Fair, innovative & transformative work

the FITwork Project

University of Strathclyde Business School

Harnessing knowledge, research and networks to drive fair, innovative and transformative work in Scotland

FAIR, INNOVATIVE AND TRANSFORMATIVE WORK (FITWORK) PROJECT REPORT

YEAR 1 REPORT: PARTS 1 AND 2

SCOTTISH CENTRE FOR EMPLOYMENT RESEARCH
UNIVERSITY OF STRATHCLYDE

Harnessing knowledge, research and networks to drive fair, innovative and transformative work in Scotland

Fair, Innovative and Transformative Work (FITwork) Project Report

Year 1 Report: Parts 1 and 2

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Part One - Harnessing knowledge and research to drive FITwork in Scotland

1   Introduction and outline of Part 1 of the report

Supporting fair work and workplace innovation are key priorities for the Scottish Government, as part of a strategy to promote the complementary aims of growing productivity and competitiveness and reducing inequality. The work reported here has sought to engage with these issues through a framework for exploring the potential for fair, innovative and transformative work (FITwork) in Scotland.

The FITwork project has consistently sought to contribute to knowledge and debates around this important policy agenda. The aim of this Year 1, Part 1 Report on the FITwork project is to review the policy and economic context and evidence base for our work; describe how we have operationalised FITwork through a conceptual framework and diagnostic tool; highlight potential benefits for employees, employers and the broader policy agenda around inclusive growth; and identify next steps for this important research agenda.

Following this Introduction, in Section 2 we discuss the broad economic and policy context for our work in this space. We briefly locate our interest in work and the workplace in the context of important challenges facing Scotland, namely low relative productivity, levels of innovation and income inequality and the links between these 'wicked problems'. We reflect on how these challenges are influenced by the particular nature of the Scottish economy.

Section 3 reflects on the evidence base for, and underpinnings of, our approach to exploring the challenges, opportunities and experiences of workplace stakeholders around fair, innovative and transformative work. We draw on data from a wide range of sources and literatures to reflect on our understanding of fair work and workplace innovation in Scotland, the UK and elsewhere. We provide an – admittedly far from exhaustive – discussion of the evidence and debate around the components of fair work (as outlined in the framework adopted by Scotland's Fair Work Convention), and the factors that define workplace innovation. The purpose here is to provide a brief discussion of 'what we know' and 'what we don't know' about fair work and workplace innovation.These two concepts are central to the 'FITwork framework' that has informed the work of the Fair Work Convention and has been developed into a conceptual framework for our own research and stakeholder engagement work.

In Section 4, we introduce the FITwork tool, a bespoke data collection instrument underpinned by the FITwork conceptual framework. We discuss the evidence base for specific elements of the tool, and indicate how its deployment can advance knowledge and understanding of FITwork in context.

In Section 5, we discuss the types of impacts and outcomes that FITwork might produce for employees, employers and for Scotland, and reflect on the challenges in defining and generating appropriate outcome measures to chart progress towards FITwork.

In Section 6, we look prospectively to next steps involving the deployment of the FITwork framework and tool and their potential to generate impactful research evidence for consideration and use by workplace stakeholders. We conclude that the FITwork framework is closely aligned with the prevailing policy emphasis on fair work as central to Scottish Government's overarching inclusive growth objective, and our long advocated view that workplace innovation has an important role to play in how fair work practices can generate improved business and societal outcomes.

Accompanying this report is a technical appendix comprising a series of evidence reviews produced over the course of the FITwork project to date that have been shared with, and become the evidence backdrop of, the Fair Work Convention's Fair Work Framework.

2 Work and workplaces in contemporary context

Work and the workplace matters – to employees and their families, to employers, to government and to society. Outside of family and kin relations, work is arguably the most significant domain for most people. The economic value of work as a source of income, profits and national prosperity is evident. Work also plays a key role in individual identity and shared social values.

As Findlay and Thompson (forthcoming) have argued, "The questions that social scientists ask concerning the meaning of work can be initially separated into what work wants from us and what we want from it. The former relies on identifying recurrent objective trends in how we are managed and rewarded, the kinds of jobs that are being created and the challenges they do or do not offer, and how secure or precarious they are. The latter tends to focus on subjective measures of satisfaction, (dis)engagement, attachment and identity. Both are highly contested in academic research and public discourse." The balance between what work wants from us and what we want from work is played out every day in workplaces.

But the importance of this balance is not simply a concern of employers and employees. Researchers have long critiqued the tendency in the UK and other liberal market economies to see the workplace as a 'black box', often free of critical insight and policy intervention. More recently, and particularly in Scotland, greater attention has been paid to work and workplaces against a backdrop of economic and social challenges – many of which are longstanding - that have encouraged greater reflection on the link between what happens in workplaces and how this interacts with broader economic and social life.

The slow pace of recovery from the 2008 economic crisis, rising income inequality, stagnating wages, poor economic growth and lagging productivity have directed the attention of stakeholder organisations to issues related to the state of the labour market, employment and workplace issues.

2.1 Brief overview of Scottish Economy

Productivity

Recent attention has been drawn to two connected problems in the UK, and Scotland, related to productivity (e.g. Thompson, Colebrook, Hatfield, & Doyle, 2016). The UK, and Scotland, lag behind other EU and G7 economies in terms of productivity. In the post-

recessionary period, productivity has stalled. The UK's 'productivity puzzle' has become the focus of media and government interest, with stakeholders from civil society organisations, trade unions and employers/business organisations expressing varying views.

Compared to the G7 average, output per worker in the UK was 19 percentage points below the average for the rest of the G7 in 2013 (ONS, 2015). The UK's GDP per worker was 6 percentage points below Germany, 13 percentage points below France, and 15 percentage points below Italy (ONS, 2015). Compared to the United States, the UK's GDP per worker was 40 percentage points below the US, the largest differential since the series began in the 1990s.

Looking specifically at Scotland we see that in terms of growth and trajectory Scotland is recovering a little more quickly from a slightly lower base. Alongside the 35 OECD countries, Scottish Government analysis suggests that it is ranked 19th on productivity levels, lying slightly behind the UK as a whole for 2014 (Scottish Government, 2016), shown in **Figure 1**.

Figure 1 OECD Productivity Levels Chart (2014 GDP per hour worked - USA=100)
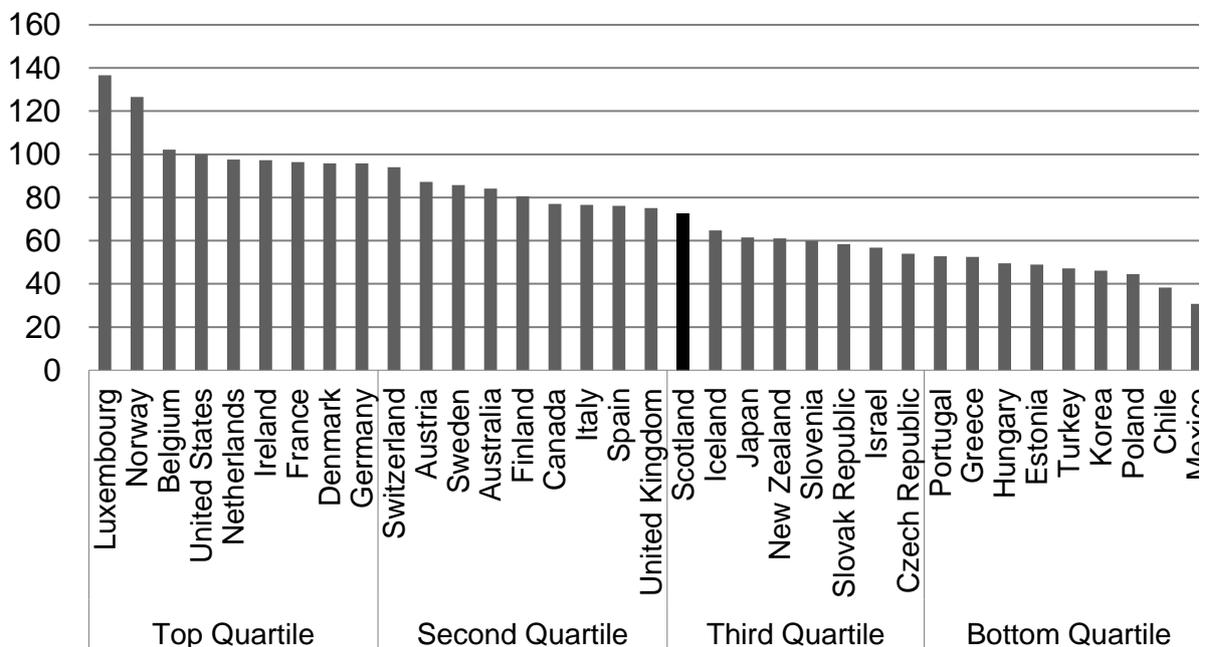
Reproduced from: Scottish Government (2016);
Sources: 2014 Productivity levels from OECD Statistics Portal - data extracted on 19 February 2016; Output per Hour worked from Scottish Labour Productivity 1998-2014 - 20 January 2016

In terms of output per hour worked, Scotland's productivity had increased by 1.3 per cent in real terms following a decrease of 0.4 per cent in 2013. It is now 4.4 per cent higher in real terms than in 2007. As shown in **Figure 2**, the gains have been relatively small and stagnant. This is similar to broader UK trends in productivity (ONS, 2015).

Figure 2 Productivity Growth in Scotland (Real Terms Productivity)
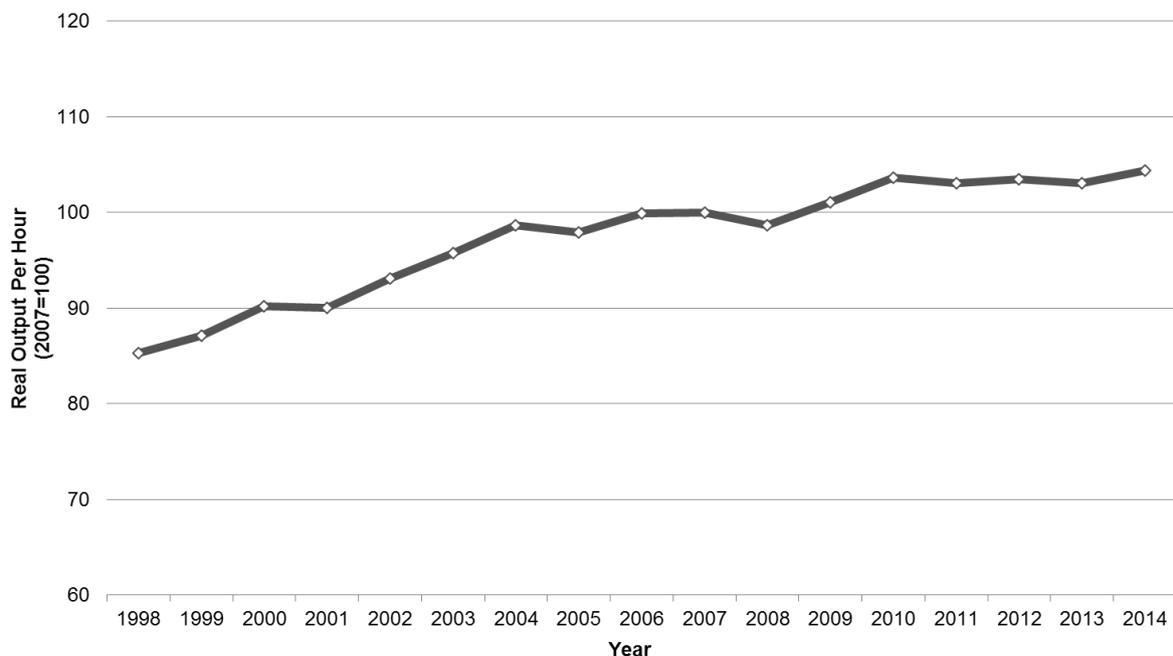
Reproduced from: Scottish Government (2016)
Sources: 2014 Productivity levels from OECD Statistics Portal - data extracted on 19 February 2016; Output per Hour worked from Scottish Labour Productivity 1998-2014 - 20 January 2016

Innovation

Innovation is seen as crucial to both competitiveness and national progress (OECD, 2010a). On some innovation measures the UK is seen to be doing well, but more general measures are less encouraging. The World Economic Forum (2016) ranked the UK 12th globally in innovation its 2015-2016 world competitiveness rankings (10th in the overall rankings). Among European nations, Switzerland, Finland, Germany, Sweden, Netherlands and Denmark all rank higher on innovation. The World Economic Forum notes that "thanks to its ability to attract talent from abroad and some of the best universities in the world, the United Kingdom can count on a well-educated workforce, contributing to high levels of technological adoption (9th in the 144 ranked economies) and ICT penetration (2nd)". However, the innovation ranking does not reflect the low ranking of UK productivity in the G7 and OECD. The EU Innovation Barometer for 2015

(European Commission, 2015) reported that within the EU 72 per cent of companies reported introducing at least one innovation (reported as at least one of new or significantly improved products – services and/or goods, processes, marketing strategies, or organisational methods) since January 2012. This was an increase across the EU of 6 per cent compared with the 2014 survey. The UK, with no increase, lagged the EU increase, with 69% of companies reporting innovation activity. There was an increase in the percentage of UK companies reporting the development of new organisational methods (indicated in the questionnaire as "e.g. knowledge management or the work environment") up 2 per cent to 36 per cent. This too is lower than the EU level of 38 per cent (up 8 per cent).

In terms of innovation, the most recent UK Innovation survey reported a slight increase in the number of UK firms engaging in innovation activities to 53 per cent of enterprises compared to 45 per cent in the 2013 survey (BIS, 2016).

Large firms with more than 250 employees are more likely to be 'innovation active', compared to small and medium sized enterprises (SMEs – between 10 and 250 employees): 61 per cent compared with 53 per cent for SMEs. The same difference is consistent with the 2013 survey (BIS, 2016).

Among the activities which enterprises engage in, the top three highest expenditure categories have remained unchanged since 2013. These are 'internal R&D' (42 per cent), 'acquisition of capital' (i.e. advanced machinery, equipment and software) with 26 per cent, and 'acquisition of external R&D' with 8 per cent compared to 14 per cent in the 2013 survey (BIS, 2016a, p. 201). In terms of non-technical forms of organisational innovation, less than half of businesses (42 per cent) engaged in one or more types of non-technical innovation in the 2015 survey. As with other forms of innovation activities, forms of organisational innovation are more common among larger firms than SMEs but again by a small majority (30 per cent of large firms compared to 27 per cent of SMEs).

Notably, the least frequently reported form of wider, organisational forms of innovation activity is 'new methods of organising external relationships', only 7 per cent of businesses (down from 8 per cent in the 2013 survey). This is consistent with other findings of limited access of external forms of knowledge, whether that be from higher education research or from other knowledge communities (BIS, 2016). The Dowling (2015) report confirms the potential of UK universities to drive innovation However, he notes that the support mechanisms are overly complex and a potential deterrent in

businesses engaging with universities and benefitting from knowledge transfer. In particular, clearer paths for interaction with universities need to be developed for SMEs. The report also points to a pattern of short-term, opportunistic engagement, often driven by immediate funding availability. There is a concentration of collaboration, both in terms of the areas of collaboration (with a particular concentration in science and engineering) and in the companies engaged in collaborating.

Inequality

The second, and related problem, concerns the broad consensus view that the UK's productivity gap is connected to low-wage work, income inequality and poor scope for social mobility relative to other OECD economies. Inequality has implications for individual wealth as well as societal economic growth. In OECD counties, the gap between the richest and poorest members of society is at its highest level in 30 years (Cingano, 2014). In 2014, the richest 10 per cent of the OECD population earned 9.5 times the income of the poorest (currently around 10:1 in the UK), compared to a ratio of 7:1 in the 1980s (Cingano, 2014). This trend in income inequality has been exacerbated not only through surging incomes at the top end, but also by the trends at the lower end: slow growth during the prosperous years and falling income during the downturn (Cingano, 2014). While this raises issues of both relative and absolute poverty in many OECD countries, it may also have implications for overall economic performance.

The UK's low-wage sectors (defined by the IPPR as including retail, accommodation, food and administrative services) account for roughly a third of all workers in the UK, and produce 23 per cent of the UK's gross value-added. However they are, on average, 20 per cent less productive than the economy as a whole (Thompson et al., 2016). High levels of income inequality and poor social mobility are recognised as problematic for individuals, society and business in aggregate terms. Stakeholder reports (e.g. CBI, 2015a), also drawing from the international evidence, suggest that economies with lower income inequality and which make better use of all the skills and talents of its people are more productive (examples of evidence cited Cingano, 2014; OECD, 2015).

As noted in Part 2 of this report, the challenges and opportunities associated with delivering the Scottish Government's complementary objectives of increased productivity and competitiveness and a reduction in inequality can be seen as a 'wicked problem', complex in its nature, and requiring a joined-up and holistic policy response. It is clear that improving innovation potential and performance can be a key component of that

response. This will need policy impacting at the national, sectoral and industrial, and workplace level. Clearly, our main focus is on the latter, and how best to support action led by employees, employers and interested stakeholders to deliver fair, innovative and transformative work.

3   Towards fair, innovative and transformative work

We now move to a discussion of the components of, and evidence base for, the FITwork framework, which has been central to the thinking of Scotland's Fair Work Convention, and has informed (and will continue to inform) our own engagement with employees, employers and stakeholders on fair, innovative and transformative work.

A review of relevant Scottish, UK, European and other literatures around work and the workplace has been undertaken and is outlined in more detail below. This literature is wide-ranging in scope, multidimensional in character and contains analysis and data at multiple levels. It is drawn from economics, psychology, management, work and employment studies. This literature has been accessed, assessed and evaluated over the course of this project in order to generate a working conceptual framework (the FITwork framework) for analysing the prospects for, and interventions required to support, fair, innovative and transformative work. In the discussion below, we first describe some of the evidence informing (and/or missing from) discussions of fair work and workplace innovation (the key concepts at the heart of our FITwork framework). We have sought to highlight evidence around 'what we know' is important to fair work, workplace innovation and the outcomes that they produce, as well as 'what we don't know', in terms of gaps in data, especially at the workplace level. Nevertheless, it is important to acknowledge at this point that the discussion of evidence below is far from exhaustive.

The components (and the evidence base around them) that we discuss cover the dimensions of fair work (as articulated by the Fair Work Convention) and workplace innovation. Both evidence bases and sets of components are central to the FITwork framework (which has been endorsed by the Fair Work Convention) and have been operationalised through the FITwork diagnostic tool, discussed in detail in the next section of this report. Below, we describe the framework and its conceptual underpinnings, outline its dimensions, and consider the potential outcomes for workplace stakeholders.

