

Workplace Reform and International Competitiveness: the Case of New Zealand

Peter Enderwick*

The Porter Report recommends New Zealand businesses pursue a strategy of high value added through upgrading competitive advantage. Central to such a strategy is the reform of workplace relations. This paper posits two possible models for reform: one based on Japanese type practices; the other building on the Australian reform experience. The discussion suggests the need for reforms based primarily at the level of the enterprise and conducive to behaviour which assists improvements in quality, innovation, product differentiation and flexibility.

Introduction

The publication last year of the Porter Project report (Crocombe, Enright and Porter, 1991) has focused attention on the question of New Zealand's international competitiveness. The report highlights New Zealand's poor relative economic performance which manifests itself at the most general level as a decline in the relative standard of living, as approximated by per capita GDP, from the world's third highest in 1950 to twenty-third by 1987. More specifically, the economy has also experienced low productivity growth, rising unemployment, declining relative wages, balance of payments problems and very high levels of foreign debt.

According to the Porter Report the reasons for this poor performance are both structural and institutional. Structurally, New Zealand's export sector is overly specialised with a very high degree of dependency on a narrow range of primary commodities. Within these industries we are competitive only in the low value added stages (production, harvesting, slaughtering) and we have failed to capture the more profitable stages (adding value through branding and downstream activities like marketing, servicing, etc.).

Institutional factors influencing New Zealand's poor performance include low levels of R&D expenditure, capital market weaknesses, low levels of new business formation, low education participation rates, a relatively poorly qualified workforce and fractious labour relations.

The Porter Report recommends significant changes in both these areas in an attempt to create a new conception of international trade and business within New Zealand, one founded on a more sustainable basis than simply relative commodity costs.

The intention of this paper is to examine the strategic thrust of the Porter Report with a particular focus on its implications for workplace relations and the reform of current work practices. Section II outlines the idea of increasing value added, while the implications of this for corporate strategy are the subject of Section III. Options for reorganising workplace

* Professor, Department of Marketing and International Management, University of Waikato, Hamilton, New Zealand

relations to underpin a strategy of higher value added are considered in Section IV. Section V compares two popular alternatives in workplace reform, the Japanese and Australian models, in an attempt to identify a strategy consistent with the needs of New Zealand business. Concluding comments are contained in Section VI.

The move to a value added economy

The deregulation which has swept through the New Zealand economy has brought significant changes in business strategies. In large part the restructuring which has occurred since the mid-1980s is a response to the distorted cost and revenue positions created by a legacy of protectionism.

We can delineate three likely stages to this restructuring. The first is a commitment to rationalisation which manifests itself as labour shedding and plant closure in the private sector. The second stage, characteristic of a large number of New Zealand companies at the present time, is one in which the view that cost containment is the key to survival prevails. With continuing slow growth, increasing competition and government disengagement it is not surprising that New Zealand companies see cost levels and control as the most important factors affecting business success (Akoorie and Enderwick, 1991; Task Force on International Competitiveness, 1989). The third stage will be a recognition that a cost position is rarely sufficient for long term survival or success. For an economy like New Zealand a more robust competitive position must be built on productivity, quality and product differentiation.

It is the latter stage, and a strategy of higher value added, that the Porter Report advocates. More than 70 percent of New Zealand's export earnings come from basic commodities which are subject to only minimal processing. While the export of unprocessed commodities offers advantages of low marketing cost and high levels of substitutability between markets, it also brings a number of significant problems. Commodity markets are volatile, small suppliers like New Zealand tend to be price takers, high levels of competition and minimal entry barriers mean margins are narrow, competition is based primarily on price (and cost) and there is little opportunity for building product loyalty or market knowledge. The move towards high value added and differentiated products is a way of overcoming these problems.

However, the Porter Report offers very little indication of how such a strategy could be achieved. The idea of value added seems to encompass three distinct, but related, developments. The first, and the most feasible, is the adding of value through further processing of exports like timber, meat and dairy products. Such a move could add significantly to export earnings. In forestry for example, increased processing and marketing of wood products could increase forecast export earnings by \$1 billion by the year 2000 and an additional \$2.1 billion by 2010 (MORST, 1991).

The second involves the fostering of industry clusters built around areas of existing strength to encourage greater local sourcing of inputs and the development of a broad skill base. A notable feature of many industries in New Zealand is their truncated development with an emphasis on largely unprocessed exports and very little indigenous development in related industries. This would be true of industries like computer software, engineering consultancy and venison. Some limited cluster development has occurred in industries like tourism, fishing, boat building and cut flowers.

The third, and most radical, alternative in added value involves the creation of

completely new competitive industries. Computer software is a recent but successful industry within New Zealand (New Zealand Market Development Board, 1988). Suggestions made a few years ago for the creation of an internationally competitive money market based in New Zealand are a good example of the difficulty of identifying potentially successful activities, particularly when these are unrelated to existing areas of strength.

Of these three strategies the most feasible is probably the first, increased value added by existing companies. There is some evidence to support this belief. A study of successful New Zealand exporters found that the likelihood of international success was positively related to investment in innovation and marketing activity (Trade Development Board, 1990). An analysis of overseas investment by major New Zealand companies suggests that those most likely to succeed build upon a strong knowledge base of domestic industry experience and overseas market awareness (Akoorie, 1991). This suggests the utility of an incremental approach to the internationalisation of business. This is least likely to apply to a cluster type development or to the creation of entirely new internationally competitive firms and industries.

Strategy of the value adding firm

The transition from a model of the cost oriented New Zealand company involved in minimal processing to one seeking to achieve high value added implies strategic changes at two levels. At the macro-level government policies have, since 1984, engineered a massive deregulation and liberalisation of the New Zealand economy. The principal elements of these policies have been the elimination of import licences and the reduction of tariffs, the abandonment of price controls, the removal of restrictions on foreign exchange and a liberalisation of policies with regard to inward investment, the development of a new competitive framework based on the 1986 Commerce Act and specific policies targeted towards individual industries and, in particular, the state sector.

At the micro-level those companies that have sought to restructure by increasingly adding value have focused on raising quality, innovation, product differentiation and flexibility. Through liberalisation of the economy New Zealand producers have been exposed to increased levels of overseas competition both abroad and at home.

