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**Business Strategy and the Management of Labour  
in the Co-operative Bank**

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Thesis submitted for the fulfilment of the  
Degree of Doctor of Philosophy

1990

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Adrian Wilkinson

# **Business Strategy and the Management of Labour in the Co-operative Bank**

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## **ABSTRACT**

The purpose of the research is to contribute to a better understanding of the relationship between business strategy and the management of labour. This is an area which, while acknowledged as being crucial to an understanding of industrial relations, has received relatively little attention in terms of detailed case study research. A review of relevant literature exposed the gaps in the subject area and enabled the identification of key issues and areas of concern. In particular there appeared to be an inadequate understanding of the process of strategic change.

The methodology adopted was a top down qualitative approach following the practice of multiple triangulation which enabled the research to focus on the process of change.

The case study of the Co-operative Bank examines the response of the Bank to the changing competitive environment and links the adoption of a more market oriented approach with a shift from old style personnel management towards a more pro-active strategic human resource management. The research looks at how human resource policy was formulated and implemented and the problems encountered. The thesis shows that while there was relatively little detailed consideration at top management level, a new policy based on H.R.M. ideas and emphasising labour as a resource rather than a cost was of key strategic importance to the Bank.

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# BUSINESS STRATEGY AND THE MANAGEMENT OF LABOUR IN THE CO-OPERATIVE BANK

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## CHAPTER ONE: INTRODUCTION

This chapter sets the scene for the rest of the thesis. It explains how the research began and the principles upon which it was based.

The subject of the thesis stemmed from the nature of the collaborative award of the Economic and Social Research Council (ESRC), under which the research was undertaken and the researcher's own interests after a review of the literature in the broad area defined by the award. The award, designed to foster links between industry and academic institutions, involved spending an extended period of time with the institution concerned, in this case the Co-operative Bank, and this also influenced the method of research.

The actual topic to be examined was the relationship between business strategy and the management of labour through a case study of the Co-operative Bank over a period of two years between 1986 and 1988. While the traditional focus of industrial relations had been union-management relations, usually at shop floor level (and most often in manufacturing) there has been increasing recognition of the need for more work which takes a top down approach, examining corporate decision making and its impact on industrial relations. As Marginson puts it:

*"the extent to which the policies and practices observed have their origins in the corporate, divisional or regional offices at the large enterprise of which many workplaces are a part has remained largely unexplored."* (1981, p1)

Furthermore while there has been increasing acknowledgement of the importance of corporate decisions on industrial relations there was a need to provide more analysis about how this operated in practice.

In particular the focus of the research was to examine the impact of the changing competitive environment on business strategy and the management of staff and the influence of Human Resource Management (H.R.M.), both of which have been the subject of recent attention.

Sisson and Sullivan, reviewing development of personnel practices in the 1980s, express scepticism as to the nature and degree of change and observe that:

*"By and large, British management does not have a strategic approach to the management of people, pragmatism or opportunism continue to be very much the order of the day." (1987, p429)*

D. Metcalf in an article extolling recent advances made in manufacturing productivity evaluates the contribution of H.R.M. and sees the extent of change in the 1980s, compared with the 1970s as 'little' and its likely contribution to co-operation in the 1980s as 'none'. In a book which comes up with an entirely different assessment of recent changes in industrial relations, MacInnes (1987) has nothing at all to say about H.R.M. In a recent survey of large companies there was little evidence to be found of a more strategic approach to managing employees (Marginson et al 1988).

Yet there is general recognition of the importance of the people input to business success whether negatively e.g. the obstruction of change (Willman & Winch 1985) or more positively in creating conditions for organisational entrepreneurship (Kanter 1983). The 'Excellence' studies have also stressed the contribution of the management of employees to commercial success (Peters & Waterman 1983; Goldsmith & Clutterbuck 1984). As Guest observes:

*"Because they are the most variable, and the least easy to understand and control of all management resources, effective utilisation of human resources is likely to give organisations a significant competitive advantage. The human resource dimension must therefore be fully integrated into the strategic planning process." (1987 p14)*

