

# Laying down their arms

## The great Australian workplace relations challenge

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After 15 years as a union official, including seven as leader of the Australian Workers Union, and now a Partner at KPMG, Paul Howes has a close up perspective on the relationship between Australia's productivity issues and workplace relations – and how we can become as productive as other advanced nations.

Australia has experienced lagging productivity growth for over 20 years and we're not improving. *"We're sliding down the productivity performance table. Our global competitiveness is terrible when you consider the natural advantages we have,"* notes Howes. *Taking the World Economic Forum's competitiveness rankings as a guide, Australia is bad and getting worse. In 2010 we were ranked 15<sup>th</sup> in the world overall. Now we're 22<sup>nd</sup>."*

However, after last year's National Reform Summit (the Summit) and the Prime Minister's mini-summit on reform, things are looking like they may move forward. *"It's the first time I've seen everyone, the Business Council of Australia and the Australian Council of Trade Unions included, walking out talking positive,"* says Howes. *"The good will and sense of urgency are now there. Talking is the first concrete step to depoliticising the big picture reform issues. I'm hopeful that the new Government can turn the Summit discussions into actions quite quickly."*

### Aggressive workplace relations are stifling productivity

So what's driving our low ranking trend? Howes points out that productivity must be viewed in a multifactor paradigm that includes workplace relations, management and leadership capability, cooperation and investing in the right skills and training.

He does, however, single out cooperation in labour-employer relations as one factor that is most inhibiting Australia's productivity reforms. Out of the 144 nations

ranked in global competitiveness, Australia comes in 109<sup>th</sup> in terms of cooperation levels. *"This is, I believe, the single strangest anomaly of our entire economic system. How could a society as well-run as Australia's possibly be ranking among Pakistan, Greece, and Timor-Leste on a core economic benchmark?"*

A quick glance at the nations topping the World Economic Forum's competitiveness rankings shows that cooperation in labour relations is undoubtedly a key benchmark. The productivity number one nation is Switzerland, which is also number one in labour-employer cooperation. Number two in the overall rankings is Singapore, which is also number two in labour employer cooperation. The Netherlands, Denmark, Japan, Germany, Canada and Norway are all top performers in the rankings – and all top performers in labour-employer cooperation.

### Changing attitudes before legislation

So what's going wrong in Australia? Certainly the inconsistency of legislation is an issue. In his 15 years in the union movement, Howes experienced eight different sets of state and federal industrial relation laws. *"But the fundamental problem isn't a legal one,"* says Howes. *"The media and some policy makers may focus on legislation, but laws don't drive productivity"*

Australia needs a regulatory system that is fair and fixed. However, it's the ruthless and adversarial culture that encourages both sides to chisel off every little bit of advantage they can, without thinking about how this might affect the big picture, that's holding Australia back.

# "In Australia, workplace relations is a blood sport".

*"The key thing that binds the most competitive nations is not having a battle-by-default culture between employers and employees. Workplace relations are seen as a way that different groups with common interests can genuinely and respectfully negotiate on how their goals could be pursued," explains Howes.*

*"In Australia, workplace relations is a blood sport. This hyper-aggressive industrial culture exists at the level of employers and unions. And it exists at the political level, in which both major parties wield industrial relations as a weapon to bludgeon the other side".*

Other advanced nations don't see industrial relations as such a divisive issue. This includes nations with more deregulated systems than ours, like the US, as well as European nations with far more regulated systems. *"We often don't realise it, but endless talk about industrial relations reform is something of an Australian peculiarity that creates a culture of perpetual instability".*

## **Creating a high performance work culture**

Australia's productivity lag is as much about out-of-date management practices as workforce engagement. And Howes is adamant that good labour relations are primarily about soft power. *"A confrontational approach to labour relations in Australia may have made sense generations ago. But in 2016, for a high-cost nation like ours in the global economy, there needs to be a spirit of compromise and understanding of common purpose. Australian businesses are never going to enjoy natural advantages on price, on scale, or convenience.*

*In 2014, our car industry was teetering on the brink. Now of course it's over the edge. Unemployment rate is still sticky at near 6 percent. We're now seeing reports that company profits are still falling".*

It is generally acknowledged that the only way Australia can grow is through greater sophistication, and we need a consultative industrial relations culture if we are to develop the high performance work practices that have been so successful in our competitor nations.