One of the effects of international competition, and particularly Japanese competition, has been to establish product quality as the primary basis for competition. This has led to a new conception of product development and marketing. The relationship between price and quality has also changed. The Western view that higher quality means high cost and price has been disproved by Japanese producers who have demonstrated that higher quality can actually mean lower cost and competitive pricing. The elevation of quality has significant implications for operations management. Production goals, traditionally based on output maximisation, give way to a concern with optimising quality, even at the expense of quantity. Functional tasks such as quality control which, traditionally, take place upon completion of the production cycle are replaced by in-process quality control with employees assuming responsibility for quality.

Second, when a strategy of value added involves cluster development or the creation of new products or processes, innovation plays a central role. This is likely to necessitate significant changes in company organisation and management. A firm seeking to stimulate and commercialise creative behaviour will encourage cooperative behaviour and a long term

orientation carefully balancing both processes and results. The firm will be characterised by a high degree of risk seeking behaviour and the acceptance as normal of uncertainty, ambiguity and change. The successful innovative organisation will encourage group based achievements, multiskilling, equitable and flexible compensation schemes and broad career paths with the aim of fostering information sharing and risk taking.

The third area of significant change is marketing. For a firm pursuing a strategy based on innovation and quality as opposed to simply cost, there are strong incentives to invest in product differentiation and effective marketing. The size of New Zealand companies and limited opportunities for achieving economies of scale within New Zealand mean that many companies will seek international 'niche markets' where they can enjoy a degree of competitive shelter.

A niching strategy appears to comprise four crucial elements. First, niche marketing involves avoiding competition with marketers serving the larger or mass market. It implies targeting limited segments within a larger market. Because these segments have differing needs compared to the main market, a niche marketer can enjoy a degree of isolation. Second, a niche strategy necessitates an element of flexibility. Mass marketers may not be able to completely satisfy small segments of their market while satisfying the needs of the mass market. The flexibility of niche strategists enables them to adapt to fully meet the needs of more customised segments. Third, a successful nicher must develop a close understanding of, and relationship with, customers. In the extreme this relationship becomes one of 'supplying solutions' and constitutes a powerful disincentive to competitors. Fourth, the dynamic nature of markets means that niches can appear and disappear with considerable speed. Mass marketers can adapt products in modular form to better meet the needs of specialised segments. The need to clearly monitor market trends is a paramount one. Unfortunately, because niche marketers focus on limited market segments they may be oblivious to opportunities outside these segments or the evolution of broader market trends. Furthermore, since niche marketers avoid direct competition with mass marketers they may fail to study the competitive dynamics of both firms and markets.

The fourth area of change is in regard to flexibility. The pursuit of flexibility has been a primary motive in macroeconomic reform. Policy reform of the monetary and goods sectors of the New Zealand economy occurred at an early stage. More recently reform of the labour market has been justified on two principal grounds. The first is that the full benefits of deregulation will only be achieved if it encompasses all three major sectors, monetary, goods and labour. Thus, labour market reform is a necessary condition for successful reform in the rest of the economy. The second argument, which has received considerable support in Europe (Boyer, 1988) is that labour market reform is a desirable end in itself. Advocates of this argument highlight the faster pace, and lower cost, of recovery from recession which is achievable in an economy with a high degree of labour market flexibility (Blandy and Baker, 1988). Flexibility is a means of facilitating adjustment to changing business conditions and becomes a quasi-dynamic efficiency measure.

Flexibility has three principal dimensions. The first is numerical flexibility and relates to the movement of labour and the ease with which a firm can adjust the size of its workforce. It is along this dimension that most legislative and policy reforms at the national level are aimed. Second, there is functional flexibility which relates, at the level of the firm,

Table 1 Sources of labour market inflexibility, policy responses and corporate strategies

Type and Sources of Inflexibility	Principal areas of impact	Policy Responses	Corporate Strategies
1. NUMERICAL FLEXIBILITY			
Labour mobility	Non accelerating inflation rate of unemployment (NAIRU)	Reduction in real level of welfare benefits. Redundancy funds. Superannuation transferability.	Intra-firm mobility. Labour displacing investment.
Legislation/union rules on job security	Ease of adjustment within the firm.	Easing of legislative constraints. Review of the Hale decision. Legislation facilitating the reform of union-management bargaining.	Core/peripheral workforce. Temporary/part-time employment. External sourcing.
2. FUNCTIONAL FLEXIBILITY			
Skills levels	NAIRU	Provision of incentives/programmes for training.	Poaching employees. Move towards multiskilling. Core/peripheral workforce.
Retraining difficulties.			
Union provisions on job control.	Ease of adjustment within the firm. Labour costs.	Reduction in union power. Reform of union-management bargaining.	Non-unionism. Single union agreements. External sourcing to non-unionised labour.
Multi-union representation.	Demarcation issues. Wage pattern bargaining. Inter-union disputes. Level of bargaining costs.	Reform of trade union representation Reform of trade union government. Changes in the distribution of dispute costs. State Sector Actg 1988. Labour Relations Amendment bill.	Non unionism. Single unionism. No strike agreements. 'Sweetheart deals'. Enterprise bargaining.
Organisational and technical constraints.	Choice of technology and production processes.	Investment incentives.	New forms of technology and production. External sourcing.
Agreements on hours worked.	Responsiveness of firm to changes in demand. Need for numerical adjustment.	Easing of legislative constraints.	Enterprise bargaining. Workforce segmentation.
3. WAGE FLEXIBILITY			
Wage bargaining processes.	Cost competitiveness. Corporate survival and the linking of payment to performance.	Changes in union registration rules. Realignment of membership coverage. Easing of provisions on fair wages, closed shop, blanket coverage. Corporatisation and changes in the state model.	Enterprise bargaining. Growth of informal bargaining. Concession bargaining. Two-tier agreements.

to the deployment of labour and encompasses hours worked, degree of skilling and differential terms and conditions. These two dimensions may be equated with inter- and intra-firm or external and internal flexibility. The third dimension of flexibility is in terms of relative wage rates. While there will always be, under a market system, significant wage differences, relative wage flexibility is concerned with the stability of wage relativities and, in particular, the sensitivity of differentials to changes in demands and supply.

Table 1 above provides a summary of the major sources of labour market inflexibility grouped within the three areas of numerical, functional and wage flexibility. Also shown are the principal areas in which constraints impact and pertinent policy responses and corporate strategies.