H.R.M. is said to offer much more than the traditional techniques of personnel management, to management who are interested in a strategic approach to managing their staff. The notion of strategy is of course bound up with product market considerations and the Harvard Business School approach is concerned to link H.R.M. to strategy. As they argue:

*"An enterprise has an external strategy - a chosen way of competing in the marketplace. It also needs an internal strategy to determine how its human resources are to be developed, deployed, motivated and controlled".*

Furthermore,

*"The very idea of an internal strategy implies there is consistency among all of the specific tactics or activities which affect human resources." (Beer et al., 1985 p13)*

Yet, as we have noted, these notions have been deemed to have little applicability in the U.K. although they continue to be the focus for much discussion.

The literature review served to highlight the principal areas where the research effort could be directed. In particular the case study afforded an opportunity to contextualize developments in H.R.M. and provide an examination of the issues in some detail, rather than adopt the broad brush approach of surveys. Furthermore the banking sector has not been the focus of research, yet as a sector characterised by non-conflictual industrial relations and suffering little from the 'British diseases' of industrial action and demarcation associated with parts of manufacturing, it may have more to offer as an explanation of continuity and change in industrial relations in the 1980s.

The Co-operative Bank was of particular interest given its small size and hence sensitivity to the competitive environment and its unique history.

The thesis takes the following shape. The next chapter contains a literature review of three areas identified as being significant for this topic: firstly, an examination of the development of clearing banks into the 1980s; secondly, looking at employee relations practices in banking; and thirdly, an overview of the literature on management strategy, particularly that pertaining to industrial relations. Such a review provided the researcher with a broad understanding of the key issues and a number of areas to focus on. Chapter Three explains the methodology in terms of the overall approach adopted and the actual techniques involved, especially the practice of multiple triangulation and also discusses the research process in terms of case study work and problems of access. Chapter Four provides an historical overview of the development of the Co-operative Bank with the general theme of the Bank moving away from identification within the co-operative movement towards the financial sector. Chapters Five, Six and Seven contain the empirical work and form the main body of the thesis. Chapter Five discusses changing business strategy in the Bank in the context of a fast changing competitive environment and focuses on a

new Corporate Plan and two years later a Strategic Plan designed to address the problems the Bank was facing. Chapter Six looks at the shift away from personnel management towards a more strategic approach to the management of labour with the adoption of human resource management and Chapter Seven examines the implementation of the policies and the problems involved in such an approach. The final chapter, Chapter Eight, draws together the thesis with a summary of the research, a broadening of the discussion to examine business strategy and the management of labour generally, and some ideas for future research.

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## CHAPTER TWO: LITERATURE REVIEW

### Introduction

This chapter encompasses a review of the literature on three areas:

- 1 Development of the clearing banks
- 2 Employee relations in the clearing banks
- 3 Management strategy.

All three topics are essential to an understanding of the topic of research - business strategy and the management of labour. The first section examines the macro-economic and sectoral developments in banking and their impact on organisational structure so as to provide the context for developments in the Bank; the second looks at the past and present pattern of employee relations in banking to enable us to see the historical development and how the approach to managing staff has changed with growing competition; the final section discusses the relationship between business strategy and industrial relations strategy, and examines the conceptual underpinning of existing theory for utilisation in the thesis.

### 1 The Clearing Banks in the 1980s

#### (a) Introduction

In this section an account is provided of the changing character of the banking sector. We first examine the basic structure of the industry, and the criticisms of conservatism levelled at it. We then look at the changing context of the 1980s, and the effect this has had on strategies and organisational structure.

#### (b) Basic Structure

The banking industry and the whole financial sector are going through a period of unprecedented change with the main forces being deregulation, competition and new technology (Llewelyn 1985, Rybcznski 1984). Banks are offering housing services and developing merchant

banking activities; building societies are offering banking services; large department stores are also entering the financial sector. Hence, banking in the future will be very different from what we think of as banking today.

*"What is in doubt, however, is what it will really look like. Almost certainly there will be no typical bank."*

(Frazer and Vittas 1982 p125).