3.1   The FITwork framework

Reflecting on international research, we have developed the FITwork framework as a way of exploring the components of fair, innovative and transformative work, the workplace practices that facilitate it, and the contextual factors that shape or constrain organisations' and employees' access to fair work and opportunities for workplace

innovation. Clearly, a core feature of the FITwork framework is an operationalisation of the workplace practices identified by the Fair Work Convention as key to delivering fair work for employees, and the related benefits for people, organisations and our broader economy and society. **Fair work practices** include interventions to facilitate:

Effective voice: meaning practices that facilitate dialogue among employees, and between employees and management. This requires structures and systems whereby employees' ideas and views are sought and listened to, and where there is the opportunity to offer constructive challenges to management. Obviously, in unionised environments collective bargaining and other trade union-facilitated engagement is important in providing a clear, effective voice. But the literature on employee engagement suggests that – irrespective of union presence – employees' views are important for conflict resolution, can facilitate involvement and idea sharing, and therefore have the potential to contribute to a range of positive individual and organisational-level outcomes (Charlwood, 2015).

Opportunity: meaning practices to facilitate fair access to, and progress in, work. At a basic level, this involves meeting legal obligations in terms of ensuring equal access to work and equal opportunities in the workplace. However, fair opportunity practice implies a more proactive approach – for example, in valuing diversity, where the talents and resources of all groups in the labour market are tapped, valued, developed and utilised. The evidence on the impact of equal opportunities and diversity strategies is mixed and fragmented, partly because of the range of different strategies deployed by organisations depending on workplace and labour market context. Nevertheless, there is an emerging evidence base that "increased diversity can lead to a better understanding of local markets and customers, increased ability to attract and retain the best people, greater creativity, better problem solving and greater flexibility for organisations" (Department for Business, Innovation and Skills, 2013)There are also potential benefits for economy and society in tackling the exclusion of groups of workers who would otherwise make a positive contribution in the labour market.

Security: defined in terms of the security and predictability of employment. Work and income are important foundations of a successful life. While complete security can never be guaranteed in competitive labour markets, the Fair Work Convention has argued that we cannot deliver fair work "where the burden of insecurity and risk rests primarily on workers" (Fair Work Convention, 2016). However, the evidence suggests that the UK and Scottish labour markets provide a challenging context for the promotion of some

aspects of security. For example, a substantial minority of workers experience under-employment (wanting more hours of work)In 2014, around 9.9 per cent of people in employment in the UK wanted more hours than they are currently employed to do, while in Scotland the underemployment rate was 8.6 per cent Some employees also report perceived insecurity of tenure – for example, in autumn 2014, CIPD reported that 16 per cent of UK employees feared that they were likely or very likely to lose their job (CIPD, 2014). Finally, income insecurity remains a key concern for lower-paid workers. It is estimated that there are 427,000 people (just over 18 per cent of the workforce) earning less than the living wage in Scotland (SPICe, 2014), compared with roughly 22 per cent of all UK employees earning less than the living wage (Markit, 2014). The Fair Work Convention (2016) notes that security can be supported in a number of ways: by building stability into contractual arrangements; by having collective arrangements for pay and conditions; by paying at least the Living Wage; by supporting work-life balance; employment security agreements; and by providing access to sick pay and pensions.

Fulfilment: defined in terms of workers having the capacity to use and develop their skills; having some control over their work and scope to make a difference; taking part in appropriately challenging work and taking up opportunities for personal growth and career advancement. A number of studies have found that these factors are associated with higher levels of employee engagement and wellbeing (Peccei, 2013). There is also evidence that indicators of fulfilling work are associated with higher productivity and innovation within organisations across EU states (Brown, 2016). However, there are again challenges in the UK and Scottish labour markets. In Scotland, 51 per cent of responding establishments in the UKCES Employers Skills Survey reported problems of skills under-utilisation and 17 per cent of staff were reported as over-qualified and over-skilled for their current role. At UK level, 48 per cent of workplaces reported having some employees with both qualifications and skills that are more advanced than required for their current job role. This represents 4.3million workers or 16 per cent of the workforce having under-utilised skills (UK Commission for Employment and Skills, 2014). The European Working Conditions Survey gathers a range of data on employees' control over tasks, work methods and the pace of work to form an index of task discretion – the UK ranks slightly above the EU average in the level of control that employees could exercise over their immediate work (Gallie and Zhou, 2013).

Respect: defined in terms of work in which people are respected and treated respectfully, whatever their role and status. For the Fair Work Convention (2016),

respect involves ensuring the health, safety and well-being of others, but also reflects everyday social exchange and relationships in the workplace. Crucially, mutual respect involves recognising the views, autonomy, status and contribution of others. Much of the evidence in relation to the respect agenda focuses on the need to promote dignity at work, and to eradicate bullying and harassment. While the extent of the problem is difficult to capture through national survey data, there remains a clear case for action on bullying and harassment. UK survey evidence has previously suggested that 80 per cent of managers reported knowing of bullying occurring in their workplace (Harrington, 2010). The Workplace Harassment and Bullying in 2009 report to Unison by the Centre for Organisation Research and Development reported that over a third of the union's members had been subject to bullying at work at some time, with over a quarter leaving to resolve the problem. In 2011, a similar survey for Unison reported that 6 in 10 public sector workers were bullied or witnessed bullying over the previous six months. Public sector workers are frequently cited as the most vulnerable to bullying in the workplace (Ariza-Montes et al., 2015). The CIPD (2004), among others, report that line managers and peer colleagues as most likely to be accused of bullying behaviour. The individual cost of bullying in the short term includes absence from work often leading on to leaving the organisation (EWCS, 2005).There is also some international evidence of the relationship between bullying and mental health problems (Langeland, 2012). That said, the Fair Work Convention argues that respect as a dimension of fair work includes and goes beyond measures to combat bullying and harassment to include dignified treatment, social support and the development of trusting relationships. Such respectful workplace relations may improve conflict resolution, reducing the need for public intervention to resolve and remedy disputes between employers and employees or workers. The Fair Work Convention argues that respect at work can be supported in a number of ways, such as organisational policies, practices and training on dignity at work. The adoption of, and genuine engagement with, respect as a key organisational value, and collaborative approaches to conflict resolution and employee voice are also important.

3.2   Linking the fair work and workplace innovation agendas

The FITwork framework has also been informed by evidence of the impact of other complementary (and sometimes overlapping) workplace practices in relation to **high performance and high involvement working**, which aims to deploy HR and work design to fully engage employees' talents and resources, and **workplace innovation**,

which aims to create spaces where employees' ideas and creativity can make a positive difference to business outcomes (e.g. Appelbaum, 2000; Boxall & Macky, 2009; Groen, Wilderom, & Wouters, 2015; Meuer, 2016). There is evidence that high performance/high involvement working can produce employee outcomes that are associated with improved individual and organisational performance. A recent analysis of successive waves of the UK Skills and Employment Survey found a positive association between workplace involvement strategies (where employees reported opportunities to express their views on initiatives within the organisation) and both job satisfaction and commitment (Charlwood, 2015). Small scale research from Finland's Workplace Development Programme has suggested that high involvement practices that support cooperation across management and employees might be associated with higher levels of wellbeing and job satisfaction and perceived productivity gains (Ramstad, 2014). The emerging evidence base on the potential importance of high involvement approaches provides a counterpoint to longer-established 'high performance work systems' models that have relied upon performance management and contingent reward to incentivise employees. While there is mixed evidence of positive impacts on employee performance associated with these practices, there are also a number of studies identifying negative impacts on employee wellbeing and commitment (Heffernan and Dundon, 2016).

Crucially, our own research and stakeholder engagement has demonstrated the potential value of workplace innovation practices (Findlay et al., 2015). Drawing on European Commission (2014) analysis, we developed an understanding of workplace innovation as being about getting the best from an organisation's key resources (people, processes and relationships). In doing this, workplace innovation can deliver organisational objectives and improve the quality of work for employees – creating better workplaces and better work through collaboration. Workplace innovation departs from 'business as usual', driving value creation while simultaneously delivering rewarding work for employees (Findlay et al., 2015). Workplace innovation is therefore both a process and an outcome. The process includes the way things are done in an organisation. The outcomes may be new ideas about products/services, processes, policies and ways of organising and working, and more conventional business outcomes, for example, increased productivity, profitability and growth.

Workplace innovation can deliver positive employee outcomes, such as retention, satisfaction and engagement (Findlay et al., 2015). During our 2014-15 *Innovating*

Works… project, we found that employer strategies to empower employees to identify and solve problems included: the design of work teams in an explicit effort to encourage 'creative problem-solving'; making use of online tools to encourage employees to share ideas and incentivised suggestion schemes. These mechanisms were reinforced by a climate that supported employee empowerment. Employees had a strong stake in the organisations where they felt secure, valued, well-treated and involved in their work i.e. they were engaged in good work in good workplaces (Findlay et al., 2015).

Kleinknecht (2015) provides supporting evidence for this link from the opposite direction.i.e. from *unfair* work to negative impacts on innovation,. He presents both the mechanism by which this negative effect could happen and the evidence to support the hypothesis that it has happened. Kleinknecht (2015) describes the 'hire and fire' culture embodied in the 'structural reforms' which took place in the 1980s in the UK and elsewhere as leading to a decline in firm-specific training; an increase in transactions costs (as a consequence of higher turnover); fostering weak management which in turn fosters risk-averse behaviours when it comes to innovative projects; and a decline in firm-specific or path dependent tacit knowledge that has been deployed in organisations for many years and on which the 'creative accumulation' model of innovation is based. He argues in favour of 'good insider protection' and 'high wage cost pressures' – capturing at least some of the characteristics of fair work – as a means to trigger:

> *'quick diffusion of labour saving technology…exploiting more fully the potential of the IT revolution…(supporting) the Shumpeterian process of 'creative destruction' in which innovative market leaders see off technological laggards competitively'.*

Within the FITwork framework, we have drawn upon international evidence to explore six key dimensions related to workplace innovation. Our reading of the evidence suggests that workplace innovation is defined in terms of:

How organisational structure shapes or constrains innovative potential: The evidence suggests that the way in which an organisation is structured can support the prerequisite conditions for innovation. The organisation's structure supports internal communication can facilitate the dispersion of ideas and practices in the organisation, increasing their amount and diversity. This, in turn, can encourage the cross-fertilization of ideas (Adams, Bessant, & Phelps, 2006; Damanpour, 1991; Kistruck & Beamish, 2010). Strongly hierarchical organisational structures can make it difficult to communicate changes and inhibit the flow of innovative ideas (Damanpour, 1991;

Kassing, 1998). Collaboration across vertical levels and functions of the organisation encourage ideas to be elaborated upon and encourage changes to be introduced (Damanpour, 1991). The strength of communication and collaborating networks can help ideas to be diffused within the organisation (Bohlmann, Calantone, & Zhao, 2010). Flexibility among work roles can encourage innovation. It can permit openness, which encourages ideas and innovation. Importantly, structures which support openness and communication can mediate the stress of innovating (Janssen, 2004) and increase perceptions of fairness (Schminke, Cropanzano, & Rupp, 2002).

How organisations manage human resources: An organisation's capacity to identify, assimilate, and exploit knowledge about its environment and ability to learn are important conditions to make use of innovations as they occur (Albino, Garavelli, & Schiuma, 2001; Cohen & Levinthal, 1989; Felstead, Gallie, Green, & Zhou, 2010). It is not enough to only invest directly in new processes or products, but to also develop and maintain the organisation's broader capabilities to identify and use information (Cohen & Levinthal, 1989; Lichtenthaler & Lichtenthaler, 2009). The accumulation of knowledge capital in the organisation allows the firm to innovate more often over time, having a positive effect on profitability (Geroski, Machin, and Reenen, 1993). New knowledge, expertise and problem-solving skills are rooted within individuals and are the source of potential employee-driven innovation (Høyrup, 2012). The ways that HR policies, such as pay and skills development, are used has been positively associated with forms of innovation (Beugelsdijk, 2008). These policies, where consistently and fairly applied across the organisation, can also buffer the stresses and demands of being innovative (Janssen, 2000, 2004). This offers the potential for longer term, sustainable growth.

How internal decision making shapes or constrains innovative potential: Factors in the work environment, such as supervisory and social support from group interaction and involvement are important antecedents to creativity (Baregheh, Rowley, & Sambrook, 2009; Beugelsdijk, 2008; Cohen-Charash & Spector, 2001; Parker, Johnson, Collins, & Nguyen, 2013). The way decision-making and power are centralised or distributed through the organisation can play a role in empowering and engaging the workforce. Decentralised organisation with a focus on employee empowerment have been found to generate more product innovations (Beugelsdijk, 2008). Participatory work environments facilitate innovation by increasing organisational members' awareness, commitment and involvement in change (Damanpour, 1991; Janssen, van de Vliert, &

West, 2004). Conversely, concentrated leadership and decision-making can prevent innovative solutions (Damanpour, 1991).

Relationships with external stakeholders and networks: Environment scanning and extra-organisational relationships can bring in new ideas and ways of working. Innovative organisations exchange information with their environment (Andriopoulos & Lewis, 2009; Burt, 1992; Damanpour, 1991; Meuer, 2016). Innovative, valuable ideas can be generated from flows of information with the organisation as well as external, coming into the organisation (Chesbrough, Vanhaverbeke, and West, 2006). Organisation that use an open innovation approach explicitly incorporate external sources of knowledge into their business model as a source of value creation and value capture (Chesbrough et al., 2006; Lichtenthaler & Lichtenthaler, 2009). If firms cannot or do not want to develop sufficient absorptive capacity, they can draw on their strategic alliances to gain knowledge or utilise complementary resources (Chesbrough et al., 2006).

Potential to innovate in the way the organisation designs its work and internal support systems: Innovation can be linked to ideas of creativity and problem-solving. The way jobs are designed and organised can encourage creative and problem-solving (Amabile, 1996). Jobs associated with high levels of autonomy, skill variety and feedback are expected to support and foster creativity (Beugelsdijk, 2008; Janssen, 2000; Newton & Jimmieson, 2008). Employee support mechanisms enable employees to cope with change, create social dialogue and participate in the changes (c.f. Demerouti, Bakker, Nachreiner, & Schaufeli, 2001). This in turn allows changes and innovative ideas to be embedded within the organisation (Cox et al., 2012).

Potential to innovate in the way the organisation supports entrepreneurial attitudes and behaviours: Enterprising attitudes consider an organisation's proactiveness to opportunities and propensity towards risk-taking (Kistruck & Beamish, 2010; Lee, Lee, & Pennings, 2001; Tims, Bakker, & Derks, 2012). This is embedded in the organisation's routines, the way it learns from past experiences and how individuals see taking calculated risks. Advancing any innovative idea involves at least some degree of uncertainty (Di Domenico, Haugh, & Tracey, 2010; Lee et al., 2001), so the extent to which the organisation is willing to take risks – and support the calculated risk-tasking of their workers, is important for innovation.

The FITwork framework sees these three elements of workplace practice – fair work; high performance and high involvement working; and workplace innovation – as the key components to delivering fair, innovative and transformative work. A final, but crucial, element of our thinking here relates to the mechanism by which these practices are turned into positive outcomes. We argue that the evidence suggests that these types of practice are likely to be important in shaping experiences within organisations, because they define employees' **ability, motivation and opportunity** to engage in the workplace. The 'ability–motivation–opportunity' framework is a well-established model in employment research (Boxall and Purcell, 2003, 2016), which argues that for people to add value within organisations (for example, by engaging in workplace innovation or other positive discretionary behaviours), then they must have the ability (skills, experience and knowledge, supported through workplace learning and development) to do current and future jobs; the motivation to get involved (which may be linked to financial rewards, but is also likely to be strongly associated with recognition of employees' contributions by colleagues and leaders); and the opportunity to act (in terms of discretion within day-to-day work tasks, participation within teams and 'voice' within the broader organisation, as discussed above).

The discussion of evidence and literature above is far from exhaustive – a more detailed exploration of the range of international evidence is beyond the scope of this report. Nevertheless, we have presented some key elements of the evidence on 'what we know' (the evidence that has informed recent thinking on the components and potential outcomes of fair work and workplace innovation) and 'what we don't know' (gaps in data, especially at the workplace level). Engaging with these issues has been central to our approach to building a FITwork framework, operationalised through our FITwork diagnostic tool. The argument of the FITwork framework is that we have the capacity to identify opportunities to promote fair, innovative and productive work, and that this will in turn drive transformative benefits for individuals, businesses, and Scotland's economy and society. We believe that this framework(endorsed by the Fair Work Convention) and an associated research agenda have the potential to assist organisations to explore opportunities for progressive workplace practice, and to inform Scotland's policy agenda on fair, innovative and productive work.

The Fair, Innovative and Transformative Work (FITwork) Framework

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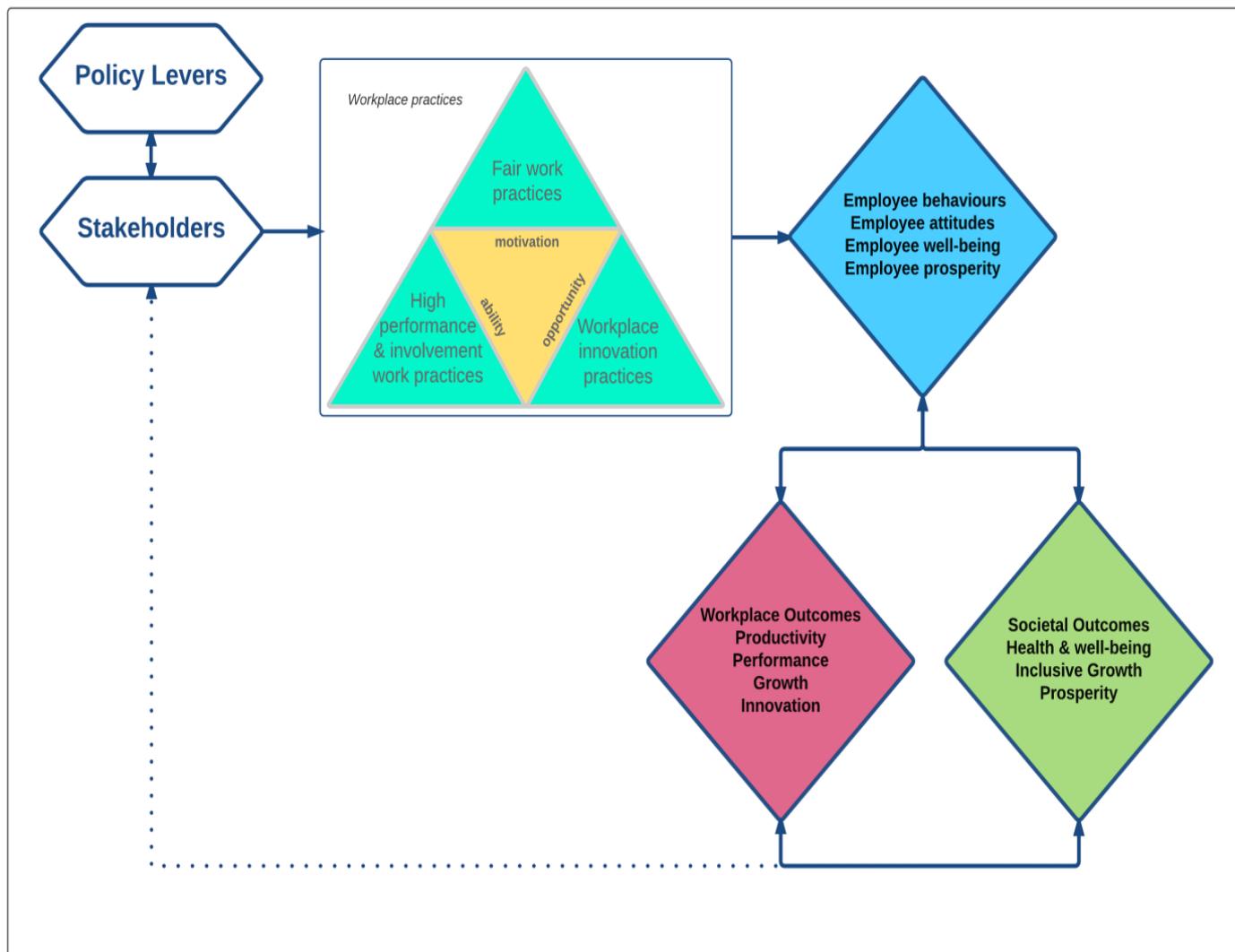
Source: Fair Work Convention (2016) *Fair Work Framework.*

4   Building the evidence base on FITwork

4.1   The FITwork tool

The Fair, Innovative and Transformative Work tool (FITwork tool) has been developed, in consultation with Scottish public agency and industry partners, to better understand the practices in workplaces and the implications for fair work, workplace innovation, productive behaviours and innovative outcomes. The tool draws on international evidence on the antecedents and drivers of organisational and employee-driven innovative outcomes, productive and discretionary behaviours, and the practices which support fair and good work. It also draws on established questions and measures from existing surveys, for example the European Working Conditions Survey (EWCS), the Workplace Employment Relations Survey (WERS), the UK Innovation Survey and on existing tested scales and workplace assessments in related fields.