The principal sources of numerical flexibility relate to labour mobility and legislative and union-determined rules on job security. Their impact is both macro (NAIRU) and micro (the ability of the firm to adjust the size of its workforce). There are a number of policy initiatives which could be implemented in this area. Labour mobility could be facilitated by increased provision for redundancy, perhaps through a national scheme, the easing of barriers on the portability of pensions and reductions in the real level of welfare benefits. A review of legislative constraints, particularly the Hale¹ ruling, and moves to encourage the reform of union-management bargaining are also appropriate.

Corporate strategies to overcome this constraint include the encouragement of intra-firm mobility and investment which replaces labour skills that are in short supply. The attraction of suitably skilled labour appears to be the major constraint facing New Zealand companies (Savage, 1989). Where firms experience legislative or union-imposed barriers to numerical adjustment they may resort to a bifurcation of the production process combining a small skill-specific core workforce enjoying a high degree of employment security with a secondary or peripheral workforce not covered by the same provisions. Depending on the source of the constraint, increased reliance on temporary workers, part-time workers or the externalisation of the adjustment process to subcontractors or home workers may occur.

Table 1 identifies five principal sources of functional inflexibility: skill levels and retraining difficulties; union provisions on job control; multiple unionism; organisational and technical constraints; and rigidity of hours worked. Again, these constraints have both a macro and micro impact. Policy responses in this area focus on the reduction of union power and the reform of union-management relations. This was the thrust of change in industrial relations legislation in the UK during the 1980s which reduced union power through balloting provisions, increased liability of unions to civil action and limitations on pre-entry closed shops and strike action. Within New Zealand the emphasis has been on reform of the state sector and bargaining more generally through the Employment Contracts Act 1991.

Employers have responded to functional inflexibility in a variety of ways. The most innovative strategies have been based on enterprise agreements which have embodied non-unionism or single union representation, fixed period agreements, no strike or binding arbitration provisions, and the linking of training and multi-skilling to reward systems. This model has been pioneered by Japanese companies operating in the UK (Buckley and Enderwick, 1985; Oliver and Wilkinson, 1988) and the USA (Johnson, 1988; Matsuura, 1984; Sethi et al., 1984).

Wage flexibility, the third flexibility dimension identified in Table 1, is of considerable interest at the present time. This is because much of New Zealand business in its efforts to

¹Wellington Caretakers' IUW v. G N Hale & Son Ltd [1991] 4 NZELC 95,310

restructure is currently at the stage of cost control and containment. For many New Zealand companies cost containment is a necessity for survival and for some the basis for longer term success. While cost considerations will always be important they are not likely to retain their pre-eminence in the future as competitors exploit more durable bases of competitive advantage. Corporate strategies to increase wage flexibility may assume a number of forms. In the US concession bargaining and two-tier agreements have occurred (Linsenmayer, 1986; Kassalow, 1988). Within New Zealand there has been a growth in informal arrangements such as individual agreements and house agreements (Blandy and Baker, 1988; Easton, 1987). The problem is that these arrangements have tended to supplement rather than replace nationally agreed minimum awards.

As well as labour flexibility on the input side, firms may seek to build a competitive advantage around output flexibility and the ability to adapt to changing market needs (Carlsson, 1989). The focus of flexibility in New Zealand has been primarily on operational and tactical aspects. The levels of output typically achieved by New Zealand companies means that considerable investment in new flexible production systems can rarely be justified. Rather, the priority has been to free up the labour factor. Similarly, there has been very little attention paid to longer term or strategic flexibility and the questions firms face in positioning themselves to introduce new products or technologies or develop new markets. This is a serious oversight in the light of the very close relationship which is likely to exist between this type of flexibility and a niche market strategy. It may be that the emphasis of New Zealand companies on increasing flexibility to accommodate risk as opposed to uncertainty is a legacy of the pervasive protectionism which ensued, between 1938 and 1984, an environment which minimised radical change and the process of strategic competition.

Alternatives in the reorganisation of workplace relations

The changes outlined above are both fundamental and far reaching. What unites them is the centrality of the labour factor. Clearly, quality production, innovation, marketing and flexibility are all activities heavily dependent on the labour factor, and particularly highly skilled labour. In terms of reorganising workplace relations we may distinguish three broad options:

- investment and technical change;
- intensification of the work process; and
- reform of the work process.

A strategy of investment and technical change involves a significant change in production methods achieved through capital investment usually in advanced technologies. Current computer based manufacturing systems offer considerable cost savings while providing both enhanced flexibility and integration, particularly of material and information flows. In contrast to simple mechanism, computer-based automation allows a reduction of all cost elements including labour, capital, inventory, energy and raw materials, and product development without any sacrifice in quality.

Intensification of the labour process seeks an increase in productivity in the absence of new investment or fundamental reorganisation of the work process. Intensification may assume a number of forms. Labour cost and productivity have been tackled through an increased bifurcation of the labour force with a smaller core of permanent staff complemented by a peripheral segment engaged on a variety of contractual terms. This contractual flexibility - the growing use of fixed term contracts, shift-working and part-time employment - have

been coupled with an increasing emphasis on flexible working practices.

Reform of the work process is distinguished from the two preceding strategies in first, not requiring significant investment, and second, not necessarily implying an intensification of work. The focus is on reorganising the flow of work, the organisation of tasks, work responsibilities and job content. It generally involves a move towards team rather than individual work organisation, increased employee responsibility for quality and perhaps productivity, broader skill definitions, a closer integration of work goals, appraisal and payment systems and new approaches to employee relations.

These three strategic options are contrasted along a range of dimensions in Table 2 below. This table indicates that the choice of re-organisational strategy depends on a range of environmental factors and the enterprise's specific objectives. From the perspective of the New Zealand enterprise seeking enhanced international competitiveness five points are paramount.

First, it is apparent that the primary determinant of the choice of restructuring mode should be the firm's desired objective. For example, the choice of a strategy of intensification is prompted by a desire to reduce costs. Investment and technical change can bring benefits in the form of both lower cost and increased quality. Reform of the work process, if properly designed and implemented, can bring both these and enhanced employee commitment.

Second, Table 2 suggests that where multiple objectives are being pursued trade offs may exist. For example, a strategy of intensification while offering the possibility of lower cost is also likely to mean lower quality. This is one reason why this strategy is most widely adopted in industries like clothing, producing low-technology, standardised products.