Historically, the traditional function of the clearing banks (so called because individual transactions between them are cleared through the London Clearing House) was to take in retail consumer deposits and to lend them typically to finance industry and trade (although by 1981 almost a quarter of total clearing bank lending was to persons). These services were provided via a network of extensive national branches (some 11,000 today) which were linked to a clearing house to allow money transmission and debt settlement (Shaw and Coulbeck 1983). Thus:

*"The banks are essentially financial intermediaries. They make their money by taking deposits and lending on to other customers at a margin; to attract customers they did not levy a true cost for their services such as cheque clearing, but subsidised these from profits made by not paying interest on current account. At the heart of the bank's operational monopoly in the retail market was the ownership and control of the clearing system, and this contributed to the highly segmented financial market structure by placing a significant barrier to erstwhile competitors."*

(Morris 1986 p15).

While banks and building societies both competed for deposits, they provided for a different market in terms of lending, banks typically lending short term unsecured loans by overdraft (thus requiring the assessment of credit risk), although the overdraft was also used to finance long term projects since they were commonly rolled over from one year to the next while the fiction was maintained that they could be recalled on demand (Grady and Weale 1986). Building societies, on the other hand, made loans for house purchases, i.e. long term secured

loans. The segmented financial structure ensured that there was little competition with the merchant banks who financed trade by long term loans or the issue of company shares. Thus the capital market was separate from the retail banking sector.

Among the clearing banks the degree of price and product competition has been limited, competition being expressed in the number of branch outlets. Over the years they followed broadly similar growth strategies: expansion of the branch network in the 1960s; development abroad in the 1970s, encouraged by authorities to lend to banks and governments in lesser developed countries so as to recycle the surplus built up by OPEC countries. Problems with bad debts are apparent in the 1987 profit figures (see Table 2.1). In the 1980s there has been a search for diversification outside retail banking (Morris 1986). In terms of profitability the clearing banks have been very successful. Between 1969 and 1977 the consolidated pre-tax profits of the 'Big Four' more than quadrupled and they dominate the retail banking sector to the extent of having 80% of all bank accounts in Britain. Since 1977 profits have risen steadily (see Table 2.1)

However, it is a matter for debate whether these huge profits reflect outstanding management performance or owe more to the powerful position they have as a result of monopoly of the clearing system and to external factors, particularly the high-interest-rate policies of governments in the attempt to control inflation, which produced the so-called endowment effect.

**Table 2.1: Pre Tax Profits**

	Barclays	Lloyds	Midland	Nat West	
1978	373	189		231	306
1980	523	305		230	415
1982	495	329		251	449
1984	655	468		135	671
1985	840	561		351	804
1986	895	700		434	1,011
1987	339	-248		-505	704

**Source: Annual Reports**

**Table 2.2: Network Size and Market Share**

	No. of Branches 1986	Market Share Current Accounts
Barclays	2,843	21.3
National Westminster	3,133	19.8
Midland	2,211	15.9
Lloyds	2,152	15.3
Trustee Savings Bank	1,576	14.0
Royal Bank of Scotland and Williams and Glyn's	842	4.0
Yorkshire	287	3.7
Co-operative	84	2.5

**Source: Annual Reports Committee of London and Scottish Clearing Banks (CLSCB)**

Furthermore, the trend towards bank accounts has been important: the number of workers being paid in cash has been reduced from 75% to 54% between 1969 and 1979. It has also been pointed out that despite the fact that only 20% of clearing bank profits has been paid out in dividends since 1970, the ratio of equity capital to total bank assets has fallen to the point where capital is scarce (Bevan 1985).

### **(c) The 'Soporific' Clearers**

The result of natural market dominance was "*innate conservatism*" (Nevin and Davis 1970). The banks perceived their main role to be to obtain the savings of the personal sector via its branch network as cheaply as possible, and then lend this to industry and commerce with the personal customer coming second. This conservatism was reinforced by the banks' position at the centre of the monetary system and their being used as a major instrument in the implementation of national monetary policy. Government guidelines, both qualitative and quantitative, on lending acted as a constraint on bank policy (Crawley 1982). The banks were consequently unhappy with the description of them given by the Monopolies Commission in 1968 as 'soporific'. They were inhibited from innovative activity by the cartel agreement which fixed the rates they paid for deposits and the minimum rates charged for overdrafts. The latter were linked to the Bank Rate and were thus effectively determined by the Bank of England. Hence this political contingency (Ferner 1985) created conflicting objectives of national interest and private

profit. The banks saw themselves as public utilities offering facilities which were not profitable, e.g. free bank managers' advice and helping the government administer exchange controls, for which they were not directly rewarded (MacCrae and Cairncross 1985).