The FITwork tool is a multi-stakeholder workplace survey, designed to be completed by an organisation's management as well as employees at all levels and across all functions. For organisations, it can be used both cross-sectionally (i.e. at several points in time) and evaluatively (e.g. before and at a time after a change has occurred/been implemented). When completed by one person in the organisation, the respondent receives automated feedback. However, all responses from an organisation are analysed to provide a collective view of the organisation. The more representative the sample is of the organisation's workforce, the more the survey can provide useful insights and contribute to overall knowledge about practices in Scottish workplaces. The FITwork tool has been used alongside qualitative interviews and workplace workshops with senior managers, employee representatives and employees. In this way, it acts as a 'conversation starter' to understand practices and experiences of work in the context of the organisation.

The FITWork tool asks about individual or collective views of structures, practices and procedures which enable or constrain innovative behaviours, employee participation and collaboration along 11 dimensions identified from the research evidence (see **Figure 3**). The survey itself is divided into four sections. The first and second sections provides organisational and sectoral level variables, with the second section targeting only senior managers, owners and owner-managers. The third section represents the largest portion of the FITwork tool, comprising workplace level questions along the 11 dimensions. The final section asks individual-level questions, including demographic and protected

characteristics, occupation and supervisory tasks, sufficiency of hours, and weekly take home pay.

Figure 3 The 11 dimensions of the FITwork tool

Before discussing the 11 dimensions of the FITwork tool (derived from the FITwork Framework discussed in this report) it is worth highlighting the key differences in the FITwork tool as a research and data collection tool relative to existing instruments. As argued thus far in this report, there are gaps in the existing evidence of what happens in Scottish workplaces. Furthermore, much of the existing evidence, notably in the areas of occupational psychology and organisation development, views the workplace as a collection of individuals. Instruments such as the Workplace Employment Relations Survey (WERS), organisational citizenship behaviour (OCB) scales, the Utrecht work engagement scales and the European Working Conditions Survey (used in deriving the Job Quality Index) among others, are operationalised at the level of the individual and the job role. Understandings of the workplace are thus derived from aggregations of individual responses. When workplace-level views are sought, the questions are directed to managers and often only to one manager. **Figure 4** and **Figure 5** provide examples from the management questionnaire of WERS and the EWCS of related, yet individual level questions used in these survey instruments.

Figure 4 Example of questions from Sixth Workplace Employment Relations Survey (WERS) - Management Questionnaire

We do not introduce any changes here without first discussing the implications with employees.

1. Strongly Agree
2. Agree
3. Neither
4. Disagree
5. Strongly Disagree

Looking at the following list, which three issues are most often discussed at [meetings between senior managers and the whole workforce]?

1. Product issues (e.g. level of production or sales, quality of product or service)
2. Employment issues (e.g. avoiding redundancies, reducing labour turnover)
3. Financial issues (e.g. financial performance, budget or budgetary cuts)
4. Future plans (e.g. changes in goods produced or services offered, company expansion or contraction)
5. Pay issues (e.g. wages or salary reviews, bonuses, regrading, job evaluation)
6. Leave and flexible working arrangements, including working time
7. Welfare services and facilities (e.g. child care, rest rooms, car parking, canteens, recreation)
8. Government regulation (e.g. EU Directives, Local Authority regulations)
9. Work organisation (e.g. changes to working methods, allocation of work between employees, multi-skilling)
10. Health and safety
11. Equal opportunities and diversity
12. Training
13. Other (please specify)

Source: Department for Business, Innovation & Skills (2011) Management questionnaire (MQ): sixth workplace employment relations study 2011 (WERS6). Available from: https://www.gov.uk/government/publications/the-2011-workplace-employment-relations-study-wers

The individual-level focus is not without its limitations. It assumes that by aggregating individual views of their own job roles, the sum is an understanding of the workplace – and implicitly a more accurate view of the workplace. The workplace, however, is not the sum of individual responses and experiences. Therefore, the individual-level approach overlooks interactions and relationships, and the interplay between policies and practices – both formal and unwritten in the organisation. It also downplays the variation of individual factors and the impact on individuals' responses. The reduction of the workplace and its challenges to an individual level leads to an emphasis on supply-side interventions (Guest, 2014). Given this focus, interventions might include additional training and strengths development for individuals, recruiting and selecting for innovative potential and performance strategies that reward particular behaviours.

Furthermore, other approaches draw on managerial responses to reflect on the workplace, placing an implicit value judgement on the views and responses of managers – often single management responses – as the accurate reflection of the workplace. This is particularly problematic in the context of the positive biases observed from their responses when compared with the workforce.

From a policy perspective, there are clear challenges related to the benchmarking and assessing many dimensions of fair work, and indeed in the Scottish Government's Business Pledge.. Certain elements are more easily observed and counted relative to others. For example, the number of interventions (e.g. instances of training) or individuals with particular accreditations, pay ratios and the extent to which an organisation pays the living wage are easily observable within organisations. These more readily observable elements are those which tend to gain policy traction.

Changes in job autonomy, respect, fulfilment and opportunity present real challenges for monitoring. Surveys such as WERS are expensive to implement and draw only from a sample of organisations and their employees. They are not a census of workplaces, and indeed there are known limitations to the size of Scottish samples. Furthermore, the surveys are cross-sectional and do not follow the same organisations across iterations. Therefore for policymakers and employers, these are not monitoring tools for internal change. Many of the practices may not be directly observable in organisations, thus presenting challenges of measurement. Others may have too much variability in how they are configured to yield optimal or good outcomes for individuals and businesses. Furthermore, changes may not lead to observable differences in the short-term, but rather require a more systemic, medium- and long-term approaches. As many different stakeholder organisations in the Fair Work Convention's consultations have identified, changing behaviours and attitudes (or minds and hearts) following changes in practices may be a longer-term endeavour.

Figure 5 Example of individual and job role-level questions from the 5th European Working Conditions Survey 2010

Q51. For each of the following statements, please select the response which best describes your work situation (scale: always, most of the time, sometimes, rarely, never)

A. Your colleagues help and support you.
B. Your manager helps and supports you [Ask employees only]
C. You are consulted before targets for your work are set.
D. You are involved in improving the work organisation or work processes of your department or organisation.
E. You have a say in the choice of your working partners.
F. You can take a break when you want to.
G. You have enough time to get the job done.
H. Your job gives you the feeling of work well done.
I. You are able to apply your own ideas in your work.
J. You have the feeling of doing useful work.
K. You know what is expected of you at work.
L. Your job involves tasks that are in conflict with your personal values.
M. You get emotionally involved in your work.
N. You experience stress in your work.
O. You can influence decisions that are important for your work.
P. Your job requires that you hide your feelings.

Q77. How much do you agree or disagree with the following statements describing some aspects of your job? (scale: strongly agree, Agree, Neither agree or disagree, disagree, strongly disagree)

A. I might lose my job in the next 6 months.
B. I am well paid for the work I do.
C. My job offers good prospects for career advancement.
D. I feel 'at home' in this organisation.
E. I have very good friends at work.
F. If I were to lose or quit my job, it would be easy for me to find a job of similar salary.
G. The organisation I work for motivates me to give my best job performance.
Source: Eurofound (2010) Fifth European Working Conditions survey – 2010. Available from
http://www.eurofound.europa.eu/surveys/2010/fifth-european-working-conditions-survey-2010

There are, however, benefits to shared understanding of issues and comparability across data sets. The questions highlighted by the EWCS and WERS in Figures 4 and 5 highlight areas of similarity with some of the items in the FITwork tool. Furthermore, the FITwork tool makes use of standardised classifications of sectors, occupations, demographic and protected characteristics and asks the information required to derive the National Statistics socio-economic classification (NS-SEC). The FITwork tool uses the same questions to determine employees' pre-tax and deduction income bands for comparability with WERS. However, the age bands are modifie to reflect minimum wage and the new 'National Living Wage' – or the new minimum wage floor for over 25s.

Furthermore, the 'Innovative Outcome' items are also comparable to those asked in the UK Innovation Survey and are similar to questions asked in academic research.

Given the measurement challenges and the potential scope for variation in what fair work looks like – and how the practices of fair work are (re-)configured in organisations – the *Innovating Works…* approach presents an alternative, contextualised way of looking at workplace issues. The units of analysis should still be jobs, but rather than viewing these jobs as situated in an aggregated representation of an economy, jobs and their jobholders should – in the first instance – be situated within the workplace. The workplace is the site at which an intervention around the quality of those jobs would take place, notwithstanding the role of government in (dis)incentivising particular forms of job and work design. Furthermore, by situating jobs in their workplaces of origin, two further aspects to fair work can be explored. The first is the issue of relativity, which considers notions of procedural, distributive and interactional fairness within an organisation. Procedural fairness concerns the procedures used by the decision-maker. Notably where people feel they have voice in a process and that the process involves consistency, accuracy, and a lack of bias, they feel a greater sense of procedural justice. Distributive fairness is about the decision itself and the how resources (e.g. rewards and pay) are distributed among people. Interactional fairness refers to the treatment a person receives during the process, such as delivering decisions with sensitivity and respect.

The FITwork tool permits an interrogation of how, or if, individuals have a collective voice or whether there are mechanisms for individuals to express an effective voice within the organisation. Arguably, within an organisational context that permits and even encourages individuals to disagree or to voice concerns, other limitations around job quality such as job design may be negotiated. The extent to which jobs are of good quality and fair in and of themselves is important, but their relative fairness and quality to each other is also of importance for individuals understanding of work and as a site of intervention to improve work and workplaces. This latter space appears to be under developed.

4.2 Dimensions of the Fair, Innovative and Transformative Work Tool

The 11 dimensions in the FITwork Tool are drawn from the international and national research on antecedents and drivers of organisational and employee-driven innovative outcomes, innovative and productive behaviours and the practices that shape fair work.

The FITwork tool asks respondents to consider practices (formal and informal), behaviours and attitudes in the workplace, including the extent to which a practice occurs and for how many employees. This is because the workplace and the perceptions of work in that workplace is the unit of our analysis, rather than the individual and the individual job. The statements use three different 4-point Likert scales related to frequency/depth of practice (i.e.' all of the time' to 'none of the time'), breadth of practice (i.e. 'for all employees' to 'for no employees', and agreement (i.e. 'strongly agree' to 'strongly disagree'). This section provides a brief overview of the rationale driving the dimensions of the tool and some examples of the statements. This is not an exhaustive overview of the rationale and evidence for the dimensions, nor a full list of the 94 items in the FITwork tool.

It is worth noting that there is some overlap in the concepts that support innovative behaviours and outcomes and those which make up good jobs and fair work, for example, having the autonomy to make changes to one's own job and understanding how one's job fits into what the organisation does. The FITwork tool poses statements and provides feedback related to the 11 dimensions discussed below.

The design and structure of the organisation
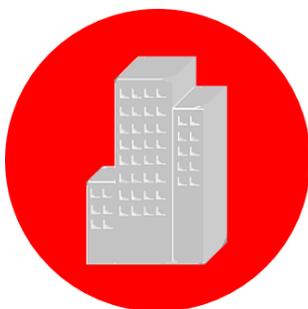
Organisation design features – such as how hierarchical the organisation is, how good communications are, how ideas are shared – can support or hinder innovation. Organisational design influences whether people interact in their work activities, how well people work together, how flexible roles are and opportunities for shared information and collaborating.

Multi-directional communication and collaboration across business functions supports idea generation and implementation.

Some of the items in the FITwork tool to explore structure include:

- Our organisation encourages people from different areas of the business to work together (e.g. cross-functional teams).
- Our organisation has practices that encourage employees and managers to learn from each other.
- Our employees know about what's going on in other areas of the organisation.
- *Our organisation has strict lines of demarcation between jobs. *[This statement is negatively scored]*

Approaches to decision-making and new ideas
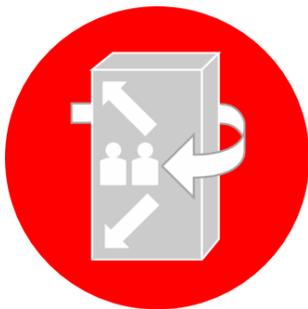
Organisational decision-making refers to both formal decision-making processes and to informal processes around managerial/supervisory relations and employment engagement. Centralised and closed decision-making can close off new ideas, thereby failing to tap into unused information, expertise and insight.

Where employees see themselves as having a real stake in a business, decision-making at every level can provide an opportunity to engage and empower employees to harness and apply their knowledge to the current and future challenges a business may face.

Some of the items in the FITwork tool to explore approaches to decision-making include:

- Before our organisation adopts new processes/technologies, employees are actively involved in the design of new work processes.
- Employees have a strong collective voice in this organisation.
- Opportunities to lead on tasks are shared across employees at different levels of the organisation.
- In our organisation, employees can disagree over work issues without fear of retribution from colleagues or managers

Approaches to external relationships
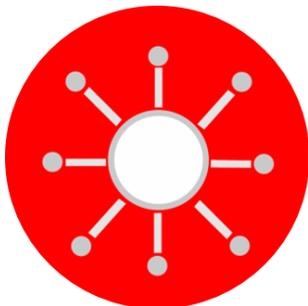
Clients, partner organisations (e.g. suppliers or delivery partners), competitors and external knowledge sources (e.g. universities and research) can be invaluable sources of knowledge and expertise. Scanning the environment and making the most of external relationships – by managing exchanges of information, collaborating and asset and risk sharing – can open up new ways of working, new ways of accessing resources and new market opportunities.

Some of the items in the FITwork tool to explore approaches to external relationships include:

- In the recent past, our employees have collaborated with external organisations.
- Our organisation involves its customers and/or end users in generating product and service design ideas.
- Our organisation involves its supply chain or delivery partners in generating products and service design.
- *Employees in this organisation would be nervous about collaborating with external organisations. *[This statement is negatively scored]*

Design of work and support systems
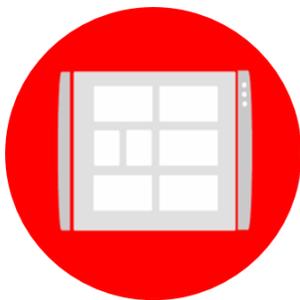
Innovation is closely linked to creativity and problem-solving. Job design can either support problem-solving and creativity or limit the potential for both. Aspects of fair work, such as fulfilment, may involve having the knowledge but also the time and confidence of management to make changes to how work is done. In the right circumstances, these features may enable the design of change, allowing innovative ideas to be embedded within the organisation and owned by all.

Some of the items in the FITwork tool to explore approaches to the design of work and support systems include:

- The way jobs are designed encourages people to interact.
- Our employees have enough time to reflect on their work and propose solutions to problems.
- Our employees have enough autonomy to change the way that they do their work.
- Managers in the organisation have confidence in employees' capabilities.

The ways that people are managed

HR practices impact on employee capability and development, motivation and opportunity to deploy their talents, and these features are closely related to innovative potential. Certain HR management and employment practices can buffer the stress of innovation and change, reframing it as an opportunity rather than a threat.

New knowledge, new combinations of knowledge, expertise and problem-solving skills are rooted within individuals and teams and can be the source of employee-driven innovation, offering the potential for ongoing, sustainable solutions.

Some of the items in the FITwork tool to explore how people are managed include:

- Our organisation uses training specifically to encourage our employees to come up with new ideas.
- Our organisation uses performance management to encourage people to come up with new solutions.
- Employees take part in work-related learning that is not directly related to their current job.
- *Lack of diversity in our workforce is an obstacle to innovation and change. *[This statement is negatively scored]*

Enterprising attitudes

Advancing any new or innovative idea involves at least some degree of uncertainty. Attitudes to uncertainty, risk and trying new things impact on an organisation's innovative potential and how well it can respond to opportunities. An organisation's pro-activeness to new opportunities, change and calculated risk-taking can be seen in their day-to-day operations and the way the organisation learns from past experiences and responds to errors.

Some of the items in the FITwork tool to explore enterprising attitudes include:

- Our organisation seeks out new ways to do things.
- Across this organisation, we actively learn from trial and error.
- People in our organisation are not afraid to try things that could fail.
- Our employees see doing new things (or doing things differently) as an opportunity and not a burden.

Organisational approaches and support for fair work

Fair work and good quality jobs are important for individuals, their households, society and the organisation. How the organisation's policies and practices come together affect how individuals experience fair work. Good jobs can bring organisational benefits in terms of individual performance, flexibility and willingness to change and innovate. Employers who offer good jobs identify benefits in terms of recruitment and

retention. Well-designed tasks encourage staff to use their skills and talents and encourage better performance. Fair work contributes to economic competitiveness, social cohesion and better societal health and well-being outcomes.

Some of the items in the FITwork tool to explore the organisational approach to supporting fair work include:

- Help is available from the organisation when employees have a non-work related problem.
- This organisation prioritises providing stable employment.
- Where conflict arises, the organisation deals with it fairly and objectively.
- Any barriers to getting a job here faced by specific groups are identified and addressed.
- This organisation takes practical steps to provide employees with a healthy workplace.