Third, structural and environmental factors in New Zealand tend to discourage the selection of a strategy like investment and technical change. The high capital requirements of this mode mean that such investment must be spread over a large (and stable) output level. The cost of capital, small average size of New Zealand companies and output levels achievable in the domestic economy all work against a strategy of investment and technical change. Similarly, the high output level would require a volume oriented marketing strategy, a strategy inconsistent with higher value added in the majority of New Zealand industries.

Fourth, in terms of the likely objectives of the value adding firm Table 2 reveals the considerable attractions of a strategy of work process reform. This strategy involves modest capital outlays, brings potential benefits of cost reduction, quality and productivity improvement and an increase in employee commitment. It can also bring benefits of flexibility, particularly functional flexibility. If correctly designed and operated the firm may gain longer term strategic benefits in the form of a greater commitment to innovation and the acceptance of change and an enhanced ability to cope with a turbulent environment.

Fifth, it is also clear from Table 2 that a strategy of reforming the work process has major implications for the initiating firm. It is likely to necessitate much closer relationships between management, employees and unions and to involve middle management in a new role, primarily a facilitative one. Major changes in the company's human resource management strategy and the locus of industrial relations are also called for.

Table 2 Influences on the choice of workplace restructuring mode

Strategy	Investment Technical Change	Intensification	Reform of the Work Process
<u>Influencing Factor</u>			
Primary motives	Cost Quality	Cost	Cost Quality Commitment
Initiating party	Management	Management	Management Employees Union
Impact on capital	High	Low	Generally Low
Impact on labour	High (displaced)	High (disadvantaged)	High (largely beneficial)
Impact on productivity	Positive (labour displaced)	Positive in short run (labour intimidated)	Positive (labour committed)
Impact on innovation	Discourages process innovation	Discourages innovation	Encourages process innovation
Impact on flexibility	Varies, likely to be low	Low	High, particularly functional flexibility
Impact on quality	Positive	Low (negative)	Generally positive
Desired output level	High	Medium-Low	Varies. Flexible Specialisation
Desired external environment	Stable, strong demand	Stable, or quantitative variation	Turbulent, qualitative and quantitative variation
Desired labour skills	Technical	Minimal craft	Flexible
Desired marketing strategy	Volume	Volume Cost	Quality Adaptability
Role of middle management	Monitoring	Monitoring Enforcing	Facilitating
HRM strategy	Unitarist	Unitarist	Pluralism Sophisticated Paternalism
IR locus	Industry	Industry	Enterprise

Alternative models of workplace reform

Table 2 and the preceding discussion suggest that if New Zealand companies seek to enhance their international competitiveness through a strategy of higher value added, major changes must occur in the organisation of the workplace. The preferred option appears to be one of reform of the work process. It is relevant to consider the role models New Zealand competitors could turn to in the development of new practices and structures.

One source is overseas companies and particularly those that have internationalised their activities. In recent years the internationalisation of Japanese companies has brought a new management paradigm with a range of practices of direct relevance in the pursuit of increased competitiveness (Enderwick, 1985). A second source is the experience of Australia which has been pursuing a national strategy of workplace reform. In contrast to the Japanese model the Australian strategy has a much more centralised focus with considerable emphasis placed on consultative and coordinated change (National Labour Consultative Council, 1987).

The Japanese model

The Japanese model forms the basis of an emergent and very different approach to management (Enderwick, 1991a). Table 3 below attempts to categorise the major elements of the model and relate these to both their areas of impact and transferability to the New Zealand situation. Table 3 reveals six principal points.

First, the Japanese approach has its focus at the level of the individual firm. For a number of reasons this may be the appropriate locus for reform within New Zealand. New Zealand firms do not perceive government induced constraints as the major obstacles they face (Savage, 1989). For this reason legislative reform may be inferior to the reforms enacted by the firm. Employers may be better placed to know (and initiate) the kind of reforms needed. New Zealand case studies undertaken by Blandy and Baker (1988) revealed that change in labour strategies were at least in part a function of changes in firms' product-market environments. This suggests the dangers of enacting labour market reform in isolation from changes in a company's product market. Finally, it is possible that policy reforms at the national level may be simply ineffective. Nickell (1985) has cast doubts on the net benefits of forcing reform through legislation designed to encourage a management offensive against organised labour. More recent research suggests that such legislation might have little or no impact anyway (Brown and Wadhvani, 1990).

Second, present government policies appear as an attempt to avoid the problems associated with direct participation in the reform process. Rather, the intention is to create a permissive environment within which individual enterprises are expected to enact appropriate reforms. Table 3 reveals a number of instances where these policies are inconsistent with elements of the Japanese model. This is particularly apparent with regard to lifetime employment assurances and the development of enterprise unions. The danger is that such policies will actually discourage reform along the appropriate lines and push firms back onto a path of cost (particularly labour cost) reduction. This might manifest itself as a bypassing of union structures and a reluctance to engage in meaningful bargaining. Such a limited attachment to employees and their representative structures would do nothing to foster quality production, skills development and the attainment of higher value added.

Table 3 Elements of the Japanese management model: impact and transferability to New Zealand

ELEMENT OF JAPANESE MANAGEMENT	DIRECTION AND AREA OF IMPACT	TRANSFERABILITY TO NEW ZEALAND
Consensus decision-making and bottom-up decision-making	<ul style="list-style-type: none"> + functional flexibility + information sharing, quality + employee satisfaction + acceptance of change 	Low? A function of implementation
Quality control circles	<ul style="list-style-type: none"> + functional flexibility + quality + integration of business functions 	Medium. A function of implementation and operation
Team working	<ul style="list-style-type: none"> + functional flexibility + information sharing + in process quality control 	Low without changes in union representation and pay systems
Enterprise unions	<ul style="list-style-type: none"> + functional flexibility + wage flexibility + acceptance of change 	Low, present legislation may actually discourage it. May occur in modified form.
Lifetime employment	<ul style="list-style-type: none"> + functional flexibility - numerical flexibility - wage flexibility + acceptance of change + innovation and risk taking + training and skill acquisition 	Generally low and declining under present legislation.
Seniority-based promotion	<ul style="list-style-type: none"> + functional flexibility - numerical flexibility - wage flexibility - risk taking 	Low
Use of subcontractors, disadvantaged groups	<ul style="list-style-type: none"> + all forms of flexibility + output variability 	Low/Medium Inhibited by quality concerns.
Training by rotation	<ul style="list-style-type: none"> + all forms of flexibility + quality + innovation and the acceptance of change 	Low in the absence of changes in union representation, pay systems.