There were two major changes in the early 1970s. Firstly, in 1970, true profit figures were published for the first time, which enabled shareholders to assess performance more accurately. Secondly, the new policy of Competition and Credit Control in 1971 ended ceilings on personal lending, with banks being encouraged to manage both the assets and liabilities sides of the balance sheet (Blanden 1982). However, the conservative approach remained. This owed something to the fact that services were interdependent on the clearing system and the opportunity to compete by product innovation was limited. Thus:

*"the advantage of being first to launch a new service is usually very short-term because there are no secret formulae and nothing patentable - all the 'ingredients' are disclosed in the first advertisement or pamphlet so that the time for computer re-programming is usually the main constraint on competitors bent on imitation."* (Crawley 1982 p72).

This could be seen in the immediate response to the launch of Barclaycard with the creation of the joint credit company by Nat West, Lloyds and the Midland. Furthermore, the Supplementary Special Deposit Scheme (the so-called 'corset') was introduced in 1973 and continued until 1980 and this involved a progressive tax on the growth of interest-bearing sterling deposits.

Overall, as Howcroft and Lavis argue, the environment:

*"created a concentration on low risk credit formation as the main dynamic of management with the money transmission mechanism seen in administrative and functional terms, and the collection of deposits either as an incremental aspect of the system or provided through a treasury function via the wholesale markets."* (1986 p194).

The banks were, in fact, regarded as embodying the British virtues of conservatism, reliability and security. The other side of this coin, however, was the creation of a gulf between the ordinary

customer and the bank, with the banks being aimed very much at the top end of the market.

In the 1980s a rude awakening has taken place, with the banks having to examine new and better ways of providing service, and this has entailed a radical shift in its method of operation to a more consumer-orientated, marketing-based structure and style. Thus one way of bridging the gap between the customer and the bank is through the staff themselves. Table 2.3 shows the growing hold of the building societies on the liquid assets of the personal sector.

**Table 2.3: Personal Sector Liquid Assets 1981-7**  
(end year figures in million)

	BANK DEPOSITS			BUILDING SOCIETIES	NATIONAL SAVINGS			TOTAL
	Sterling Sight	Foreign Time	Currency		NSB	Other*	Other**	
1981	17,143	29,219	1,265	56,699	4,553	13,601	414	122,894
1982	19,445	30,562	1,615	66,993	5,357	16,316	388	140,676
1983	21,601	31,898	1,625	77,243	6,030	18,557	412	157,366
1984	24,933	31,661	2,378	90,492	6,553	21,350	422	177,789
1985	31,406	30,082	2,213	103,806	7,075	23,296	389	198,267
1986	38,125	31,361	2,296	115,653	7,669	25,213	361	220,678
1987	44,817	31,836	2,114	123,934	8,194	26,729	337	237,961
end Sept								

\* NSCs, bonds and SAYE

\*\* tax instrument and short term local authority loans

**Source: Mintell Report**

#### **(d) All Change**

The forces of change have come from two main directions: the market itself with deregulation and increased competition and, secondly, technological change which is breaking down barriers between financial institutions (Lewlyn 1985). The result of these changes will be a shift away from bank-oriented towards a more market-oriented approach (Rybcznski 1984). This will involve a blurring of the lines between capital and credit markets and a greater reliance from the credit market rather than savings from the personal sector.