These high performance work practices include:

- developing the knowledge, skills and abilities of employees
- motivating employees and rewarding effort through reward and recognition schemes

- providing employees with opportunities to contribute on how their work is done – primarily through structures that promote communication, consultation, and employee involvement in work processes
- ensuring management and leadership remain open and engaged with more flexible workplace practices and as our workplaces become more dynamic and complex, we need to develop the people leadership skills of management.

It is well documented that SMEs with high performance work practices are more innovative, productive, and profitable. Yet Australia has a terrible record in creating them. Instead, we have a long tail of small, low performance workplaces that drag down our collective productivity. They produce poor profits and their main focus tends to be on survival rather than growth.

## **Adopting the German model**

Howes is keen for Australia to take on board the lessons of Germany's highly productive SME sector. These smaller enterprises are the key driver of German manufacturing innovation and tend to focus on niche markets where they can dominate and be successful. They usually have a strong R&D focus. The key difference between Germany's SMEs and Australia's low performance workplaces is the German collaborative culture between management and employees, including decentralised enterprise bargaining. *"There's no big stick from government telling widely differing sectors what to do," he says.*

*"The frustrating thing is that the other ingredients are there if we could only get our industrial relations culture right," comments Howes. "We have strong, transparent political and legal institutions that foster confidence in investment. We have great research institutions, like the CSIRO. We rank among the top nations for research produced. Yet we are at the bottom of the OECD when it comes to patents filed and ideas commercialised. Where we are failing is leveraging this research into collaboration - and then into innovation - and then on to productivity and economic gain. As a result, Australia is an also-ran on the global innovation index - placing 25<sup>th</sup> overall in the world".*

As every global innovation expert will tell you, the key to innovation is collaboration. The world we operate in now is too dynamic and too blurred for what Howes describes as the glittering mirage of modern Australian workplace relations; the idea that you can somehow outmuscle all your stakeholders and just do it your way. *"Today, you actually need to build consensus to go anywhere. The German and Northern European models reflect this understanding. Workers are treated as contributors and core assets. The roles of public research and government are acknowledged and accepted. This is the way things are getting done in rich, modern economies"*

### **Redefining flexibility and security**

A good place to start rebuilding and resetting our industrial relations culture would be to redefine two key triggers in our industrial relations debates – flexibility and security.

Flexibility is often presented as dichotomous to security. The usual definition is as a full time job, with full entitlements, at a single workplace. But Howes challenges us to examine if this represents real security when that full time job with full entitlements is on the verge of becoming unviable due to low productivity.

Surely real security comes from having the relevant skills, training and experience that can open a range of doors. And given the fluid nature of the global economy, most of us will need to open more than one door in our working life.

The new security is dynamic and flexible. Howes argues this is the type of security that unions should demand on behalf of workers. And management needs to be far-sighted enough to genuinely engage with employees and provide them with the skills and opportunities they require to be useful in their existing workplace and the economy more broadly. Howes adds that it's one of the big lessons from Northern Europe.

*"A decentralised attitude would free up productivity in the same way decentralising wages did. It empowers enterprises to fix productivity themselves,"* he says. *"And if reducing labour costs is the aim, there are a million different ways to achieve this – but it should be easier with skilled, confident people, from the factory floor to upper management, that see change as an opportunity"*

### **Making restructuring a positive**

Howes cites Australia's habit of missing great opportunities to reform in the good times as another hurdle to modernising workplace productivity. During the mining boom, both management and the workforce could have made compromises and been buffered by the huge profits being generated. *"But we missed it,"* he cautions. *"So we must not miss the opportunity presented to us by the downturn. Business as usual will not be an option anyway"*

The good news is Australia is much better at pulling off big reforms at the eleventh hour. We did it under Hawke, Keating, and Howard – and we can do it again now. However, early intervention is increasingly the norm – and that involves a massive cultural shift for Australia.

*"Restructuring is going to become a way of life. Australia's real productivity problem is our clunky, out-dated ways of managing businesses at a time when the global economy is exploding with dynamism"*

It's not a simple fix but requires good will and determination. *"Politics has dragged our productivity backwards for long enough. The Summit and the Prime Minister's mini-summit were the start of concrete discussions with all sides working towards mutual goals,"* says Howes. *"We're finally turning it into a dialogue between adults"*

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