Third, Table 3 shows that the Japanese model can bring considerable benefits in the areas of quality and productivity improvement, innovation and employee involvement. The implementation of quality circles, team working and broad band skilling all facilitate functional flexibility, information sharing and better monitoring of production quality. Japanese companies place considerable importance on training and skill development. In many companies training is a continuous process and is tied to multiple skill development.

Employees may also benefit from the increased involvement that Japanese type practices bring. Central to the argument for employee involvement is the view that all employees have an important contribution to make to company objectives. Companies like Nissan take the view that "managing is about providing the practical means for all employees at all levels to contribute effectively to the principal objective of continuous quality improvement" (Owen, 1990:55).

The major way in which companies have sought to increase employee involvement has been the introduction of group or team working. Groups enjoy a high degree of autonomy and may assume responsibility for cost, quality, skills development, and recruitment. In many cases teams have responsibility for improvements in these areas. Team organisation also assists communication and, in particular, creates a conduit for direct communication between management and team leaders independent of any management-union structure (Williams, Owen and Emerson, 1991; Wickens, 1987). Team organisation is also conducive to the development of specific task oriented groups such as quality circles and Kaizen (continuous improvement) groups.

Fourth, Table 3 also makes it clear that there are significant barriers to the transfer of many of these practices. These barriers result in part from cultural factors. The importance of individualism within New Zealand is a potential obstacle to bottom up management and seniority based promotion. Existing institutional arrangements and conventions may limit the acceptance of enterprise unions or training by rotation. One implication of this is the very real danger that what will occur is selective transplantation whereby those elements of the Japanese model which are more readily transferred, such as quality circles, will be adopted. The fact that most Japanese producers operating overseas are willing to incur considerable costs in implementing the Japanese model as a coherent package (including elements not listed in Table 3) suggests the ineffectiveness of partial transplant.

Fifth, recent research suggests that elements of the Japanese model can be modified to take account of New Zealand conditions (Enderwick, 1991b). In terms of the appropriateness of the Japanese model the most significant aspects of New Zealand society and economy are its industrial relations system founded on the Anglo tradition, small average firm size and the absence of a close government-management relationship. If Japanese management is to flourish within New Zealand a greater emphasis must be given to group working, participation and decision-making. At the same time it is essential to retain individual creativity and entrepreneurship. Because of the greater uncertainty of the New Zealand economy, management needs to retain a high degree of flexibility and responsiveness.

The Japanese management model as popularised is best suited to the needs of large companies. It is not clear *a priori* whether the adoption of these practices is easier or harder within small firms overseas. On the one hand, small firms have some advantages. They are less rigid, are better able to implement participative decision-making and to utilise multi-skilled staff (Sonfield, 1984). On the other hand, small firms are less likely to be bound by union-imposed limits on functional flexibility and they may benefit more from government

policy which facilitates external (numerical) as opposed to internal (functional) flexibility. Furthermore, the full benefits of Japanese type management require adoption of all the component elements. Yet it is small firms that are most likely to be selective in their adoption.

Recent research (Enderwick, 1991b) reveals that quality is the principal motive for the adoption of Japanese type management practices within New Zealand. Within adopting companies there is a clear recognition that this is best achieved by empowering and involving all employees. Flexibility, training and employee involvement are not ends in themselves, rather they are valued for their contribution to quality and productivity. Team working provides an interesting example of the modification of Japanese management practices to suit the New Zealand environment. The persistence of occupational trade unions means that multi-skilling within teams is easier to achieve than multi-skilling across a plant. Similarly, quality circles are used in a purposive way being created when needed then disbanded. They are clearly problem- rather than process-centred.

Sixth, there are likely to be a number of limitations to any enterprise-based model. From a national perspective decentralised deregulation may not ensure adequate investment in training. In New Zealand there is something of a tradition of buying in scarce skills both on the international market and in poaching from local firms. There may be a tendency for employers to 'free ride' on the training issue. There may be no opportunity for ensuring adequate measures of national consistency, accreditation or portability of skills in the absence of a national reform policy. Enterprise reform may jeopardise economic recovery if it does not result in an economically responsible overall wage level. In New Zealand the government has focused on tight monetary control as an anti-inflationary stance, playing down the importance of wage led inflation. Similarly, the effects of enterprise based reform are likely to be less widespread with the primary benefits being restricted to initiating firms. Perhaps the major weakness from a national perspective is the danger that a policy of liberalisation and deregulation will not result in a movement towards a higher skilled, value adding economy. Rather, individual firms may seek to exploit the opportunity for reducing costs through wage reductions or a process of intensification.

A second set of concerns relates to the implications of enterprise based reform for management. Such a strategy requires substantial management time and effort and the assumption of functions like negotiation which previously occurred at the national level. Successful enterprise reform calls for a new management-employee relationship, one based on a far greater sharing of information and an acceptance of the legitimate role of employees and their representatives. In the process of such a recognition supervisory staff and middle management may feel somewhat disenfranchised (Mirkin, 1990).

The Australian model

While Australia has also been pursuing industrial restructuring it has followed a different path to that implied by the Japanese model. Drawing upon the Scandinavian experience Australia has developed a centralised approach to reform. This approach is built upon a recognition that while labour mobility and wage flexibility in Australia are comparable to those of competitors, major deficiencies exist in the areas of education and training and in work patterns and organisation. These deficiencies are also apparent in New Zealand and the two countries share concern over issues of skill development, the resolution of demarcation

issues, the rationalisation of union representation and worker participation.