#### **(i) The Market**

The challenge to the banks' oligopoly has largely come from the building societies who have been successful in attracting customers by attractive rates, successful marketing and longer opening hours (including Saturday opening). They were helped by special tax concessions such as paying depositors interest net of tax (extended to banks in 1984) and favourable treatment on gilts investments (recently withdrawn). In addition, they have had a favoured market position in that mortgage interest received tax relief, they were free from the restraint of reserve requirements and operated a far more limited range of services. This has resulted in bank complaints that, since they had to subsidise the money transmission service by deposit accounts, this reduced their ability to compete equally in the savings market and the tax privileges were, therefore, discriminatory (Leigh-Pemberton 1979, Boleat 1980).

In this context the building societies have expanded their share of resident sterling deposits from 15% pre-war to 44% by 1985, while the banks' share has fallen from 55% to 33% (Bevan 1985).

The erosion of the banks' retail deposits was caused partly by their emphasis on the wholesale money market so as to compete for corporate business (Howcroft and Lavis 1986). In the 1970s the banks were squeezed by low cost competition on the wholesale side by the American banks and by the erosion of current and deposit accounts by the building societies and National Savings on the other. However, the erosion of the banks' position was alleviated by the growth in domestic lending (some 20% pa) and the growth in Euro markets. Furthermore, the 'endowment' effect of high interest rates increased the value of current account balances although public criticism of surplus profits led to the 'windfall' tax in the 1981 Finance Act (Bevan 1985).

However, when in the mid 1980s interest rates fell and with the bad debts abroad this led to even fiercer competition in the domestic market; the banks responded to the challenge of the building societies by entering the mortgage market, after the phasing out of the direct monetary controls in 1980/1 (Hall 1987). This was a dramatic shift in strategy. In the 1978 Annual Reports there was not a single reference to the housing market (Davies and Davies 1984). By 1982 the banks had 40% of the market although this had fallen to 16% by 1985. The gap in the market was

the result of building societies (at least until the abandonment of the cartel) setting rates at levels at which there remained unsatisfied demand for funds.

However, this did not prevent continued loss of deposits and the banks were forced to rely increasingly "*on expensive and perhaps footloose wholesale deposits*" (Bevan 1985 p2). Hence in 1950, 75% of the clearing banks' deposits were non interest bearing but by 1985 this had fallen to 26%. In addition to pressure from building societies there was the competition from National Savings, as the government could set unrealistic rates to fund the public sector (Quinton 1982). While one attraction of the move into the mortgage market was that it could help offset the adverse effect of falling interest rates, the banks were well aware that if demand was at a level that could not be funded from retail accounts they could be pushed into the wholesale markets where, if rates exceeded those in the retail sector, they would be forced to operate with very fine margins. Nevertheless, another attraction was that it could be used as a vehicle to introduce other services: insurance, loans for home improvements, etc.

The 1986 Building Societies Act has further increased competition by enabling them to compete on the asset side of the balance sheet for unsecured personal loans and other banking business as well as expansion into housing related services: conveyancing, estate agency, etc, whereas previously the range of activities was heavily proscribed. Furthermore, they are able to provide money transmission services and obtain funds from the wholesale markets (albeit limited to 40%). However, some of these opportunities are only available to the largest building societies and the Act still requires that 90% of assets are used to offer mortgages to owner occupiers. Thus, Abbey National proposed during this time to become a public company to escape the restrictions of the Act.

The TSB flotation further added to the competitive pressure and with 1.5 billion added to its resources it was expected to target the profitable upper end of the retail and business market, the Big Four becoming the Big Five, and is already considered a financial services group as much as a bank. Increasing differentiation has taken place as the National Westminster and Barclays have become bigger and more international than the others.

The growth in the presence of foreign banks in the U.K. (now 400), originally the result of

currency markets, has also been important and they now account for 1/4 total corporate lending in the U.K. Hence, while the volume of business may have increased, profit margins were squeezed in the 1970s. This was accentuated by deregulation by the government and new technology which broke down the banks' hold on their markets (Morris 1986). Furthermore, the banks' continued reliance on all purpose branches and failure to develop specialist service to corporate customers at the price required, contributed to loss of customers (Plender and Wallace 1985).