Experiences of fair work

The experience of working in poor quality jobs can impact negatively on physical and mental health and well-being. Poor quality jobs contribute not only to in-work poverty but to lifelong poverty beyond working life.

Good jobs can bring organisational benefits in terms of individual performance, flexibility and willingness to change and innovate. Employers who offer good jobs identify benefits in terms of recruitment and retention. Well-designed tasks encourage staff to use their skills and talents and encourage better performance.

Some items in the FITwork tool to explore perceptions of how fair work is experienced include:

- *Employees here find their jobs stressful. *[This statement is negatively scored]*
- Employees here are fairly rewarded compared to people doing the same job elsewhere.
- People in this organisation treat each other with respect.
- Jobs here are meaningful and provide employees with a sense of purpose.
- *Employees in this organisation worry about job security. *[This statement is negatively scored]*

Productive and discretionary behaviours
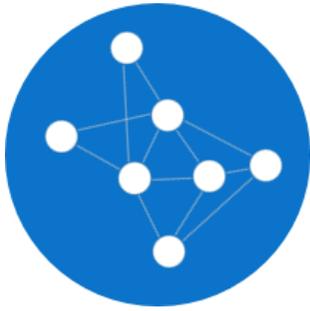
Where employees have the inclination, employees may go beyond the minimum expected of them in their efforts and behaviours. They may voluntarily assist their colleagues in solving work-related problems and exhibit attributes of organisational 'citizenship' behaviours.

Productive behaviours are also shaped and constrained by the expectations put on them and how performance is measured. Where expectations are perceived to be unreasonable and unachievable, individuals can be discouraged from trying to achieve them.

Some examples from the FITwork tool to explore productive and discretionary behaviours include:

- Employees here go beyond what is required of them in their jobs.
- Employees would recommend this a good place to work.
- Employees here see performance expectations as reasonable and achievable.
- In our organisation, performance management emphasises employee development.

Innovative workplaces
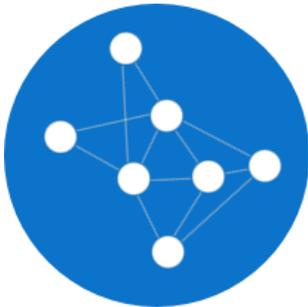
Innovation is crucial to improving productivity, performance, competitiveness and growth, as well as improving living standards. For the UK, innovation is predicted to account for up to 70% of economic growth in the long term. Innovative businesses are expected to grow twice as fast and be less likely to fail than non-innovators (BIS, 2014b). Crucially, the social and economic impact of innovation may be linked: recent OECD data suggests that higher levels of social inequality are associated with lower levels of innovation (OECD, 2014).

Some examples from the FITwork tool to explore innovativeness and innovative outcomes include:

- Our organisation has introduced one or more new processes in the last 12 months.
- Our organisation has made major changes to our processes in the last 12 months.
- Our organisation's performance has been improved through innovation.
- Our organisation's productivity has been introduced through innovation.

Employee-driven innovation
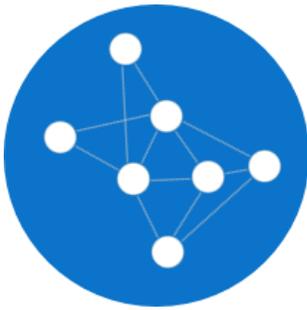
Innovation can be important for organisational success. People make innovation, but are often the residual in innovation research and policy. The process of generating ideas and the process of bringing them to fruition can be highly stressful and have a level of individual risk (Janssen, 2000; 2004). Ideas that come from different sources, such as from employees at all levels, can increase the amount and the diversity of ideas available to the organisation.

- Some examples from the FITwork tool to explore employee participation in innovation include:
- Our organisation makes changes to our products or services based on ideas from our employees.
- Employees make changes in the way they do their work that benefits the organisation.
- Employees promote their new ideas to others in the organisation.
- Managers support employees in putting their ideas into practice.

4.3 Feedback

The FITwork tool is more than a data collection instrument, although as argued, it collects new and different data than is currently collected elsewhere. It is an instrument that has been piloted (see the 2015 *Innovating* Works pilot report) and redeployed in public, private and third sector organisations in 2016 as an action research and 'conversation starter' for practically engaging with issues of workplace innovation and fair work. The feedback mechanisms in the FITwork tool are primarily for presentational and engagement purposes as a more detailed analysis of the data sits behind these interfaces.

The configurations of the practices explored in the FITwork tool varies between organisations. Indeed, similar practices deployed in different contexts may lead to differences in outcomes depending on the specific circumstances of the organisation.

The FITwork tool provides feedback on each dimension. Where there are sufficient responses from the workplace, more detailed exploration and analysis of the data can be done and fed back to the organisation. This section provides a few visual representations of responses from the FITwork tool and examples of feedback statements. These are for illustrative purposes only and are anonymised.

4.4 Example 1

As illustrated, the responses suggested this organisation was strong in elements of external relationships, the design of work and support systems and in employee-driven innovative behaviours. On the other hand, there were areas for potential improvement related to how people are managed in the organisation and related to productive and discretionary practices and behaviours. While the organisation would be provided with feedback for all 11 dimensions, looking specifically at the dimensions of 'decision-making', 'human resources' and 'external relationships', the feedback would be:

Figure 6 Visual of response and select feedback for example 1

In the way your organisation makes decisions and approaches new ideas:

From your responses, while decision-making is sometimes centralised, employees appear to have a strong voice in decision-making processes. Specific mechanisms and opportunities exist for employees to offer ideas, and these are regularly taken up by the organisation.

In the way people are managed in your organisation:

From your responses, employee capabilities appear to be developed 'as needed' and investment in employee capability beyond immediate needs appears limited. HR practices do not seem to be directed towards promoting innovation and involving employees.

In the way your organisation organises its external relationships with partners, clients and sources of external knowledge:

From your responses, employees' exposure to external knowledge and information appears to enable them to understand the organisation's environment and this understanding may drive internal innovation. The organisation appears to engage in continuous co-operation and collaboration with partners, customers and other networks to identify value creating opportunities.

4.5 Example 2

As illustrated, the responses suggested this organisation scores strongly on a number of the dimensions. This suggests that practices and behaviours reach most or all of the employees, most and all of the time. That said, the responses for external relationships is noticeably different from other dimensions. In this example, the organisation operates in a highly competitive sector with poaching of employees from competitors and others in the sector, including the suppliers. This may offer some insight into the responses. Focussing specifically on feedback related to the design of work and support systems, employee-driven innovation and organisational innovation outcomes, the feedback would be:

Figure 7 Visual of response and select feedback for example 2

In the way your organisation designs work and support systems:

From your responses, employees appear to have a high level of understanding of their roles, and jobs are designed to stimulate, challenge and provide time for employees to interact to solve problems. Managers appear to be confident in the capabilities of employees, and are comfortable with allowing them the scope they need to perform and improve their work.

In the way employees participate in and drive innovation:

From your responses, it appears that employees are crucial in informing and driving innovation in products/ services, processes and ways of working. Employees are active in solving problems facing the organisation with the support of managers.

In the way your organisation innovates:

From your responses, it appears that innovation in products, services or processes is a key characteristic of your organisation, and that innovation is perceived as something that can deliver improved productivity and performance.

4.6 Example 3

As illustrated, the responses from this organisation were quite different from the previous two examples. The visual indicates that their responses suggested many behaviours and practices were experienced by some employees, but not most or all; and/or were experienced only some of the time. However, looking specifically at the organisational approach to fair work dimension, the responses suggest that the organisation has practices in place which aim to support this fair work. The feedback might be:

Figure 8 Visual of response and select feedback for example 3

In the way the organisation supports fair work for its employees:

Your responses suggest that, in the main, your organisation prioritises equal opportunity for employees, fairness and well-being. Your responses also suggest that your organisation takes some steps to respond to conflicts and problems affecting employees. Engaging more with employees on issues of opportunity, fairness and well-being may improve employee buy-in.

Furthermore, in the way fair work may be experienced:

Your responses raise concerns over the quality of work in your organisation in terms of progression and reward, work-life balance, interesting and/or challenging work. The implications of this for employee satisfaction and commitment are likely to restrict productive behaviour and innovative potential.

In the productive behaviours within the organisation:

Your responses raise concerns that your organisation does not tap into employees' discretionary behaviours and best efforts. This may be connected to how performance is managed. Employees do not appear to have a voice in shaping performance management approaches and expectations.

In summary, the FITwork tool, developed in consultation with industry, policy and trade union partners, offers a workplace-based approach to examining workplace issues and collecting relevant data. It draws on the existing international research evidence base on the antecedents and drivers of innovation and conditions for fair work. It offers the potential for two main interventions: Firstly, it provides evidence on practices – and the (re-) configuration of those practices in Scottish workplaces. This has the potential to inform policymaking, intervention and debates. Secondly, it offers an interactive, workplace-centred tool to begin to engage in complex discussions with employers, employees, employee representatives and other workplace and policy stakeholders on ways to better understand and implement fair work, and in turn reap the benefits of workplace innovation.

5   Capturing the impacts and outcomes of fair, innovative and transformative work

5.1   Impacts/outcomes for employees

The FITwork framework poses that employees will turn their abilities into behaviours and attitudes that enhance business outcomes (1) where they are motivated to do so by fair work and (2) where they are offered the opportunity to do so through workplace practices that offer them scope to make a difference. Of key interest therefore, is how we measure and capture change in employee behaviour and attitudes. In addition, the assumption of shared gain central to fair work posits that as employees benefit from better business outcomes, this feeds back into their behaviours and attitudes in a reinforcing loop. Thus, it is important to capture in some way the impact of workplace and business practices on employee assessments of relative pay, rewards and career development.

In terms of behavioural measures, much of the literature emphasises discretionary effort – i.e. that effort which is not clearly specified contractually nor demanded in terms or direct and indirect organisational control and performance managements systems. Green (2006) uses the term 'demanding work' in relation to attempts to harness more of employees' tacit knowledge and skills. The issue of balance and context is crucial here. Harnessing discretionary effort can be seen as employers expecting 'more for less', but there is also evidence that employees welcome more challenging and involving work (Gallie et al., 2016).

As noted above, the FITwork tool captures employee behaviours in a variety of ways. These include going beyond what is required in their jobs and supporting their colleagues to solve problems. Other employee behaviours relate more directly to idea generation, development and implementation which are crucial stages for innovating. These behaviours include coming up with new ideas to solve problems facing the organisation, making changes to the way they do their work that benefit the organisation and promoting and supporting others to share and develop ideas.

In terms of employee attitudes, the FITwork tool is designed to go beyond simply measures of motivation, satisfaction or engagement. We define motivation much more broadly than in occupational psychology, including perceptions of equality but also incorporating job quality. Subjective measures of job satisfaction are sometimes used,

but are a poor proxy for, job quality and "the empirical distribution of job satisfaction across countries does not seem congruent with anything we know about the conditions of work and employment across the world" (Munoz de Bustillo, 2011:451). There is also much unease with the concept of employee engagement (Guest, 2014; Rayton et al., 2012). There is significant criticism of its deployment and little evidence that employers are able to tap into it. Survey evidence reveals an employee engagement deficit: "Survey after survey indicates that only one third of UK workers say they are engaged" (Rayton et al., 2012). This is not only confined to the UK. Two global employee surveys found very low levels of engagement. In the first (Towers Watson, 2012), 43 per cent were either disengaged or detached, with 35 per cent highly engaged and 22 per cent unsupported. An even more pessimistic picture is reported in the second (Gallup, 2012) with only 13 per cent of employees engaged at work, 62 per cent not engaged and 24 per cent actively disengaged. Here, because of the wider range of countries, UK levels were higher than the average at 17 per cent engaged, though still dwarfed by those reporting neutrality or disengagement. National surveys produce similarly negative results.

We have seen that in the FITwork tool, we capture employee attitudes by looking at trust between managers and employees, the extent to which people treat each other with respect and the extent to which people would recommend the organisation as a good place to work. FITwork should also, from the wider evidence base, be related to employee health and well-being. Recent evidence from NHS Scotland (Taulbut and McCartney, 2016) points to the relationship between good quality work and labour market experience and improved health and reduced health inequalities. It also suggests that the role of workplaces and the labour market in driving these outcomes is not inevitable. The FITwork tool provides responses on issues related to well-being through multiple lenses. It collects information relating to stress, overwork and the reasonableness of expectations placed on employees through performance targets, compared with finding the work to be challenging. In addition, it explores issues of healthy workplaces and alignment to personal circumstances, and asks individuals to rate their own health.

5.2   Impacts/outcomes for employers, the broader economy and society

As stated in the preceding section the FITwork framework proposes that fair work will enhance business outcomes. These positive business outcomes can be characterised under the headings of productivity and innovation, which might ultimately lead to improved business performance. In this section we consider the tools that we need to develop or adapt in order to better understand productivity and innovation at workplace level.

Innovation

For employers, the benefits of fair, innovative and transformative work have been outlined above. In terms of innovation, job satisfaction has been found to be positively linked to production technology/process innovations (Shipton et al., 2006). They observed that innovation was higher where harmonisation of non-pay terms and conditions was a factor in the work environment. However, making the link between specific work features and innovation success can be very difficult. The OECD points to the problems of current innovation measures, and the fact that they fail to capture important information: "knowing, for example, that 60 per cent of a country's firms have introduced some type of innovation does not help to understand why and how innovation happened, what its impacts are on the economy and how it can be encouraged" (OECD, 2010). Similar problems exist for individual employers: while it is possible for organisations to report in surveys whether or not they have been involved in particular forms of innovation, measuring the impact of these innovations and the benefits and costs resulting from them can be very difficult. The impact of individual new product or families of products can be evaluated using financial measures such as profitability, revenue achieved compared to forecast revenue (Cooper and Edgett, 2008), time to market, new product sales and return on investment (BCG, 2006).

Many types of innovation are, however, not amenable to such direct measures. For example, process innovations may change the means of producing and delivering several different goods and/or services, some directly and others indirectly. Assessing the impact of even an individual process improvement can therefore be difficult. This becomes particularly difficult when the processes are linked to information technologies that span large parts, or the whole, of organisations, and where the implementation may be – and in order to maximise the benefits often should be - accompanied by innovations in working practices. The measurement problem becomes even more

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difficult for organisational innovations that often have no direct links to products but may, for example, involve changes in working practice designed to encourage employee innovation. Although under these circumstances it is possible to consider the overall performance of the organisation, separating out the contribution of broad organisation-wide innovations is often too complicated to be worthwhile. There may also be lags – increases in other forms of innovation may be observed months or even years after changes in working practices are initiated and proving causal links will thus be very difficult to demonstrate.

The FITwork tool can help us to start to evaluate how many organisations support fair, innovative and transformative work and examine the different forms of innovation that they undertake. Both its role in gathering data and starting conversations are important here.

Productivity

A consideration of productivity measures at workplace levels must also be informed by thinking about how such measures might relate to sectoral regulation; how we can adjust for quality of output when we are producing services and not goods; and finally how this relates to the quality of the jobs which give rise to the quality-adjusted output in question. Deeper understanding of all these matters will allow us to address the question of the impact on productivity of fair work.

Our understanding of the level and trajectory of productivity presented in Section 2 and the forces that underpin these figures, is fragmented in a number of ways. There are existing bodies of literature on productivity, efficiency, competitive advantage and value coming from different disciplines, but these concepts, which are very closely related in principle, are not compared, contrasted or otherwise usefully combined anywhere. The level at which each of these concepts is discussed also varies, which further compounds the difficulties in synthesising multidisciplinary research. For instance, it is most common for economists to discuss productivity at the level of the economy or possibly the sector but much less likely for measures to be constructed at the level of the firm or the workplace.

The level at which measures are constructed is selected in order to align with the levers that policymakers are interested in using. Economists discuss productivity mainly at the macro level because often the drivers they are interested in are organised at that level (e.g. infrastructure and education). There are also, of course, identifiable drivers of

sectoral productivity (e.g. competition, capital investment and skills) that exhibit a much wider variation than that between countries.

Our interest here is whether there are levers that are under the control of the owner/manager of a firm/workplace which can increase the productivity of that unit. Individual firms don't control the market, the environment or the infrastructure but they do have control over their labour force policy in respect of recruitment, training, terms and conditions and the extent to which they facilitate and encourage human capital investment and development in both company specific and transferable skills; in short they have control over whether they provide fair work or not. The impact of fair work, in all its component parts, on productivity is still largely unmeasured. In order to be able to measure the impact of fair work we have to decide what precisely we want to measure and to what extent the appropriate measures will vary by sector.

Productivity measures can be, and are, constructed at the level of the firm (Gal, 2013) but not always to useful effect. Such evidence as there is seems to point to the general principal that such measures are more useful if they are simple and understood rather than complicated and accurate. Organisations are more likely to collect information if they are clear about its use to them.

Sectoral issues

Having focussed our attention on organisations/workplaces it is useful to look at sectors in order to consider the context in which its constituent organisations/workplaces operate. There are discussions which imply that all sectors can be made more productive if the correct policies are implemented. The question of whether or not some sectors have already reached the limits of productivity growth – as it is commonly defined and measured – is insufficiently considered. One useful line of enquiry, considered here, is whether or not different measures of productivity (levels and growth) should be used for different types of outputs.

One obvious example of this problem relates to the care sector. The reliance of that sector on what has become known as emotional labour means that the opportunities for productivity growth, as it is commonly defined and measured, are extremely limited. In principle, all measures of productivity involve a standardised measure of output. Specifically, outputs should be quality adjusted – i.e. measured in units which are homogeneous in quality as well as other characteristics. This is easy enough to do in principle and in practice for many physical outputs but far less easy for services and

other outputs which are not defined in physical space. The care/service sector is a striking example of this as are other sectors which rely to a very large extent on emotional labour.

Often the way round this is to measure output in terms of the amount of labour embedded in the production of the service (e.g. the amount of labour time allocated to the care of a single client). However, not only does this not allow for quite extreme variations in the quality of the care provided but it involves using the same variable to measure both inputs and outputs.

The *input equals output* principle was very commonly used in producing measures of public sector output up until a decade ago but this necessarily meant constraining productivity to be constant. Following the Atkins Review in 2005 there was significant work carried out in both England and Scotland to produce quality-adjusted measures of different elements of public sector output. This has been done to some extent for health and education but not for Adult and Children's Social Care and indeed a sizeable proportion of the output from this sector is still measured on an *input equals output* basis. ONS data on the productivity of adult social care in the UK for the period 2007-2013 shows that productivity, measured as the ratio of the indices of outputs and inputs [aggregated over specific activities weighted by their share of expenditure] has fallen from the 1997 base level to 78.9 by 2013 (a fall of over 21 per cent). In respect of children's social care the fall is less than 10 per cent. An examination of the underlying indices shows that in each case the fall in productivity arises from inputs increasing more rapidly than outputs.

In the production of care services, technology can potentially increase productivity for instance by the use of software programmes for scheduling, case note recording or staff monitoring. However, while this can make administration more efficient it does not directly affect the quality of the care and may only have an indirect affect if y if it allows more time with the client.