Centralised restructuring offers a number of benefits. First, it allows through centralised wage setting, an element of control over the aggregate wage outcome. In contrast, an enterprise-based reform strategy allows no such co-ordination. Second, a centralised approach minimises the problem of free riding in the area of skills development. This could be a significant problem for an economy like New Zealand which is characterised by a large number of small firms and, in both Australia and New Zealand, where there is a history of dependence on immigration as a means of overcoming skill shortages. A national or industry based training strategy also facilitates skill portability and accreditation. Third, initiatives in the reform of demarcation practices and union rationalisation can be highly effective at the industry level where they reduce the possibility of unions being excluded as can happen with enterprise-based reform. Fourth, a national strategy of reform can ensure the maintenance of minimum wage and working conditions requirements in a way which might not be assured when reforms are enterprise-based. This reduces the danger that the focus of reform slips from that of higher skilling and value added to one of cost reduction and the enhancement of numerical flexibility.

The essence of the Australian approach is co-operation rather than confrontation. It fosters a tripartite (employers, unions and government) approach to restructuring which can focus on agreed desired outcomes. Restructuring has involved a revision of the industrial relations legislative framework (the Industrial Relations Act 1988), a wage policy which encourages productivity gains, a sharing of these gains through more participative work practices and award restructuring. Award restructuring focuses on the revision of job classifications, pay rates and individual employment terms and conditions. At its simplest, award restructuring concentrates on the elimination of obsolete job classifications or a reduction in the number of such classifications. More elaborate forms include the broadbanding of skills and the linking of skills, training and wage levels.

Interestingly, the difficulties which are anticipated with this approach to workplace reforms are not dissimilar to those likely to be experienced with a move towards Japanese-type management practices (National Labour Consultative Council, 1987). Significant shared problems include the need for a greater devolution of responsibility within the workplace, flatter management structures, a changing emphasis from enforcement to coordination for supervisory management, obstacles to teamworking and a realignment of wage relativities.

The principal differences between the two approaches are highlighted in Table 4 below. The two approaches take as their focus different levels of analysis. The New Zealand-Japanese model is clearly enterprise centred and its impact is correspondingly much less diffuse. The emphasis on enterprise reform is also consistent with the provisions of the Employment Contracts Act 1991. The Act could be used to increase both qualitative (functional) and quantitative flexibility. This is facilitated by the Act's provisions on freedom of association and the focus of bargaining on the 'employment contract' as opposed to collective agreements. The focus of the Act on decentralised, localised, enterprise-based reform is more consistent with the philosophy of the Japanese, rather than the Australian model (Hince and Vranken, 1991). The Japanese model is also more likely to be initiated by management and prompted by traditional enterprise goals of efficiency and profitability. There are some examples of award restructuring within New Zealand. The Engineers Union in particular has been active in a number of cases including the plastics industry (Chrisp, 1991), packaging (Webster, 1991) and the dairy industry (Tolich, 1991). These developments reflect, in part, the Engineers Union's interest in, and involvement with, Australian developments (NZAEU, 1991). To date these New Zealand examples are really the exception

Table 4 A comparison of the (NZ) Japanese and Australian models of workplace reform

FACTORS	(NZ) JAPANESE MODEL	AUSTRALIAN MODEL
Level of focus	Enterprise	Industry
Incentive for reform	Enterprise efficiency Profitability	Structural efficiency principles of the Industrial Commission
Initiator	Enterprise management	Work groups reporting to a joint/employer union consultation group
Labour Law	Employment Contracts Act 1991	Industrial Relations Act 1988
Likely union structure	Fragmented or excluded	National or industry, some rationalisation
Area of impact	Concentrated	Diffused

The most widespread reforms are those initiated by, and largely confined to, individual enterprises (Enderwick, 1991b). The examples of award restructuring do illustrate a number of important points. First, it is clear that management must be firmly committed to the idea of reform and appreciative of the very considerable time and resource costs of such initiatives. Second, for unions to be involved in the process they must be positive, adaptable and forward looking in their interpretation of the role of a union in the 1990s. Third, reform is most likely to succeed where an atmosphere of job security and industry optimism prevails. This is perhaps best achieved through joint consultative commitment to reform.

While an industry-based approach to workplace reform has the advantages of offering a greater potential impact through the linking of suppliers or clusters of related businesses and by enhancing commitment to training it is not without its critics, even in Australia (BCA, 1989). The Business Council report argues that a centralised industrial relations system does not offer significant flexibility to larger companies who must meet international levels of competitiveness. What is seen as an antiquated trade union structure, centralised rule making which is insensitive to the needs of individual companies and the fact that it is product market change which is driving workplace reform are all marshalled in support of union rationalisation along enterprise or industry lines, the operation, in the short-term, of arrangements which exempt from regulated bargaining those companies competing internationally and in the longer term, the bypassing of union representation in favour of direct employee-employer relationships.

Conclusions

If New Zealand is to adopt the blueprint for increasing international competitiveness outlined in the Porter Report substantial changes in business thinking and strategy will be necessary. In essence, New Zealand companies will need to develop and exploit sustainable sources of competitive advantage rather than simply relying on natural climatic advantages. Naisbitt and Abudene (1986) argue that the critical strategic resource has shifted from production capital, through financial capital to now reside in human capital in the form of knowledge, information and creativity. This has tremendous implications for employment relations within the firm and suggests that New Zealand companies competing internationally will seek out new models and approaches to workplace relations. This paper has outlined two such approaches. The discussion suggests a number of conclusions.

First, a number of conditions necessary for successful workplace reform have been identified. These apply regardless of the particular model adopted and include increased job security to facilitate risk taking (Harris, 1984), ongoing investment in training and development (McMorland, 1990), the incorporation of human resource management within the broader corporate strategy (Schuler and Jackson, 1987) and a much longer term perspective in evaluating performance. In addition, management will need to play a new role, one based more on facilitation than supervision. If unions are to avoid the danger of being marginalised at the workplace they must recognise the new realities and operate appropriately.

Second, while outlining two alternative approaches to workplace reform, the economic and legal environment in New Zealand is one that clearly favours reform at the level of the enterprise. The arguments for adjustment being based primarily at the firm level are compelling. The reforms are not just about eliminating rigidities in the labour market but are about establishing new management-labour relationships in terms of both labour contracts and

the institutional arrangements for regulation at the workplace. In many cases the reforms involve reciprocal concessions perhaps in terms of training, job security and working hours in exchange for the adoption of more cooperative arrangements. Since there are a range of alternatives in workplace reform it may be more appropriate for management, employees and their representatives to decide the particular forms they wish to initiate (Boyer, 1988). The danger that must be avoided is that labour market deregulation becomes the only focus of workplace reform. Such a strategy could encourage New Zealand companies to emphasise cost cutting and discourage the desired policy of higher value added. This may be a very real danger in an economy like New Zealand which has developed a wide range of inefficiencies during a considerable period of extreme protectionism. There is a clear incongruity between the government's commitment to the recommendations of the Porter Report and the likely impact of the Employment Contracts Act 1991. Indeed our discussion implies that the focus on labour market flexibility may be largely misplaced. For small specialist competitors as New Zealand companies are likely to be internationally, the appropriate flexibility may be on the strategic or output side (production levels, differentiation, product innovation) not the input side (labour market).

