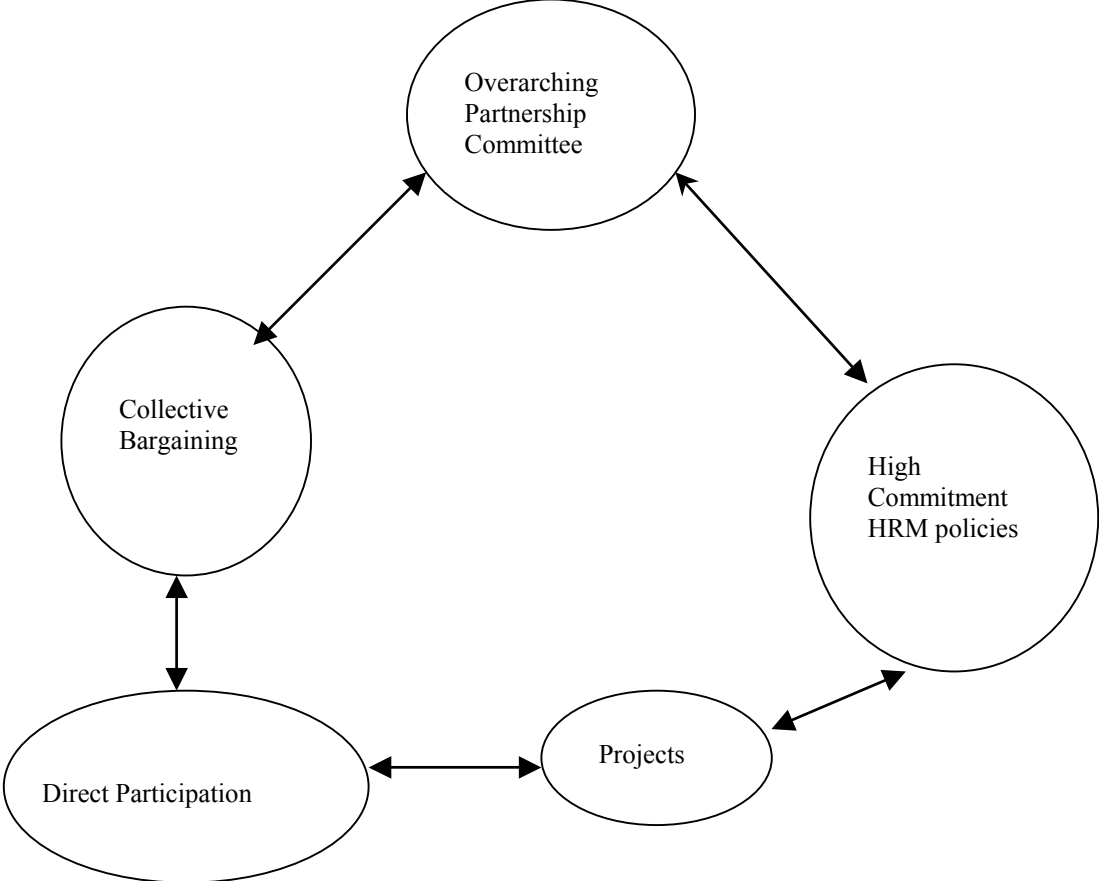


### Box 3: Constitutive Elements of Enterprise Partnerships

- **Commitment to business success** which involves employees identifying with business goals to the extent that they will seek improvements to work organisations and routines.
- **Employment security** involves employers making a commitment to avoid redundancies wherever possible and to develop attractive career plans for employees.
- **Employee voice** involves all levels and dimensions to information and consultation – from direct operational matters at the person’s work station to more strategic concerns that are normally considered the sole preserve of the Board.
- **Sharing the success of the organisation with all employees** which normally involves some form of financial participation scheme such as profit sharing as well as progressive human resource practices aimed at promoting fair and equitable treatment of all employees
- **Training and development** covers matters relating to deepening the human capital of the organisation by enhancing the skills and competencies of the workforce.
- **Flexible job design and direct participation** relates to measures aimed at improving job rotation by ending employment demarcation. It also involves making workers multi-skilled so that they can positively contribute to a team or group working environment.

**Figure 1**

**Figure – (Loose) Design Features of Enterprise Partnerships**



**Figure 2**  
**Enterprise Partnership as an Agency Structure**