The question of who controls the sector is also important here. Again, looking at the care sector, the extent to which the regulator can impose a consistent quality of care – or a minimum level of quality – can mediate this measurement problem. Although there is some debate around whether, this amounts to a productivity increase (Skills for Care and Development, 2007). In other sectors, trade associations could potentially play a role in standardising output quality by making quality standards a condition of

membership or by awarding and monitoring different quality marks to denote different quality of output**.**

Quality of jobs - quality of output

It is already well-established that there is no necessary relationship between job quality and job satisfaction. Hairdressing, for example, scores low on most job quality measures but much more highly when it comes to job satisfaction measures. Another interesting question is whether there is any relationship between the high and low end of markets (in terms of the quality of the output) and the quality of the jobs created by firms serving either end of those markets. Does the production of higher quality outputs involve a workforce whose jobs embody some or all of the characteristics usually associated with job quality – e.g. voice, discretion and good pay and conditions? This potential interaction between the policy aim of providing good quality jobs and improving productivity (properly defined using a quality-adjusted measure) can only be examined at the micro level, i.e. at the workplace.

Long term and short term measures of productivity

Innovation – technology, management and regulation (or combinations of both) - can reduce productivity in the short term and increase it over the long term. Alternatively, as in the case of the impact on some government services following the Gershon Efficiency Review of 2003-4, some changes (e.g. cutting staff) can increase productivity in the short run but damage it in the long run. In the context of introducing fair work practices the timescale for measuring any productivity outcome must be carefully considered.

The Care Sector: an illustration

We have seen that the non-quality-adjusted measure of productivity has fallen across the public sector over the past nearly two decades with productivity in children's social care rising fairly steeply in the five years leading up to 2013 after a prolonged decline since the late 90s. Adult social care, on the other hand has continued to decline over the period apart from the last year in which it rose by over six percent.

Over that period the regulation of the sector has undergone significant changes that vary across the UK. These changes include regulation/registration of parts of the workforce on a voluntary or statutory basis; regulation/registration of providers; fitness to practice monitoring systems; workforce development; and complaints handling mechanisms. The way in which regulation interacts with measures of productivity is complex and may vary

over time. For instance, as suggested above, new systems may impact output differently in the short and longer term as they bed in and providers and workers become familiar with them. In addition, regulation has the potential to raise quality adjusted output but lower unadjusted output which by some measures would mean a decline in productivity. These are all factors which must be considered in developing and tracking any measure of productivity of a regulated sector.

A comparison of social care to other parts of the public sector using the same measure is provided in Table 1.

Table 1 Productivity Index (1997=100)

Sector	Healthcare	Education	Public order and Safety	Social Security Admin	Police, Defence and other services	Adult Social Care	Children's Social Care
2000	100.1	105.7	84.4	82.8	-	96	98.9
2010	107.5	99.1	67.9	115.4	-	80.2	81.6
2013	114.9	99.7	72	123	-	70.9	90.6

The outputs for some of these sub-sectors are quality adjusted to some degree as recommended by the Atkinson Review (2005). Health Care uses indicators of health gain, short term survival rates, waiting times, results of National Patient survey and selected primary care measures. For Education the average point score (APS) for GCSEs is used in England and for Standard Grades in Scotland as well as an adjustment to reflect numbers in teacher training. For Adult Social Care there is no quality adjustment and outputs are measured as quantity of social service activities measured in time (e.g. number of weeks of residential care) or number of items (e.g. meals provided). For England 23 activities are included and for Scotland 17 are included, all weighted by share of net expenditure.

For children's social care, output is measured as total number of days looked-after children spend in placements and other activities relating to looked-after children; fostering services; number of children in secure accommodation and children's homes. For non-looked-after children outputs are measured as inputs of labour (around 75 per cent of total expenditure) and procurement, deflated separately.

A large proportion of social care services are provided by the private and voluntary sector (who are not included in these figures). The production of analogous figures for that part of the market could provide challenges in terms of finding suitable data

although the same definitions of output could be used. This, however, does not deal with the issue of quality-adjustment which has proved to be a much more intractable problem. One route which future work could focus on is to consider user-defined quality (i.e. user satisfaction surveys) which are linked to workplace level output measures. On any view, a failure to consider the quality-dimensions of output mean that we are inaccurately measuring productivity in this sector. Finding a solution to this for one sector might allow us to make advances in productivity measurement for other service sectors.

5.3 Reflections on impacts and outcomes of fair, innovative and transformative work

The word productivity is used and understood in a variety of different ways. The way that productivity is measured should relate to the purpose for which the measurement is being done – 'horses for courses'. In that sense, and not as a full taxonomy, we suggest the following:

- national measures are useful in making comparisons across time and space;
- national measures are not useful in identifying determinants/levers and influencing business practice;
- focus on some measures can reduce the quality/fairness of work/place;
- focus on workplace measures have the potential to increase the quality/fairness of work/place.

Put more succinctly, national measures identify a problem, sectoral measures point us to where the problem is and workplace measures have the potential to help us to fix it.

The purpose for which measurement has been done in this instance is to consider the question of whether, and to what extent, the implantation of fair work practices – i.e. practices which are in the gift of employers, can increase productivity at the firm level. Returning to the HRM literature we can find methodological guidance as well as pre-existing evidence to suggest that there is such a link. Using measures of a wide set of HRM practices, measured in both incidence and intensity and containing some of the characteristic factors of fair work, there is clear evidence that 'superior human capital strategies will be reflected in valued firm-level outcomes' (Becker and Huselid, 1998).

In terms of the data which the FITwork tool is designed to produce there are indicators across a range of categories such as decision-making, discretionary effort, work design, compensation and perceptions of fair work. This data can be used to construct an index which would be flexible enough to capture differences in the incidence and intensity of

varying combinations of fair work practices. In principle, where productivity measures are available – or can be constructed – then the relationship between the two can be measured directly. Alternatively, where productivity data is not available then some measure of the performance of the firm such as profit, value-added or market value could be used on the grounds that these are the ultimate outcomes of changes in productivity.

Finally, our work, of course, has far less to say about outcomes for the broader economy and society. The FITwork project has focussed on the workplace, and employees' experiences of opportunities around fair, innovative and transformative work. However, as noted in Part 2 of this report, there is consensus that intervention at the workplace level is one crucial component in strategies to promote Scotland's mutually supportive aims of reducing inequality and improving productivity and competitiveness. Complex relationships govern how the workplace interacts with other economic and societal factors to shape outcomes ranging from health and wellbeing to economic security and (at the level of the national economy) productivity and inclusive growth. But the complexity of these relationships does not detract from the importance of the workplace as a unit of analysis and space for action. The discussion above demonstrates that experiences of fair work and workplace innovation matters for employees and employers, and has the potential to impact positively for both. This means that continuing to explore opportunities, constraints and benefits associated with fair work and workplace innovation has the potential to identify important lessons of value for policymakers. We remain committed to working with employees, employers, policymakers and key stakeholders to explore challenges, opportunities and outcomes associated with promoting fair, innovative and transformative work.

6   Moving forward – next steps

During Year 2 of the FITwork project, we propose to continue to work with employees, employers and other relevant stakeholders to explore fair, innovative and transformative work in Scotland.

The FITwork framework is central to the Fair Work Convention's understanding of how fair work and workplace innovation can be operationalised and explored within Scotland, and Scottish Ministers have committed to building upon its work. The Scottish Government and its partners are also committed to a range of other practical measures to support progressive workplace practices, including the Scottish Business Pledge initiative. The Scottish Business Pledge is a voluntary commitment by organisations to adopt fair and progressive workplace practices. Organisations are asked to commit to pay employees the Living Wage, and to at least two other progressive practices, including engaging in workplace innovation activities. We anticipate that engaging with the Scottish Business Pledge community will prove fruitful in helping to build a stronger evidence base on the potential for, and constraints on, fair work and workplace innovation practices in these organisations. While the Scottish Business Pledge is performing well, there is relatively little information available on the quality of work and workplaces within participating organisations. The deployment of the FITwork tool, and complementary case study research conducted by the team, will add to the quantitative and qualitative evidence base on progressive work practices in these organisations and the benefits that accrue for people and businesses. The same research will enable us to explore barriers and constraints faced by these organisations in pursuing fair, innovative and transformative work. This will allow us to share good practice, identify the circumstances and practices that produce fair work and workplace innovation in specific contexts, and offer advice on how business support services (and perhaps even the Scottish Business Pledge initiative itself) can best assist participating organisations. As always, our engagement within individual workplaces will also involve providing intensive support to participating organisations to help them to reflect on the outcomes of the FITwork process and consider actions for progressive practices given their specific business context.

We also believe that further FITwork research will be of value in targeted sectors. For example, following consultation with key stakeholders, we believe that there will be benefit in deploying the FITwork tool and complementary research and support activities in Scotland's food and drink sector. It is a sector that is a large employer and in some

spaces operates labour intensive business models. Pay and job quality is also variable across the sector. Accordingly, we propose a substantial programme of FITwork engagement with organisations across the food and drink sector. Finally, we will continue to work with organisations in the health and social care sector. Social care is a key public service, staffed by a highly committed but sometimes under-supported and vulnerable workforce. As we have noted in Section 5 of this report, it is also a sector where capturing productivity and the added value delivered by employees is a complex challenge. Employers in the sector face the twin challenges of tight public sector resources (which fund many jobs) and a desire to respond to the demand for high quality, personalised care services. The FITwork team is currently working with Scottish Care (the largest employer representative body for the independent care sector in Scotland) and two care sector organisations. The FITwork tool and qualitative case study work has been conducted with these organisations, and ongoing analysis is informing discussions on the potential for more progressive approaches in their workplaces. Given the crucial role of the sector in delivering high quality, personalised and innovative public services, we believe that there is a compelling case for continuing and extending the FITwork project to engage more widely across social care.

This part of our Year 1 Report has sought to stake out the evidential foundations and context for our engagement with employers and key stakeholders on fair, innovative and transformative work. We have described the FITwork framework that has proved important to Scotland's fair work agenda; discussed the research literatures and 'what we don't know' about fair work and workplace innovation; presented the evidence that has informed our own research; and described the FITwork diagnostic tool that we believe to be an effective mechanism for exploring these issues with employers and employees.

We take the view that the development and design phase of this project is now complete. A period of concerted action is required, during which we hope to demonstrate the value of the FITwork approach in informing and supporting the fair work and workplace innovation agendas among Scotland's policy stakeholders, and most crucially in supporting progressive practices in Scotland's workplaces.

Part Two - Harnessing knowledge and networks to drive fair, innovative and transformative work in Scotland

1   Introduction and outline of Part 2 of the Report

In Part Two of this Report, we examine how issues related to fair work, workplace innovation and innovation policy have been presented and debated by policymakers and stakeholder organisations, including employer representative organisations, civil society organisations and trade unions, over the last decade to 2016. We frame the contemporary debate in Scotland and, where relevant, the UK by looking to the recent past in terms of the development of debates around the workplace and business innovation. Our main focus is on current stakeholder views on the broader FITwork terrain, and to the challenges facing stakeholders, particularly in relation to the challenges of building collaborative activity that might support and deepen FITwork.

This report draws from relevant published documents and some unpublished material from, for example, the Fair Work Convention's stakeholder consultation conducted in 2015, anonymous stakeholder interviews from the *Work, Employment, Skills and Training: Where next for Scotland?* project undertaken by the Scottish Centre for Employment Research and the ESRC Centre for Skills, Knowledge and Organisational Performance prior to the 2014 Scottish Referendum. It draws on data and analysis from a variety of government, policy and stakeholder sources in the spheres of fair work, workplace innovation and innovation policy. We do not present an exhaustive review but highlight key debates, developments and milestones. This report has been written for a policy and practitioner audience.

In Section 2, we consider whether greater consensus is emerging among some stakeholders in Scotland on how workplace practice might develop to address key economic and social challenges.

In Section 3, we trace the development of an emergent FITwork eco system where distinctive stakeholder interests and activities have coalesced around the need to pursue fair and innovative work.

In Section 4, we look at the common themes and shared interests that have emerged from diverse stakeholder activity and highlight how formal and informal networks have developed around these themes to drive activity and change.

In Section 5, we look at how stakeholders perceive key elements of the FITwork agenda.

In Section 6, we summarise and evaluate these developments in debates around workplace practice, drawing on broad evaluation criteria adapted from Payne's (2012) analysis of skills utilisation, and highlight contemporary challenges in changing workplace practice.

In Section 7, we outline some of the ways in which contemporary challenges might be addressed through collaborative activity, shared priorities and measures and better alignment of analysis, strategy and delivery.

2   The FITwork policy space – an emerging consensus?

In Section 1, we consider whether greater consensus is emerging among some stakeholders in Scotland on how workplace practice might develop to address key economic and social challenges.

The stakeholder engagement and network development activities discussed below have not happened in a vacuum. Rather, they are a loosely coupled collective response to the need for action around some key challenges facing the Scottish economy. As noted in Part One of this report, there has been an increasing recognition in recent years of:

The need for action on productivity: As noted in Part One, UK productivity lags many of our EU and international competitors, and Scotland in turn underperforms relative to the UK. While it remains challenging to capture the impact of organisation-level practice on national productivity, there is increasing recognition of the need to promote fair work and workplace innovation as part of the approach to improving productivity (along with a range of complementary strategies to stimulate investment and trade, support innovation and drive inclusive growth). Fair and innovative work have emerged as recurring themes on the future of the Scottish economy and are reflected in the priorities of Scotland's Economic Strategy.

The value of workplace innovation: We have noted that UK organisations lag the EU average in reported innovation activity, with SMEs less likely than larger firms to innovate. We also noted relatively low levels of 'non-technical' innovation. Both of these patterns impact productivity and growth, stimulating Scottish Government, EU and international interest in how to promote innovation more broadly and, in recent years, workplace innovation.

Improving job quality: While the UK scores relatively well in international 'job quality index' league tables, substantial numbers of employees, including in Scotland, experience problems associated with skills under-utilisation, pressures associated with work intensification, under-employment (in terms of having too few hours of work) and low pay. Employers can, and have the right to, pursue a range of different business models, but there is a growing concern that poor job quality has contributed to Scotland's productivity gap, and may have a role in explaining problems such as work-related ill health and in-work poverty.

The value of promoting fair work across sectors: The potential employee and business benefits of fair work may play out quite differently in different sectors, and measures of productivity may be insufficient to capture the importance and contribution of fair work and innovative work practices to the Scottish economy. To illustrate, in sectors such as social care where work is labour intensive and opportunities for productivity growth are limited, intervention to improve jobs and workplaces can still impact on a large and growing workforce, improving opportunities for fair work and contributing to better quality services (as illustrated through the FITwork in Social Care project currently being carried out by SCER in collaboration with Scottish Care).

Combating inequality: As noted elsewhere in this report, greater consensus is emerging around the view that the UK's productivity gap is related to problems of low-wage work, income inequality and limited social mobility. High levels of income inequality and poor social mobility are recognised as having negative impacts for individuals, businesses and society. Scotland's Economic Strategy sees tackling inequality and improving economic competitiveness as mutually supportive goals linked by a commitment to fair work and innovation.

These challenges can be seen as complex and interconnected – 'wicked problems' in the parlance of policymakers – and therefore require smart, joined-up and holistic policy solutions. Different stakeholders bring different insights at macro-, meso- and micro-levels. Evidence-based policy-making creates the basis for close collaboration between policy makers and researchers to share information on patterns, trends, challenges and opportunities connected with Scotland's approach to tackling inequality and improving economic competitiveness and to use that evidence to develop policy and interventions.

Focussing on the workplace level, the FITwork project has been the culmination of a range of activities that have connected researchers, policymakers and practitioners in engaging with and driving progressive organisation-level interventions that represent a departure from UK 'business as usual'. In Sections 3 and 4 we examine some of these activities.

3   Developing a FITwork eco-system

In Section 3, we trace the development of what we believe has become a FITwork eco-system where distinctive stakeholder agendas have coalesced around the need to pursue fair and innovative work.

In broad terms, the discourse around a fairer and wealthier Scotland is not new – it has appeared in successive Programmes for Government since at least 2007-08 (Scottish Government, 2007, 2008, 2009, 2010, 2011, 2012, 2013). These focussed on driving fairness and prosperity through, for example, the implementation of universal policies such as freezing council tax and prescription fees (ultimately abolished) as well through fee-free higher education. While job creation and skills development have long been core to driving fairness and prosperity, the focus on better quality jobs, fair work and workplace innovation has emanated from engagement with the broader research base and in particular by a series of key networks that have debated, advocated and developed a broad and ambitious workplace agenda (Scottish Government, 2014, 2015a, 2015b).

We do not offer an exhaustive review here. Rather, we identify distinct debates – for example, on encouraging innovation; on business development and support; on leveraging returns from skills and on union priorities around labour market and workplace issues – which have overlapped and where shared priorities have been crafted creatively to build a significant degree of support for the view that fair and innovative work than can transform lives, businesses and Scotland. We identify five key groups whose priorities and activities have coalesced into the current FITwork space below.

3.1   Researchers

Researchers have a long-established interest in what happens within workplace and how this connects to, and impacts on, other spheres of individual, economic and social life. Different disciplines - economics, management, sociological or employment studies perspective among others - study the workplace in very different ways and generate distinctive insights. In terms of FITwork, innovation research combines interest in technical and non-technical or organisational innovation.

Van de Ven et al. (2008) describe the innovation process as a "journey" that incorporates five key concepts: "new *ideas* that are developed and implemented to achieve desired *outcomes* by *people* who engage in *transactions* (relationships) with others in changing institutional and organizational *contexts*" (p. 6 emphasis in original). This broad-based approach to innovation points to the need for an understanding of the complex situation in which innovations are implemented which gives due recognition to technical and non-technical innovation and change.

There is a long history of broad-based innovation research in Scotland. Indeed, one of the earliest and most influential research studies of broad-based innovation was carried out in Scottish firms by Burns and Stalker in their seminal work on *The Management of Innovation*. Findlay (1992) analysed the role of innovation in HR practice in the Scottish electronics industry in the late 1980s, while social innovation in Scottish-based businesses in the spirits industry was also the focus of research in the mid-1990s. This research included attention to changing new forms of work organisation, team-working, progressive HR practices (including employment security guarantees) and partnership forms of industrial relations and workplace governance, all aimed at supporting technical innovation and business improvement while providing high quality jobs (Findlay, McKinlay, Marks, & Thompson, 2000a, 2000b; Marks, Findlay, Hine, Thompson, & McKinlay, 1998)

SCER researchers have played a prominent role in leading, with partners and alongside others, a range of research and knowledge exchange on broad-based workplace innovation for more than a decade in conjunction with businesses, other organisations, trade unions and employees. Key themes have included research on skills, learning and improving skills utilisation (e.g. Findlay, Commander, & Warhurst, 2011; Warhurst & Findlay, 2011); bad jobs and how to improve job quality (e.g. Findlay, Kalleberg, & Warhurst, 2013); technical innovation and automation (e.g. Bennie et al., 2013; Lindsay et al., 2014). Across the Scottish universities, SCER has led engagement with broader organisational innovation within an approach that explicitly acknowledges firstly, the need to look at innovation from an individual, organisational and society perspective and secondly, the need for mutual gains to deliver sustainable innovation, an approach that has influenced and created alignment with contemporary debates on fair work.