Third, accepting the potential role that Japanese type management practices could play in the reform of New Zealand's labour relations raises three related questions. The first refers to the appropriateness of Japanese management practices in the context of a country like New Zealand. This in turn comprises two related issues. The first refers to the general problems of transferring a management model from one country (and culture) to another. The second involves the problems which arise because of the distinctive facets of New Zealand as a recipient nation.

There is a view that the Japanese management model is the result of a unique cultural environment and tradition and hence its transferability is limited (Iida, 1983). In considering its transferability to a Western nation the single most important cultural contrast is probably the Japanese emphasis on harmony and conformity built around the role of the group. Rudman (1988) has examined some of the implications of this and other differences between Japan and New Zealand.

In addition to the issue of appropriateness, thought needs to be given to the question of the desirability of achieving reform of labour relations through the importation of 'alien' management practices. The Japanese management model has been subject to three significant criticisms.

The first is that existing studies of Japanese overseas affiliates are an unreliable basis for predicting the likely costs and benefits of adopting such practices. This is because such firms are currently enjoying a 'honeymoon' period during which the benefits are evident but the longer term costs have yet to fully emerge (Rehder, 1990). The second strand is the identification of some of these costs. Critics have highlighted the rise in work stress and safety problems as line speeds are increased and labour used more intensively (Rehder, 1990). Those familiar with the work of Kamata (1983) may not be surprised by this. There is also concern about the position of unions in Japanese plants. Cooperative union behaviour and incorporation of union officials as team leaders and first line supervisors has spawned new opposition groups such as the New Directions Movement within the UAW (Rehder, 1990). Finally, allegations of discriminatory behaviour by Japanese employers in both Europe and the USA has led to a number of investigations and actions and throws into question the desirability of introducing such attitudes into a multi-racial society (Cole and Deskins, 1988; Johnson, 1988). The third strand of this concern is recognition that there is no single model of Japanese management overseas. Sethi et al. (1984) have identified four distinct models in

the USA each of which has quite different implications for the introduction of innovative practices. Again, research within New Zealand on these issues is urgently needed.

The third question to be addressed is the likely impact within New Zealand of Japanese management practices. In addition to the transferability issue, the impact of innovative management practices on a country's industrial relations is a function of a number of factors. The number of investing firms, their size and spatial concentration will determine the direct impact (Ackroyd et al., 1988). There are still relatively few Japanese-owned plants in New Zealand, most are small and principally assemblers who were encouraged to establish behind strong protectionist barriers. This in turn limits the diffusion of management practices through linkages with suppliers (Enderwick, 1991b).

Evidence on the spillover of Japanese-type management practices in the UK and USA suggests that to date the impact has been limited. The primary area of impact has been within other foreign-owned firms and leading domestic multinationals. A number of firms have adopted aspects of Japanese management such as quality circles. The changes have not always been successful or long lived (Smith, 1988). Where the changes have been more comprehensive and carefully planned the apparent benefits appear significant (Brown and Reich, 1989; Turnbull, 1986).

In addition to concerns about the magnitude and speed of diffusion, doubt has been cast on the durability of these practices (Rico, 1987). Many of the innovative Japanese and imitating domestic producers are small, single product firms established on greenfield sites. How well these practices will fare in transfer to established multi-product firms is uncertain. Many of the most successful deals have involved technical employees or plants producing mature products using a large percentage of unskilled, often female, labour. Whether firms with a more heterogeneous product and employment mix can adopt these practices is unclear.

Fourth, and finally, the role of the state in reform of New Zealand workplace relations is not clear. The present government appears to desire enterprise led reform with minimal direct state involvement. They appear to have given little thought to the inconsistency alluded to earlier between strategic direction for the economy and labour market reform. There is a very real danger that enterprise reform for many firms will be interpreted as an opportunity for a coordinated offensive against organised labour. This is unlikely to be in the best interests of an economy seeking new strategic direction through higher value added. As Brosnan et al. (1991) observe, the process of centrally led reform has in many ways reinforced a long tradition of labour market operation. In New Zealand radical reform has engineered legislative and institutional changes which represent a fundamental departure from past practices. Such a strategy is unlikely to be the most successful in enhancing sustainable international competitiveness.

References

- Ackroyd, S., Burrell, G., Hughes, M. and Whitaker, A. (1988), The Japanisation of British Industry, *Industrial Relations Journal*, 19(1): 11-23.
- Akooie, M. (1991), Patterns of Foreign Direct Investment by Large New Zealand Firms, mimeo *University of Auckland*.

- Akooie, M. and Enderwick, P. (1991), The International Operations of New Zealand Firms, *Asia Pacific Journal of Management*, 9(1): 99-117.
- Blandy, R. and Baker, M. (1988), Trade Liberalisation and the Labour Market: New Zealand Experience, *Economic Papers*, 7(3): 51-62.
- Boyer, R. (ed) (1988), *The Search for Labour Market Flexibility: The European Economies in Transition*, Oxford, Clarendon Press.
- Brosnan, P., Burgess, J. and Rea, D. (1991), *Labour Institutions, Government Policy and Economic Change in Australia and New Zealand*, Industrial Relations Centre, Victoria University of Wellington, Working Paper 2/91.
- Brown, C. and Reich, M. (1989), When Does Union-Management Cooperation Work? A Look at NUMMI and GM-Van Nuys, *California Management Review*, 31(4): 26-44.
- Brown, W. and Wadhvani, S. (1990), The Economic Effects of Industrial Relations Legislation since 1979, *National Institute Economic Review*, 131: 57-69.
- Buckley, P.J. and Enderwick, P. (1985), *The Industrial Relations Practices of Foreign-Owned Firms in Britain*, London, Macmillan.
- BCA (Business Council of Australia) (1989), *Enterprise-based Bargaining Units: A Better Way of Working*, Melbourne: BCA.
- Carlsson, B. (1989), Flexibility and the Theory of the Firm, *International Journal of Industrial Organisation*, 7: 179-203.
- Chrisp, P. (1991), *Bargaining in the New Environment: Workplace Change, Redesign and Upskilling*, Paper presented at Union/Tertiary Research Conference, 7-9 June, Wellington, Victoria University of Wellington.
- Cole, R.E. and Deskins, D.R. (1988), Racial Factors in Site Location and Employment Patterns of Japanese Auto Firms in America, *California Management Review*, 31(1): 9-22.
- Crocombe, G.T., Enright, M.J., and Porter, M.E. (1991), *Upgrading New Zealand's Competitive Advantage*, Auckland, Oxford University Press.
- Easton, B. (1987), The Labour Market and Economic Liberalisation in Bolland, A. and Buckle, R. (eds) *Economic Liberalisation in New Zealand*, Wellington, Allen and Unwin, 181-205.
- Enderwick, P. (1991a), A New Initiative in Education, *Management*, August: 121-126.