3.2 STUC and unions

It is unsurprising that trade unions and the STUC as the voice of affiliated unions have been prominent in debates that have led to current interest in FITwork in Scotland since improving the work experience, terms and conditions of working people is central to unions' mission. In representing members at all levels and engaging in collective bargaining and campaigning, unions in Scotland engage with issues of fairness and balance on a daily basis. STUC has developed its role to support unions in traditional and new spheres over recent decades, notably with the development of sustained and stable engagement in the skills and learning space. The work has been crucial in defining STUC and unions as key stakeholders not just in workforce development but also in workplace development. Well-functioning businesses and organisations are key to delivering stable productive jobs that not only protect all workers in terms of health and safety but also enhance their well-being in a crucial domain that shapes identity and life prospects and quality. In response to emerging labour market and workplace trends, STUC and unions have led initiatives against casualization of work (for example, in the Better than Zero campaign) and for improved employment rights and protection. As part of a broader anti-austerity agenda, STUC and unions have focussed on defining and attempting to shape constructive debate around workplace practice that delivers for workers, employers and society, advocating and campaigning for A Better Way across Scottish society by engaging widely with influential stakeholders at all levels in government, public agencies and beyond.

3.3 Employers and their representatives

While employers are a heterogeneous group varying in sector, industry, size, ownership and orientation in ways that shape significantly workplace practice and workforce experience, they are also the key 'architects of job quality. The strategic and operational choices they make are real choices with real consequences (Findlay et al., Forthcoming). This heterogeneity makes it difficult to define a clear employer voice at times, but over the last decade there have been key themes in the narrative of employers' organisation. Economic conditions in the period after the global financial crisis have stimulated concerns over cost containment, efficiency and productivity. Continuing requirements for flexibility to deliver on these concerns have impacted significantly on employment and workplace practice, albeit in an uneven way across firms. Two central concerns of employers' organisations stand out: concern over accessing the right talent and skills to support their businesses, particularly in relation to

young workers and the operation of apprenticeship systems; and concern over regulation that generates cost to businesses. Across many of these areas of employer concern, the potential of employee engagement in businesses and organisations – particularly those facing business and operational challenges – is recognised, and understanding what drives employee engagement is of interest for many employers.

3.4 Civil society organisations

What happens in Scotland's workplaces and in the labour market, and particularly the outcomes produced, are crucial to the life experience, prospects and well-being of citizens. Consequently, a range of civil society and campaigning organisations are prominent in debates relevant to fair, innovative and transformative work. Many of these organisations focus their efforts heavily (though not all exclusively) at the lower end of the labour market where problems are most pressing. Core concerns over the last decade have focussed on activities to combat poverty (through work by organisations such as the Scottish Poverty Alliance and Oxfam), with a particular concern over in-work poverty driving campaigning to support adoption of the Living Wage Foundation's Living Wage (through the collaborative partnership of the Scottish Living Wage Campaign). Others have focussed on equalities issues in the workplace (and elsewhere), with organisations such as Engender, Close the Gap and the Scottish Disability Alliance highlighting the distinct experiences of different groups of workers. A theme that runs across both anti-poverty and equalities work is the impact of job insecurity and low quality jobs in generating and perpetuating disadvantage and inequality. More insecure work also features in campaigning, advocacy and advisory activities of organisations such as Citizens Advice Scotland who have been prominent in promoting better employment rights and remedies in Scotland albeit within the constraints of powers reserved at Westminster. Given the well-documented cumulative impact of disadvantage, an important stream of work has grown up around health and well-being, with campaigning organisations and public health stakeholders highlighting the costs in health terms to individuals and society of low quality work and labour market inequality.

3.5 The policy community

In response to all of the above concerns, the broader policy community in Scotland – Scottish Government, local authorities, public agencies and public bodies – has been active in adducing evidence, identifying proposed solutions, designing interventions and evaluating outcomes in the face of a myriad of complex and connected policy 'problems'

and in the context of challenging economic circumstances and the complexities of multi-level governance in the UK. Many of the key concerns of policymakers are long-standing but have been exacerbated by the global financial crisis and its consequences: concerns over competitiveness and economic development, including over how best to support innovation to drive competitiveness and growth; a particular focus on equality of labour market access and experience, including the pressing issues of post-16 education, learning and employment; the nature and impact of regional economic and social inequalities, and the challenging nature of deprivation and its impact on public health. Work and employment lie at the heart of many of the proposed solutions to these intersecting and intractable problems which require increasingly multi-dimensional and multi-layered interventions and support.

4 Common themes, shared concerns and collaborative networks

From the discussion of stakeholder interests outlined above, it is clear that a number of common themes and shared concerns have emerged over the last decade or more that have shaped the debate on work and workplaces in Scotland. Below we discuss these themes in more detail and indicate how formal and informal collaborative networks have emerged to deepen understanding, develop policy and practice, support implementation and change and try to establish measures of success in each of these areas.

The diagram below captures the actors, debates and networks that comprise the FITwork eco-system. We conclude this section by outlining how these collaborations have driven a more holistic and ambitious agenda for FITwork in Scotland.

Scotland's FITwork eco-system
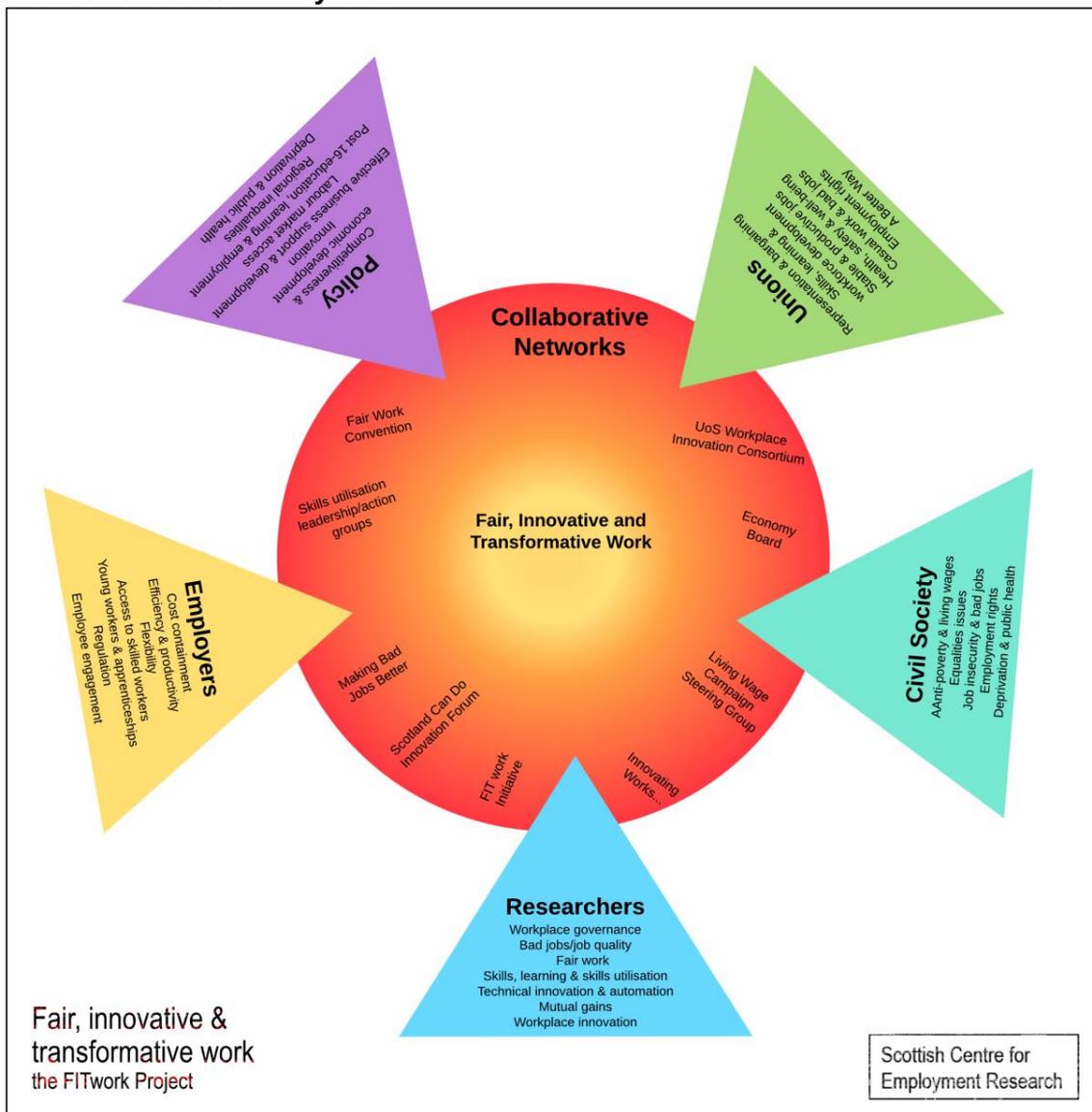
4.1 Skills and skills utilisation

There has been a longstanding tendency in the UK (and elsewhere) to see investment in education, skills and qualifications as a 'silver bullet' to address the range of economic and social challenges identified above. This policy emphasis on skills supply found its most recent exposition in the Leitch Review established in 2004. The Leitch Report (2006) reflected a core assumption of a "direct correlation between skills, productivity and employment" and articulated a vision of the UK as a world leader in skills by 2020 through increasing (indeed doubling) attainment at all levels. To deliver this, Leitch proposed shared responsibility for economically valuable and demand-led skills between individuals, employers and government, but where employer voice, engagement and investments in skills led an agile and responsive skills system.

Education, skills and qualifications are undoubtedly important, and the Leitch targets have impacted on skills strategies and qualifications. Particular attention has been paid to those at the bottom end of the labour market (Keep & James, 2010, 2012), often non-traditional learners, and initiatives such as union-led learning have been important in broadening access in Scotland's workplaces (Findlay et al., 2011).

But increasing concerns have been raised by academics, unions and policy makers about the effectiveness of skills interventions to address either low productivity or high inequality. These concerns have been well summarised by Keep and Mayhew (2010) as part of a broader critique that too much is being asked of skills supply as a lever of change. Keep and Mayhew argue that recent skills initiatives reflect a personal deficit model that takes little account of labour market and workplace factors. Given this, they contest the view that skills supply will have much impact. They point to how skills supply may lead to occupational congestion and over-qualification. On the former, as Brown (2013) has argued, education and training can add to the number of competitors in the race but it cannot alter the numbers of prizes on offer, as the labour market determines the opportunities available, and workplace practice and work organisation define the scope to deploy skills. Keep and Mayhew note that the UK is 21st out of 22 countries on what proportion of jobs require post compulsory education (OECD, 2013). On the latter, they note that the UK are second only to Japan in the OECD in levels of over-qualification. Over-qualified staff are not pushing firms to do bigger and better things in part because business models, the organisation of work and job design do not support this. Skills are therefore a necessary but not a sufficient condition to drive individual, organisational and economic performance.

Given this, why does skills supply feature so prominently in policy? One part of the critique of an over-emphasis on skills supply suggests that governments focus on skills supply because they can – or because their alternatives are limited. Keep and Mayhew (2014) suggest that ideological framing has limited the options that governments might choose to influence workplace change. As Holmes (2007) notes: "with the notable exception of the era of the industrial training boards, the use of regulatory powers for enforcement of employer investment has been eschewed in favour of exhortation and financial inducements, delivered through a changing set of institutions and agencies, and modifications to qualifications espousedly to make these 'more relevant' to the workplace".

It can be argued, however, that an earlier and more pro-active response to the limitations of skills supply interventions was witnessed in Scotland than elsewhere in the UK. Concerns over limitations of such interventions were picked up by range of labour movement, research, policy and business stakeholders in Scotland in debates on improving skills utilisation. The Scottish Skills Strategy 2007 highlighted the importance of skills deployment and utilisation. This was followed by the establishment of the Skills Utilisation Leadership Group in 2008, supported from 2009 by the Skills Utilisation Action Group tasked with a more delivery-focussed role.

While a review commissioned by Scottish Government (CFE, 2008) noted the lack of evidence of a causal connection between investment in skills and productivity, it also suggested a link between skills utilisation and other workplace factors such as motivation, participation and well-being. A small number of case studies were commissioned (Findlay et al., 2011) that illustrated the benefits of more effective skills utilisation but which also pointed to the need to see skills utilisation in the context of broader workplace practice. Findlay and Warhurst (2012) argued strongly that skills supply push arguments were not supported by evidence and that "a failure to recognise skills utilisation and skills as third order considerations [after business development and organisational development] risks loading onto the shoulders of skills utilisation the same burden as has previously been carried by supply-side skills interventions", suggesting that the the focus of policy intervention should be to encourage the adoption of business strategies that required better use of skills and the use of better skills.

4.2   Bad jobs, good jobs and the double edged nature of flexibility

As the impact of global financial crisis progressed, however, concerns over skills utilisation waned somewhat, being displaced by concerns over job loss and 'bad jobs'. The ESRC funded 'Making Bad Jobs Better' seminar series, designed and delivered by SCER and SKOPE in 2009-2011, involved researchers, employers and their representatives, unions, civil society organizations and employees from across the UK, the EU and from the US in debating why 'bad jobs' were emerging and what might be done about them. Discussion of 'bad' (and good) jobs broadened debates from skills utilisation (one element of job quality) to a more multidimensional approach to job quality that recognised the costs of poor job quality not just to job holders but to businesses and to society. Specific concerns emerged over the relatively high proportion of 'bad jobs' in Scotland and the UK relative to other countries (Plunkett & Hurrell, 2013), particularly in terms of low paid work in care, cleaning and retail, and over the phenomenon of a 'bad jobs trap'.

While overwhelmingly an academic debate, interest in job quality in Scotland overlapped significantly with trade union concerns over deteriorating conditions at work, illustrated in STUC's the anti-austerity Better Way campaign. In addition, and connected to broader research dissemination, policymakers began to engage with concerns over the externalities of poor job quality, with implications for how government, for example, addressed some of these issues with their own staff through workforce development and modernisation initiatives in the public sector alongside a commitment to avoid compulsory redundancies. Civil society organisations also engaged in debates around poor job quality including important work by Oxfam in developing a Humankind index and the work of the Scottish Living Wage Campaign, a collaborative endeavour involving campaigners, unions, employers and academics.

Businesses and their representative organisations' response to job quality concerns were more mixed. While many felt and recognised a responsibility to provide good quality jobs and saw these as a way to enhance business performance, others capitalised on increasingly flexible labour markets to the detriment of job quality, leading to growing concerns over the growth of zero hours contracts and precarious work, stagnant or declining real wages and rising levels of work stress and punitive performance regimes.

In a similar way, flexibility – in the labour market and in the workplace – generated a mixed narrative in Scotland and elsewhere in the UK, with the term encompassing very different perspectives. Flexibility is widely seen as a driver of productivity and service and, in some accounts, as a positive option for employees. As Findlay and Thompson (forthcoming) have argued, "New forms of flexible work and employment have emerged in recent years that go beyond ad hoc arrangements to deal with businesses' need for occasional flexibility. While a positive case can be made for some forms of labour market flexibility that can benefit employers as well as distinctive groups such as high skilled 'itinerant' workers, the experience of much non-standard work is largely negative". The burden of flexible working and of risk and uncertainty falls disproportionately on many of the 20 per cent of UK employees not in full-time regular forms of employment (Green, 2006; Kalleberg, 2009). Evidence from the OECD (2015) is clear – non-standard workers are worse off in most aspects of job quality (paid leave, sick pay, training opportunities and career development) and non-standard working fuels inequality and income disparity (OECD, 2015; ONS, 2014). Their disadvantaged position is not unconnected to their more limited access to protective employment legislation and their lower likelihood of being covered by collective bargaining. While job security remains the most valued aspect of work in many countries (Munõz de Bustillo, Fernández-Macías, Antón, & Esteve, 2011), non-standard working is inherently more contractually insecure.

Demands for flexibility and other developments in management practice, frequent organisational change, increasing performance expectations, closer monitoring and stronger sanctions for underperformance can generate anxiety about valued job features – what Gallie et al. (2016) term 'job status insecurity' and which, in their UK survey, is reported by at least 38 per cent of respondents and which is increasing, even when controlling for personality characteristics. Those in lower class/occupational positions were most insecure as the costs of internal flexibility fell most heavily on those at the bottom.

While there is little doubt that businesses may benefits in the short term from a range of flexible practices, there are competing arguments as to whether flexibility improves productivity, but as we reported in Part One, it is unlikely to encourage innovation (Kleinknecht, 2015).

4.3 Social partnership and workplace governance

Trade union organisations, and STUC in particular, have been key players in the pursuit of fair and innovative work in Scotland. Scottish Government has also adopted a constructive relationship with unions. Support for union-led learning has continued for almost two decades, recognising the role that unions play in the skill formation of learners in the workplace, especially non-traditional or difficult to reach learners. Strongly developed partnership-working in the NHS has been enshrined in staff governance structures underpinned by legislation. Both the previous Scottish Executive and the current Scottish Government were/are signatories, with STUC, to a Memorandum of Understanding that supports co-operative and constructive working.

This approach by the Scottish Government is in sharp contrast with the approach of the UK Government. In November 2013 the Secretary of State for Business, Innovation and Skills and the Minister for the Cabinet Office commissioned an Independent Review (the Carr Review) into the Law Governing Industrial Disputes focussing on how the existing legal framework did and should regulate tactics in industrial disputes. While the Carr Review ultimately failed to deliver any recommendations for change, by contrast the Scottish Government commissioned an independent review (Working Together Review, 2014) in 2014 to consider the evidence on trades unions' constructive contribution to workplace practice. The Working Together Review (WTR) Group combined (former) government, employer, union and academic members and civil servants in a broad partnership model of activity, and delivered a series of recommendations in 2014, including the formation of a stakeholder body, to influence workplace practice and governance. These recommendations were largely accepted by Scottish Government and bore fruit in the establishment of the Fair Work Convention (see Section 7 below).

Again in contrast with the UK, while the Westminster government has sought through the Trade Union Act 2016 to legislate in areas that trade unions believe will constrain their activities and impact, the Scottish Government voiced significant opposition to the Bill on its route through Parliament and sought significant concessions from the UK government on aspects of the Bill.

4.4 Innovation

There is a voluminous literature that highlights the nature, distribution and impact of innovation. Focussing on the nature of organisational innovation, researchers distinguish between *technical* innovations, which relate to goods, services and production process

technologies, and *administrative* innovations, which relate to organizational structure and administrative processes that influence the management of organizations (Damanpour, 1991). Mainstream innovation studies concentrate heavily on technical innovation in the form of new goods and, to a lesser extent, services, with particular emphasis on new product development (NPD) in hi-tech industries such as electronics, energy and biotech, numbers of patents and with R&D spend. Non-technical innovations are variously described as administrative, organisational, social or, in recent debates, workplace innovations.

Further distinction is often made between *product* innovations (innovations in the content of goods and services) and *process* innovations (the means of delivery of goods and services). Process innovations may include initiatives such as six sigma, lean, and other clearly defined improvement initiatives, or local ad hoc initiatives that may originate with managers or with employees informally identifying and implementing changes that bring about improvements. However, the distinction between product and process innovations is blurred, particularly in services where the consumer's experience of the service is often inseparable from the process through which it is delivered. Process innovations can thus play a role in the service sector innovation, but need to be accompanied by appropriate organizational innovations (Evangelista & Vezzani, 2010).

While any firm can innovate, research highlights that innovation is not distributed evenly across the economy – the majority of UK firms are not particularly innovative and roughly 20 per cent of firms are responsible for most innovative activity (Coad et al., 2014). The UK has typically been classed as an 'innovation follower' within the four-category Innovation Union Scoreboard reports. Across the various innovation dimensions, 'innovation followers' tend to trend around the EU average – scoring slightly above or below. In the 2014 Innovation Scoreboard report, the UK was scored at an aggregate level in 8th position and above the EU average following Belgium, the Netherlands and Luxembourg in the 'innovation followers' category. The 'innovation leaders' category continues to be dominated by Finland, Germany, Denmark and Sweden (European Commission, 2014). While the UK has tended to lag behind its EU counterparts in previous innovation surveys, within the UK, Scotland lags behind Wales and England in terms of the number of 'innovation active' enterprises (Department for Business, Innovation and Skills, 2014)

This begs the longstanding research question of why some firms innovate and others do not, particularly since innovation appears to generate positive impacts. Studies have

shown that firms that innovate do better than those that do not and that innovation drives productivity growth (Department for Business, Innovation and Skills, 2011). Firms that undertake complex innovation (both technical and organisational) gain a clear competitive advantage compared to those that undertake only technological innovation (Evangelista & Vezzani, 2010). It has also been noted that the economic impact of innovation type varies by sector: pure technological innovation (product and/or process) had a positive impact in the manufacturing sector, but not in the services sector where organisational innovation is also required to bring about successful business improvement.

Over a third (37 per cent) of SMEs responding to the 2013 UK Innovation Survey engaged in one or more type of wider non-technical innovation, relative to 39 per cent of large firms (Department for Business, Innovation and Skills, 2014). SMEs are less likely to have engaged in non-technical innovative activities, with the least likely form being changes to the ways external relationships were organised.

Innovation is crucial to improving productivity, performance, competitiveness and growth, as well as living standards. Innovative activity can and does occur across industries, and it is often collective in nature – involving interactions between many different actors, it can be cumulative over time and involves a degree of risk and uncertainty (Department for Business, Innovation and Skills, 2011). Notably, innovative activities do not solely rely on entrepreneurial actors but are shaped by a broader *innovation system* in a particular economy (Department for Business, Innovation and Skills, 2011). This *innovation system* involves the connected set of organisations (firms, universities, financial institutions) and institutional factors (including laws, regulation and infrastructure). These organisational actors and institutional factors interact to shape the environment in which specific organisations and individuals innovate and produce. How the environment is structured and functions influences the incentives to behave in particular ways and the range of opportunities available.

The innovation system in Scotland is complex, with many different organisations, both public and private, involved in the development and diffusion of innovations. A report in 2006 mapped the main components of the system (Roper, Love, Cooke, & Clifton, 2006). While some of the names of bodies have changed, the system remains broadly similar. Some of the bodies involved in policy development and delivery are organized at a broader EU level (for example, the European Commission, which oversees sources of innovation funding such as EU Structural Funds and EU Framework Programmes),

some at the UK-level (notably through UK government departments such as the Department for Business, Innovation and Skills) and some at the level of the devolved Scottish Government. Within Scotland, bodies include the Scottish Government and the Scottish Science Advisory Council, which are involved in policymaking, and Scottish Enterprise and Highlands and Islands Enterprise, which oversee the formulation and delivery of policy. Other bodies aim to direct and facilitate research and development including Enterprise Areas, the Scottish Higher Education Funding Council and private equity providers. There are then the performers of innovation (private companies, including both locally owned and foreign-based companies, higher education providers, and other publicly funded bodies such as the NHS). There are also institutions set up specifically to facilitate diffusion of technologies, such as the Innovation Centres mentioned above, Higher Education technology transfer organisations and science parks and incubators. All these bodies help to shape the innovation agenda within Scotland. Many, if not all, place a strong emphasis on new products with a particular focus on new technologies and manufacturing. The innovation landscape is thus fragmented and can be difficult for organisations to negotiate.

Although the drive for new products remains high on the agenda in innovation in Scotland, recent initiatives suggest a broader emphasis. For example, the *Scottish Manufacturing Action Plan*, launched in February 2016, talks broadly of the need to invest in "product, process, service and workplace innovations" (Scottish Government, 2016). However, a strong emphasis remains on the role of technology with a desire for further investment in skills through not only investing in attracting new employees but also enhancing the skills of existing employees to address the growing capability requirements in digital manufacturing. Likewise the circular economy initiative *Making Things Last* (Scottish Government, 2016) requires the development of new skills in manufacturing and design to support the move to reduce waste. Within the realm of innovation policies, many initiatives concentrate on specific areas, emphasising technology solutions. The circular economy initiative, for example, is concentrated in the areas of food and drink, energy, construction and remanufacture. Similarly, much attention is paid to creative sectors that often employ a small fraction of the workforce. For example, the Gaming industry is often cited as an example of a success story, but in 2014 it employed just over 1,000 people in roles directly attributed to the gaming industry, and supported a further 1,920 people in indirectly related roles (TIGA website figures, 2014). There is less evidence of policy initiatives in service the service sector, despite the crucial role that services play within the Scottish economy. *What Works*

Scotland (Sheill-Davis, Wright, Seditas, Morton, & Bland, 2015), an evidence review, considers the mechanisms by which successful innovations can be adapted by and diffused to other users, and takes some cognisance of the diffusion of innovations in the service sector. Nevertheless, in short, large swathes of the Scottish economy, and in particular the service sector, have no central role in much of what is being debated around innovation.

Over the last decade in the EU, there has been a growth in support for non-technical, organisational innovation. Despite the growth in this space, funding priorities have not significantly changed in any EU country and remain strongly focussed on R&D and scientific and technology research (European Commission, 2013). An examination of UK government approaches to innovation shows an emphasis on innovation that fits with an agenda of 'big science', through initiatives such as Catapult Centres that aim to concentrate innovation in specified scientific and technology fields such as precision medicine and oil and gas, and underpinned by an emphasis on technology transfer. This centralised provision concentrates innovation on particular forms of technology and in particular sectors that are regarded by governments as important to economic development. The Scottish Government has supported similar initiatives through Innovation Centres.

Mainstream approaches to innovation are, of course, important, but in recent years concerns have emerged as to whether they are sufficient. Debates on innovation have resonance with a relatively small proportion of firms. As we indicated in Part One, however, workplace innovation has the potential to widen the reach of innovation to a greater number and range of firms and organisations.

In mid-2013, a loose informal network, the Workplace Innovation Consortium (WIC) led by SCER at the University of Strathclyde was developed to investigate and disseminate practice on workplace innovation which encompassed attention to learning and skills, job quality and workplace governance, and how these linked to employer and employee benefit. The Scottish Government recognised the relevance of the WIC activity on workplace innovation in their response to the WTR (Scottish Government, 2015b). From 2014-2015 and with funding from the European Regional Development Fund, Scottish Enterprise, Skills Development Scotland and the University of Strathclyde, this loose consortium developed and delivered the *Innovating Works … Improving Work and Workplaces* project, an industry-facing collaboration to support mutual gains workplace collaboration and innovation (Findlay et al., 2015). WIC and *Innovating Works…* have

led discussions of workplace innovation in Scotland, which have begun to influence wider debates and practice on innovation, for example, contributing to a broad-based conception of innovation within the Scotland Can Do Innovation Forum.

4.5   An emergent consensus with Fair Work at its core

Taking these themes and concerns together, we have seen the emergence of a consensus in Scotland around the need to prioritise attention to the workplace and to the nature of work in discussions of business improvement, economic development, education and skills interventions and national economic and social performance. The emphasis on inclusive growth within Scotland's Economic Strategy reflects and reinforces the inextricable link between the economic and social spheres and between the linked priorities of improving competitiveness and tackling inequality. Fair work, as defined within the Fair Work Convention's Framework, is the key to delivering inclusive growth (Fair Work Convention, 2016; Scottish Centre for Employment Research, Forthcoming), and workplace innovation both contributes to the practices that constitute fair work and may help deliver the business benefits that support a sustainable commitment to fair work.

We have also seen the deepening of collaborative networks around fair work and workplace innovation and it is interesting to note the continuity of a core group of actors and organisations across the various networks outlined previously, many of whom are centrally involved in the FITwork project.

5 Stakeholder views on fair, innovative and transformative work

In Section 4, we look at how stakeholders perceive key elements of the FITwork agenda and the centrality of fair work which, as we have indicated, represents a culmination of more than a decade of workplace focussed research, activity and intervention.

5.1 Skills and skills utilisation

Skills policy, including the development of basic level and employability skills, alongside apprenticeships have been a cornerstone of skills and productivity planning in the UK (see the recent Business, Innovation and Skills Committee, 2016). This focus is not dissimilar to the focus of the European Commission's skills policy, including its recent refresh, which was criticised for again focussing solely on lower skills levels rather than also promoting opportunities in the middle of the skills spectrum (Nordmark, 2016). At a UK level, much emphasis has been placed on low levels of basic literary and numeracy, particularly in England and Northern Ireland, and on apprenticeship programmes (e.g. HM Treasury, 2015).

Developing the skills supply has additionally been put forward as key to increasing productivity in the UK Government's productivity plan (HM Treasury, 2015). Again however, the specific skills in focus are those at the lower end – in part as a means of moving people off of welfare benefits, or alternatively, focussing heavily on STEM and high skill areas of the workforce. Further, the UK Government "wants strong local areas and employers to take a leading role" in the post-16 skills systems (HM Treasury, 2015). While this may be beneficial, there is little to no connection between this and how these specific skillsets – and skills more broadly – are used and deployed in the workplace.

Employers maintain a strong interest in, and accord a strong priority to, accessing labour with the right skills, though there is contested opinion about whether employers' concerns over accessing skills in Scotland reflect real skills shortages and gaps. Particular issues have been raised in relation to the skills and competencies of younger workers, many of which were aired in the Commission for Developing Scotland's Young Workforce, and in debates on apprenticeships.

5.2 Bad jobs, good jobs, fair work and the double edged nature of flexibility

This section draws on both published reports from organisations such as the JRF, Oxfam, the Resolution Foundation, Citizens Advice Scotland and the Living Wage foundation, as well as in the unpublished consultation notes of the Fair Work Convention in 2015 (for organisations consulted, see Fair Work Convention, 2016) and responses to the Fair Work Convention 'Fair Work Framework'. Below, we present the central themes from these views and considers the implications for driving better, fairer work and more innovative, productive work. Where possible, the barriers to, and levers of, change are also considered.

There appears to be some consensus among Scottish stakeholders on issues that are driving discussions of improving workplace and labour market issues. From government, public policy organisations and employer organisations, there is an emphasis on lagging productivity with the connection made to poor wages, low levels of skills utilisation, and issues related to continued participation in the labour market (e.g. women following maternity leave).

Those who responded to the Fair Work Convention consultation were in little doubt that bad jobs existed in Scotland and they identified a lack of fairness across all 5 dimensions of the Fair Work Framework in terms of voice, opportunity, security, fulfilment and respect (Fair Work Convention, 2016).

While it was often difficult for stakeholders to articulate a full view of fair work, there were clear and consistent views on unfairness and unfair practices. Stakeholders emphasised an unequal distribution and access to jobs and fairness within work based on geographic distribution and social position (i.e. race, gender, ethnicity, ability, age and socio-economic status).

On the whole, there was support for a Fair Work agenda and an agreement that the fair work dimensions outlined by the Convention covered the important elements of work and workplace experience. There was also consensus over the need to address explicitly the shared rights and responsibilities of employers and employees, to find approaches that generated shared benefits and to encourage a broad range of stakeholders to build awareness, and encourage and support the development and implementation of fair work practices. Other organisations, such as ACAS, have also recently argued that productive workplaces require well-designed work, skilled managers, conflict management, rights and responsibilities, employee voice, trust and

fairness (ACAS, 2015). The ACAS approach towards productivity implicitly supports benefits for employees and posits positive employee outcomes for the organisation. They also place an equal emphasis on supporting and developing managers to manage in organisations in ways which include not only the management of technical parts of work, but also of people.

While employer representative organisations report labour flexibility as a strength of the UK and the Scottish labour markets, which should be preserved, others are concerned with the casualisation of labour, the insecurity and stability of hours and wages and the implications for in-work poverty and inequality. In connecting issues of income inequality and poverty wages to economic growth and productivity, it offers an imperative to employing organisations and businesses to think differently about the types of jobs they create and design.

Wages

Wages are a core element of fair work. Previous analysis for the Low Pay Commission has evidenced that the introduction and subsequent increases to the national minimum wage (NMW) from 1998 to 2004 found no significant evidence of impact of the NMW on any measure analysed that may have, on its own, influenced productivity (Bernini & Riley, 2016). They found some evidence of changes to the share of workers employed in routine, unskilled occupations and a greater share of people employed in professional occupation in firms more affected by the NMW, although they report that these findings should be interpreted cautiously. The NMW did not affect outsourcing practices, recruitment criteria or the provision of training to the organisations' main occupational group (Bernini & Riley, 2016). Organisations were also not any more likely to invest heavily in physical capital assets, nor did it increase the incidence of training among low-paid workers. For employees, there was no evidence that they changed their behaviours in terms of rates of absenteeism, workers' perceptions of effort exerted or the degree of discretion they had in their jobs (Bernini & Riley, 2016).

In the 2015 Summer Budget, the UK government announced the introduction of the 'National Living Wage' (NLW), a higher rate minimum wage for those over 25 years old from April 2016. The argument pursued in the implementation of the NLW follows that employers should contribute more to issues of low pay having underspent on training and better technology needed to boost productivity and in turn stagnating wages (The Economist, 2016). In response to higher minimum wage bills, the preferable response

from firms is to invest in productivity enhancing technologies and training or to find value-adding and more efficient ways of doing things (Thompson et al., 2016). "With record employment, […] the government believes that now is the right time to take action to ensure low wage workers can take a greater share of the gains from growth" (BIS, 2016b). The increase to the minimum wage floor for over 25s is also posited by the UK Government towards reducing the gender pay gap, due to the large number of women in low paid work (HM Treasury & BIS, 2016).

The NLW has, however, faced criticism from all fronts. From those concerned with issues of poverty and low pay, the criticisms include the inequity in offering higher rates for only those over 25 and the mislabelling of an increased wage floor that risks confusing with the voluntary Living Wage based on a calculated minimum income standard. The over 25 age threshold has led to concerns that the policy is age discriminatory (British Retail Consortium, 2016). Organisations have reported an intention to extend the higher minimum wage floor to all their employees, excluding trainings and apprentices.

Furthermore, the promised 'pay rise' for low paid workers will not be felt by all workers earning the increase due to the successive reforms to tax and benefits announced by this and the previous government (Browne, 2015). The increase in the minimum wage in the form of NLW is likely to benefit some workers, although not the poorest (Browne, 2015; D'Arcy & Kelly, 2015). The result is a potential real terms decline in income for the poorest workers (D'Arcy & Kelly, 2015).

The NLW has been heavily criticised by business organisations as being too large of an increase and being unaffordable, particularly in sectors such as retail, care and among smaller businesses (CBI, 2016; FSB, 2016a). In an FSB members' survey from October 2015, 38 per cent of respondents expected the increase to negatively impact their business compared with 6 per cent reporting they expected a positive impact (FSB, 2016a). While not reported, this leaves over half of respondents either replying they do not know or are not expecting an impact in either direction. FSB reported that around half of their members pay above the NLW levels, with those who do not operating in competitive sectors with tight margins (FSB, 2016b). The pay increase is argued to "prompt employers to make the investments that they otherwise do not necessarily feel that they would need to make" (Nick Bole, Minister of State in The Economist, 2016) as a means to increase productivity and growth. However, from the perspective of business representative organisations, they have argued that the increases in pay are untenable

and that in many industries, "the only sustainable way to deliver real long-term wage growth is to improve productivity" (FSB, 2016b). This circularity presents a catch-22 for policymakers to respond.

Setting aside the successive rounds of cutback of in-work benefits in nominal and real terms, the NLW put forward simultaneously with business rate reductions. This was posited as a trade off – the cuts to stimulate and facilitate businesses being able to afford the increase in the minimum wage paid to those over 25. However, despite the claim that tax relief would be used to off-set increases in pay for minimum wage workers over 25, since its implementation in April 2016, the IPPR reports that there has been some 'tentative evidence' that some employers are choosing to offset through other forms of reductions in their labour costs, for examples reducing overtime pay, paid breaks and refreshments (Thompson et al., 2016)

While there seems to be little opposition to the principle of paying workers a living wage from business representative organisations, concerns have been expressed related to the feasibility of higher pay packages and the knock-on effects for the pay structures in the organisation. This is particularly the case from business representatives in low margin sectors, for example retail. The increase in the minimum wage floor also follows recent changes to employers' pension contributions for workers through auto-enrolment.

The Scottish Government and public agencies have also placed a strong emphasis on employers' paying the Scottish Living Wage, a voluntary living wage that is more closely aligned to minimum income standards and is higher than the NLW. Paying workers the Scottish Living Wage (herein the Living Wage) is the only named compliance requirement of the Scottish Government's Business Pledge[1] (http://scottishbusinesspledge.scot). The policy priority of fairness and fair work as a means of tackling persistent social problems, such as inequality, and economic growth

[1] The Scottish Business Pledge has three parts. 1) That all employees (excluding Apprentices and those under 18) are paid the Living Wage or above. 2) That two of the other pledge elements are currently being delivered. 3) That the organisation will make a commitment to take up the other pledge elements in due course. The nine elements of the Scottish Business Pledge are:
  1. Paying the living wage
  2. Not using exploitative zero hours contracts
  3. Supporting progress workforce engagement
  4. Investing in Youth
  5. Managing progress on diversity and gender balance
  6. Committing to an innovation programme
  7. Pursuing international business opportunities
  8. Playing an active role in the community
  9. Committing to prompt payment

are offered juxtaposition to the continued austerity agenda of the Westminster Government (Scottish Government, 2015a).