- Enderwick, P. (1991b) The Application of Japanese Management Principles in New Zealand in *Researching Management Strategies and Bargaining*. Papers presented at the Union/Tertiary Research Conference, 7-9 June, Wellington, Victoria University of Wellington, 3: 81-108.
- Harris, S. (1984), Hewlett Packard: Shaping the Corporate Culture in Fombrun, C., Tichy, N. and Devanna, M. (eds) *Strategic Human Resource Management*, New York, Wiley.
- Hince, K. and Vranken, M. (1991), A Controversial Reform of New Zealand Labour Law: The Employment Contracts Act 1991, *International Labour Review*, 130(4): 475-493.
- Iida, T. (1983), Transferability of Japanese Management Systems and Practices into Australian Companies, *Human Resource Management Australia*, August.
- Johnson, C. (1988), Japanese-Style Management in America, *California Management Review*, 30(4): 34-45.
- Kamata, S. (1983), *Japan in the Passing Line: An Insider's Account of Life in a Japanese Auto Factory*, London, Allen and Unwin.
- Kassalow, E.M. (1988), Concession Bargaining: Towards New Roles for American Unions and Managers, *International Labour Review*, 128(3): 269-296.
- Linsenmayer, T. (1986), Concession Bargaining in the United States, *Labour and Society*, 11(2): 207-220.
- Matsuura, N. (1984), Japanese Management and Labour Relations in US Subsidiaries, *Industrial Relations Journal*, 15(4): 38-46.
- McMorland, J. (1990), The State of Training Policy in New Zealand Enterprises in Boxall, P. (ed) *Function in Search of a Future*, Auckland, Longman Paul, 135-156.
- Mirkin, R. (1990), Strategies for Effective Enterprise Bargaining - Principles and Prospects for New Zealand Enterprises in Boxall, P. (ed) *Function in Search of a Future*, Auckland, Longman Paul, 67-79.
- MORST (Ministry of Research, Science and Technology) (1991), *Plantation Forestry Research*, New Zealand Science Review No. 2, Wellington.
- Naisbitt, J. and Abudene, P. (1986), *Re-Inventing the Corporation*, London, McDonald.
- National Labour Consultative Council (1987), *Labour Market Flexibility in the Australian Setting*, Canberra.
- NZAEU (New Zealand Amalgamated Engineering Union) (1991), *Workplace Australia: Designing the Future*, Wellington, NZAEU.

New Zealand Market Development Board (1988), *Developing International Markets for Computer Software*, Compass Hoby Ltd/New Zealand Market Development Board, Wellington.

Nickell, S. (1985), Few Dividends From Lashing the Unions, *Financial Times*, February 7, London.

Oliver N. and Wilkinson, B. (1988), *The Japanization of British Industry*, Oxford, Basil Blackwell.

Owen, B. (1990), Organisation and Industrial Change at Nissan New Zealand in Boxall, P. (ed) *Function in Search of a Future*, Auckland, Longman Paul, 51-59.

Rehder, R. (1990), Japanese Transplants: After the Honeymoon, *Business Horizons*, 22(1): 87-98.

Rico, L. (1987), The New Industrial Relations: British Electricians New-Style Agreements, *Industrial and Labour Relations Review*, 11: 63-78.

Rudman, R. (1988), Management Must Cultivate Kiwi Values, *Management*, August, 67-68.

Savage, J. (1989), *Internal Labour Markets: Labour Adjustment Within Firms*, Wellington, New Zealand Institute of Economic Research.

Schuler, R.S. and Jackson, S.E. (1987), Linking Competitive Strategies with Human Resource Management Practices, *The Academy of Management Executive*, 1(3): 207-219.

Sethi, S.P., Namiki, N. and Swanson, C.L. (1984), *The False Promise of the Japanese Miracle*, London, Pitman.

Smith, D. (1988), The Japanese Example in South West Birmingham, *Industrial Relations Journal*, 19(1): 41-50.

Sonfield, M.C. (1984), Can Japanese Management Techniques be Applied to American Small Business? *Journal of Small Business Management*, 22(3): 18-23.

Task Force on International Competitiveness (1989), *Report of Ministerial Task Force on International Competitiveness*, Wellington.

Tolich, P. (1991), *Analysis of Workplace Developments in New Zealand: A Case Study of the Dairy Industry*. Paper presented at Union/Tertiary Research Conference, 7-9 June, Wellington, Victoria University of Wellington.

Trade Development Board (1990), *Export Manufacturing - Framework for Success*, Wellington, New Zealand Trade Development Board.

Turnbull, P. (1986), The 'Japanisation' of Production and Industrial Relations at Lucas Electrical, *Industrial Relations Journal*, 17(3): 193-206.

Webster, R. (1991), Bargaining Reform in *Researching Management Strategies and Bargaining*. Papers presented at the Union/Tertiary Research Conference, 7-9 June, Wellington, Victoria University of Wellington, Vol 3: 43-64.

Wickens, P.D. (1987), *The Road to Nissan - Flexibility, Quality and Teamwork*, London, Macmillan.

Williams, A., Owen, B. and Emerson, A. (1991), *The Nissan Way - From Conflict to Commitment*, Auckland, Collins.