Challenges in implementing fair work

There was wide-spread recognition of the challenges and barriers to implementing fair work particularly given welfare and social security policy, procurement policy, supply chain and delivery partner pressures and wider labour market changes (e.g. demographic changes to the workforce).

Beyond these constraints, unions and employee representatives, employers' organisations and consortia and civil society organisations identified challenges in management practices that hindered implementation. In particular, these stakeholders raised challenges of managing in economically constrained, global and fast-changing environments, with rapid advancements in technology, perceived uneven access and information about available support services and among multi-national firms relative to national large and SME organisations.

Stakeholders identified concerns with the role of management, citing concerns over competence and integrity (more prominent in some sectors than others) and a tendency for 'command and control' forms of management that were often inconsistent both with fair work and with best supporting effective performance.

The inability to deliver fair work may be due to financial constraints imposed by external factors (a concern expressed by social care and third sector organisations), business model decisions or other reasons. The consequences of unfairness were ones that were disproportionately affecting particular groups of people, with implications reach beyond the workplace. Beyond the challenges identified above, it was recognised that reaching those employers not currently engaged with this agenda would be a significant barrier to implementation. That said, the move towards fair work was seen as a long-term agenda with the potential to crowd out bad practice.

Employers' organisations and accreditation bodies have argued that there is a need to support employers to understand and measure the benefits of fair work practices for their organisations. There was a recognition from service providing public agencies and business organisations that early intervention would be needed to support employment, issues of equity, and the development and implementation of fair work policies and practices. Implementing significant changes to how things were done in organisations

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would require time. Many employers, however, were seen as tending to delay responding to challenges and seeking external assistance. Furthermore, many identified that employers' often do not know where to go for assistance and that there was seen to be patchy access to supports depending on the size and type of organisation. These were seen as barriers to intervening and supporting employers. Lastly, many stakeholder organisation identified a need to hold 'bad' employers to account – often through a process of 'naming and shaming' as had been done with non-compliance with the minimum wage. However, there was also a need to educate and support employers, not penalise. Practically, enforcement would be challenging to implement.

Facilitators of fair work

The public sector, as an employer, but also as a procurer of goods and services, was seen as a significant driver of change towards fairer work. This was in terms of its purchasing and negotiation power through, for example, procurement practices, but also as a large employer across Scotland. Large organisations also have the potential to play a similar part in their role as purchasers and supply chair or delivery partners.

Given the potential of fair work for improving the economy as well as health and social equality, stakeholders emphasised the need for collaborative implementation of the Fair Work Convention framework, with roles for employers, employees, unions, civil society organisations, regulatory and accreditation bodies and government, policy makers and public agencies in playing their part in making fair work a reality.

While there appears to be little appetite on the part of some stakeholders for additional minimum standards through legislation or formal accreditation (from Fair Work Convention, 2016 consultations), this may reflect the limited powers available in Scotland to legislate in this sphere. Notwithstanding this, a voluntarist approach was widely viewed as preferable in order to make fair work responsive to context, but this leaves the issue of how to bring on board those unconvinced by or unable to deliver fair work.

In how organisations can manage for, and support, fair work, stakeholders reported both a need for an evidence base on the case for fair work, but importantly, the need for employer-to-employer learning and ongoing support on how to improve or implement more fair business models, practices, policies and wage distributions.

5.3   Innovation

The OECD has noted that innovation is crucial to both competitiveness and national progress, but many countries have seen little improvement in productivity despite the opportunities offered by globalisation and new technologies (e.g. OECD, 2010a, 2010b). Innovation comprises improved processes to deliver greater efficiency and/or effectiveness and new business models to deliver goods and services.It recognises this may be particularly important for organisations in Scotland that do not conform to the view of innovators as developers of high technology goods, and that might instead benefit from other forms of innovation. For example, craft industries in which the brand is inextricably linked with traditional methods of manufacture (e.g. the manufacture of Harris Tweed) would not benefit from radical process innovations. Instead, different uses of the output, different markets and different ways of organising can, and have been, employed in such industries.

The current innovation landscape in Scotland is fragmented in its delivery, heavily committed to technology-based innovation in particular sectors, and possibly overly simplifies the role that technology can play across Scottish employers in helping to deliver enhanced productivity. As Damanpour (2014) notes, "the old paradigm of industrial innovation based on product and process innovations needs to be augmented by a new paradigm of industrial innovation based on innovation where the importance of various modes of non-technological innovations is also recognised". Although Damanpour discusses what he terms "management innovations", the innovations that can arise from workers at all levels of the organization should be considered as an essential part of delivering fair, innovative and transformative work.

A recent position paper from the CBI (2015b) identified the major strengths in UK innovation to be a *favourable tax landscape* (consistent with the OECD's requirement for financial incentives to support research) and the fact that the UK has a *strong research base* in its universities: the UK is ranked second in the world for the quality of its scientific research institutions and fourth in the world for university-business collaboration (World Economic Forum, 2016). However, in other areas of the "UK innovation ecosystem" *business investment*, *taking ideas to market* and the *broader business environment*, the CBI describes the position as "can improve", and *talent* is ranked as weak, with skills shortages noted in the area of science, technology, engineering and maths that "equip people to develop the products of the future" (CBI, 2015b). Among the successes noted by the CBI is the development of an aerospace

technology cluster in Glasgow. The report has, though, little to say on the people who deliver innovation, with the exception of the recommendation that businesses should invest in increasing capabilities in leadership and management "to drive the culture of adoption successful innovation in companies".

Yet in its discussion of the its employment trends survey, the CBI (2015b) comments that businesses must lead the way in creating inclusive and engaged workforces to enable companies to improve productivity. However, 63% of respondents reported problems in increasing the diversity of their employees, including the fact that there are insufficient people from diverse backgrounds in the industry or profession (59% of respondents), "working culture" (19%) and stereotyping (17%) as issues. The desire to increase employee engagement was regarded as a major priority by 35%, but this sat alongside the need to contain labour costs, also regarded as a priority by 35% of respondents. The Federation of Small Businesses on its website highlights creating high quality jobs as one of its key policies, noting that small companies are "more likely to play a social as well as economic role compared to large companies…. Yet many small firms struggle to overcome barriers to recruitment, especially first-time employers". Innovation more broadly is not as prominent in their discussions, though a recent report (Hamill, 2015) considers the threat posed by "digital disruption" to small businesses in Scotland, including the fact that most small businesses are not adequately resourced to deal with the disruption that is likely to occur as a consequence of the development of digital technologies, and they particularly lack the skills to exploit the developments in, for example, the sharing economy enabled by digital technologies. This may put Scottish SMEs at a competitive disadvantage if the skill level of employees is not increased.

6   Charting and evaluating progress and challenges

In Section 4, we summarise and evaluate these developments in debates around workplace practice, drawing on broad evaluation criteria adapted from Payne's (2012) evaluation of skills utilisation, and highlight contemporary challenges.

We have outlined above the developing debate on fair and innovative work in Scotland and the important role of collaborative networks in that development. In recent Scottish Government policy documents, the levers for productivity are shifted towards the workplace and the roles and responsibilities of employers (Scottish Government, 2015a). Workplace innovation is presented as a more far reaching solution, encompassing new ways of collaborative, inter- and intra-organisation/business working that will better utilise scarce resources in a time of constrained public finances.

In arguing that the expansion of training and education had failed to deliver higher productivity and an innovative, more competitive economy for Scotland, Findlay and Warhurst (2011) argued that "It is time, therefore, for policy to acknowledge that what happens inside firms matters and appreciate that whilst direct intervention by government inside this 'black box' may be neither feasible nor desirable, there is a role for government in establishing the infrastructure necessary for a broad-based approach to innovation".

Progress has undoubtedly been made over the last decade but the work to be done is considerable. In recent Scottish Government policy documents, the levers for productivity are shifted towards the workplace and the roles and responsibilities of employers (Scottish Government, 2015a). Workplace innovation is presented as a more far reaching solution, encompassing new ways of collaborative, inter- and intra-organisation/business working that will better utilise scarce resources in a time of constrained public finances.

In evaluating the SULG skills utilisation projects, Payne (2012) posed a series of questions as to how progress in relation to the skills utilisation agenda might be evaluated. As the debate on skills utilisation has expanded out to a broader debate on fair and innovative work, it is useful to draw on these questions to evaluate how far Scotland has progressed in terms of workplace policy and practice and what key challenges remain. We address each of these adapted questions in turn below.

7 Policy objectives

Payne (2012) stressed the importance of understanding precisely the policy objectives sought. This question can be answered more clearly in Scotland at this point. The overarching policy objective appears to be inclusive growth which improves competitiveness while tackling inequality, with fair work as the link between these latter two pillars of Scotland's Economic Strategy. Not only is this enshrined in Scottish Government policy but it is now central to the delivery objectives of public agencies and public bodies. A clear agenda has, therefore, been set and disseminated.

Much more needs to be done, however, in specifying particular measures of progress. This will be challenging. Blunt measures and rigidly imposed targets can divert attention from the overarching objective. Moreover, distinct agency and public body targets may undermine the strength of collaboration needed to secure this objective. The approach to timescale is also complex and addressing the long standing labour market and workplace challenges in this report will take time. The Fair Work Convention has set itself a 10 year timescale and is currently working to begin to define measures of progress, but the Convention is clear that it is supporting a long-term agenda. In summary, there is now a supportive policy environment for business and workplace change but there is a long way to go.

The role of public investment

Payne (2012) suggested that distinct programmes (in his case, on improving skills utilisation) should be driven by an expanded publicly funded programme as part of a broader approach to business improvement and innovation policy which pays attention to work organisation and design. There is no doubt that progress has been made in this regard and that the debate in Scotland around issues such as skills is located within an expansive narrative around fair and innovative work and its relationship to business improvement, economic prosperity and societal well-being.

This progress is reflected in a range of public investments to support FITwork. The FITwork initiative outlined in this report brings together key partners and investment to provide the underpinning evidence for fair and innovative work and, through its governance group comprising senior government, research and policy stakeholders has an ongoing role in further developing strategies to support the FITwork agenda. Also at a strategic level, the Scotland Can Do Innovation Forum has explicitly adopted a broader

approach to innovation by acknowledging the potential of workplace innovation and entrepreneurship in the innovation eco-system.

The public agencies lever significant influence through their business, skills and education support services and have a crucial role to play in using that leverage to orient business activities towards fair and innovative work. We have already seen the inception of a workplace innovation service at Scottish Enterprise charged with the delivery of business support for workplace innovation. In summary, progress has been made in opening up innovation discussions to focus more heavily on issues relating to people, work and employment, new business support services have been introduced and these will provide a preliminary insight into issues of implementation and outcomes.

Engaging employers

Payne (2012) suggested that full cost recovery of skills utilisation support services could not fall on employers, particular where employers were unconvinced as to their merits and the outcomes they might produce. The same is the case for FITwork activities and support services, and Payne's solution of public funding of exploratory phases seems appropriate with the option of employers making a contribution as the business benefits become clearer.

Fair and innovative work is a relatively new debate and, on the evidence of the Innovating Works pilot project, is a challenging 'sell' to employers. However, proof of concept during the Innovating Works pilot and the successful engagement of the case studies in this pilot has shown that, with expertise and resource to pump prime activity, employers can be successfully engaged with the FITwork agenda. Broadening and deepening that engagement is, of course, still to be achieved.

Engaging researchers

Payne (2012) raised three main concerns over whether researchers would engage with the skills utilisation agenda and activities which may also apply to the FITwork space: whether researchers experienced in action research were available in Scotland; whether researchers could be incentivised to engage with this work given the pressures they face in relation to the Research Excellence Framework, and whether researchers would want to engage in action research with businesses in the absence of strong social partnership arrangements that might protect against workplace change dominated by management priorities alone.

While there are legitimate concerns about the availability of expert action researchers in Scotland, progress has been made in this regard by the establishment of the Scottish Centre for Employment Research/Innovating Works workplace innovation researchers' network, comprising researchers from different disciplines and universities across Scotland linked by a broad shared interest in workplace research. While Payne argued that few business schools were involved in the skills utilisation agenda, Strathclyde Business School has developed and led the FITwork agenda, engaging researchers from other business schools in the process. There are legitimate concerns within the research community about the ability to balance action research with the requirement for high quality publications, although this has in part been aided by the higher priority given to research impact in the 2014 REF. But other challenges remain in terms of competing priorities between researchers and other stakeholders, including those in the policy community, conflicting perspectives on strength and nature of evidence and potential discontinuities in timescales for outputs. We argue that these challenges can be resolved by practicing the principles of fair work – shared responsibility and an emphasis on generating mutual gain not just for employers and employees but also across researchers and other stakeholders. On Payne's last concern, the engagement of STUC in the FITwork initiative and of unions more generally in the FITwork agenda makes action research involving multiple partners more likely, but this will still require constructive engagement by employers and managers to be effective, and crucially, will require effective employee voice in the process to be worthwhile.

Measurement challenges

There are significant measurement challenges in relation to charting the progress of fair and innovative work and an inevitable tension between soft measures based on subjective feedback and hard measures such as changes to productivity, efficiency and service quality. Both are relevant measures, and there is much work to be done to arrive at agreed dimensions and measures. This tension continues in countries such as Finland where support for workplace innovation has a much longer history. Measures such as the number of businesses paying the Living Wage Accredited living wage or signing up to the Business Pledge are attractive but limited – of greater value are measures in context and over time and that can also shed light on how improvements have occurred. There is a need to further develop measures and find effective and cost efficient ways of generating data and we have designed the FITwork tool (referred to in Section One) with this in mind.

Balancing expectations

Payne (2012) cautioned against 'over-selling' what a small programme of interventions can, on its own, can contribute to Scottish economic performance, and this caution is also important in relation to FITwork. While the scale of public investment in fair and innovative work eclipses the investment in skills utilisation projects, expectations in relation to these investments need to be clear and managed around their role as learning exercises and early drivers of change, rather than deliverers of wide-ranging change.

Traction, learning and embeddedness

Of course, to be effective, the FITwork agenda has to gain traction in businesses and organisations, spread lessons and learning and become embedded into practice, policy and research. Working with interested organisations is an important first start. Supportive learning networks within and across stakeholder groups are also crucial but difficult to achieve and sustain, and while employer networks are often seen as key, the evidence of their existence, effectiveness and sustainability is much more limited. Broadening and deepening engagement within differing firm and industry context is also important to learning lessons in context and to learning from difference. Year 2 of the FITwork project is designed to deliver this through two industry studies (in social care and in food and drink) and through a study of the Scottish Business Pledge signatories as a self-selected group of employers who, a priori, have committed to engaging in a range of fair and innovative activities. Insights will also be generated from Scottish Enterprise's Workplace Innovation Pilots where contractors will provide innovation support to a small group of companies. Beyond this, the challenge of scaling interventions and impact will remain, but cannot be resolved in advance of FITwork gaining greater traction and generating stronger lessons about supportive interventions.

Payne (2012) raised concerns about mutual learning across different stakeholder groups, particularly in terms of how research might be developed from action research interventions. There is significant potential for mutual learning across the research, policy and practitioner communities and genuine collaboration is the likely route for achieving this. Such collaboration is and will be challenging given the different experiences, contexts, incentives and constraints faced by the various stakeholder groups. To date and through the WIC, Innovating Works and FITwork projects, strong collaboration has been built through co-investment, and shared investment of time by

senior stakeholders. Recognition of the distinct contribution of stakeholders and the benefits of partnership working in addressing difficult challenges is key to progress in this regard.

The need for a strong supportive policy consensus

This takes us to the need for a strong and supportive policy consensus that can drive the development of knowledge, understanding and intervention over time. Payne (2012) argued in relation to skills utilisation that the "challenge is to weave the programme into the tartan of Scottish skills and innovation policy". Significant progress has been made in this regard. This is not to overestimate support for the FITwork agenda nor to underestimate challenges in progressing it. But a more holistic and integrated agenda has been woven into the fabric of policy with a core emphasis on the need for fair work and for workplace practice that can support and deliver it.

The recent policy interest in workplace innovation and fairness – both in terms of fair work and a fairer Scotland – has been positioned as an alternative frame for understanding and tackling Scotland's (within the context of the UK) lagging productivity, stagnating real wages, poor social mobility, inequality and deprivation, and the challenges of low skill, low paid work. In the Scottish Government's 2015-16 *Programme for Government,* economic growth and productivity are positioned to be of equal importance as tackling inequality. This presents an important shift from viewing economic growth and inequality as separate, unconnected societal issues and is a major step forward for Scotland. We argue that Scotland is beginning to develop policy approaches, support and interventions that, as requested by Keep and Mayhew, "address structural deficits within the economy and labour market, via industrial policy and business improvement … policies to improve job quality and progression, workplace innovation, employment relations and wage setting mechanisms" (Keep & Mayhew, 2014, p. 770).

8   Embedding FITwork – collaboration and alignment

In Section 6, we outline some of the ways in which contemporary challenges might be addressed through collaborative activity, shared priorities and measures and the alignment of analysis, strategy and delivery.

A reflection on stakeholders' views of debates around fair work and workplace innovation provides compelling evidence of a strong, emerging consensus on the need for policy action to support progressive workplace practices. We have seen above that this is, to some extent, driven by a shared understanding of the key challenges faced by the Scottish economy: a need for action to improve productivity and competitiveness; the potential to improve job quality and access to fair work across a range of sectors; the understanding that intervention in the workplace is important to addressing in-work poverty and broader problems of inequality; and the potential value of progressive workplace practices and workplace innovation in framing action on all of these issues.

This shared appreciation of the need for action in the workplace has become more expansive and ambitious, and has encouraged collaborative activity. Some of this work initially focused on workplace learning and improved skills utilisation – a welcome acknowledgement by relevant stakeholders of the potential for both better skills use and upskilling in many sectors of the Scottish economy. This has since morphed into a much more holistic, shared understanding of the sort of interventions required to support fair and innovative work. Alongside a (necessary and welcome) emphasis on 'mainstream' innovation strategies, Scottish policy stakeholders have increasingly focused on the value of an inter-connected agenda around fair work (with the work of the Fair Work Convention and initiatives such as the Scottish Business Pledge crucial in embedding this agenda) and workplace innovation (where partnership co-funded *Innovating Works…* and *FITwork* projects have been important in taking the concept of FITwork to a wider – if still small - audience).

Both fair work and workplace innovation now form part of Scotland's Economic Strategy and are seen as key building blocks within mutually supportive actions to reduce inequality and improve competitiveness and productivity. The Fair Work Convention has accepted our FITwork framework as a means of engaging with the inter-connected components of fair work and workplace innovation. We believe that the FITwork framework – and the diagnostic tool that we have developed to operationalise its dimensions – provides a solid foundation for continuing discussions of the challenges around (and interventions to promote) fair work and workplace innovation. Only by

exploring in context the factors that facilitate, limit and represent fair, innovative and transformative work, can we hope to evidence the potential benefits for employees, organisations and wider economy and society, and inform Scotland's continuing consensus on the value of progressive workplace practices.

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