The much heralded 'Big Bang' while mainly connected with the Stock Exchange, did raise serious questions as to the future of banking strategy, with financing from the securities marketing becoming increasingly popular. Corporate clients have decided that it is cheaper to borrow by going to the market and issuing paper than it is to get a bank loan. Furthermore, it is also very flexible: it can be short term or long term, fixed or floating rate, and may contain elements of debt and equity (Hamilton 1986). In addition cash surplus is better invested direct in the money market rather than on deposit in a bank. The banks have faced up to securitisation by entering the traditional area of merchant banking, offering securities to investors on behalf of companies instead of channelling money through their own books. This was also the result of turning to fee income products to increase their capital base with the withdrawal from loan commitments abroad (Coggan 1986). All the Big Four (except for Lloyds) acquired stockbroking and jobbing firms before the 'Big Bang'.

In terms of the retail market, the opportunities are to become the main seller of investment services in the high street - the so-called financial supermarket or universal bank. Indeed the banks have been criticised for their failure to utilise the branch network to cross-sell financial products, one of the keys to success in a sector where barriers between different types of institution are being eroded. While the banks have within the financial group a comprehensive range of services, customers go outside the group for their financial needs. An organisational problem was that each section responsible for handling particular products was administered separately. Banks are likely to be more active in promoting their products to spread the cost of the branch network and achieve synergy.

In the long term the banks also have to face a challenge from outside the finance sector. Thus established department stores now provide personal loans, travellers cheques, etc. Marks and Spencer introduced their credit card in 1985 and in 1988 unveiled an in-house unit trust scheme, and Debenhams have since followed. While the incursion so far has been limited, the American experience, based on retailers like Sears Roebuck, suggests that they are well equipped to launch a drive into banking territory using trusted brand names. Furthermore, they have the advantage of the 'green field site syndrome' with the opportunity to utilise the latest technology and working methods.

Overall, it is clear that the banks needed to promote a more attractive image; to move away from the position where a visit to the bank is only slightly preferable to a visit to the dentist, towards the American style of a more active marketing approach (King 1981). The Midland Bank launched a new designer image with the bank becoming more like a shop. Lloyds' 'customer first' workshops were similarly designed to promote customer orientation. Customer loyalty (or inertia) can no longer be taken for granted: the customer is more sophisticated and demands a higher level of service - nearly 10% of customers shift their allegiance each year compared with 2% in the 1970s. The clearing banks' strategic business matrix had never previously regarded customer attitude as central but, as indicated by the rise in advertising, this is now changing. The banks require a shift of presentation away from being regarded merely as a provider of money transmission services to a provider of a range of financial products and consequently a more innovative pro-active role (Howcroft and Lavis 1986).

All these pressures are forcing the banks to change. As Bevan observes:

*"with so many currents clearly moving against banking as a whole it could be represented today as a high-risk falling margin industry beset by competition on all fronts - from overseas banks and the new issue market in the corporate lending sector and from building societies and National Savings on the personal front with no surge in lending to float it out of trouble."* (1985 p2)

With the non-performance of sovereign debt, focus has returned to the domestic market, although this will squeeze margins further.

However, the gloom of the early 1980s has been replaced by cautious optimism. The demand for bank services is still increasing particularly in the areas of home loans and consumer credit but there is also scope to increase payments via bank credit transfer, and still unexploited is diversification into ancillary financial services, e.g. estate agencies (Rajan 1984). In 1986 the pre-tax profits of the Big Four rose by 20% to 3 billion with over 70% of profit coming from the domestic side, which was responsible for all the growth. Furthermore, balance sheets were strong after a high level of retention and capital raising. While interest rates have fallen, the banks' policy of making fixed rate loans when rates were high has reaped rewards. The attractions of the domestic sector were emphasised by the efforts of Standard Chartered and the Hong Kong and Shanghai Bank to buy a slice of the market with their rival bids for the Royal Bank of Scotland Group, and the attempt of American-owned money shops, including Boston Trust and Citibank, to build up their U.K. retail operations (Blanden 1982).

Recently, there have been indications of a more competitive spirit among the clearing banks: Barclays' Saturday opening in 1982 so as to take on the building societies; Lloyds' bid for Standard Chartered in 1986; the end of the traditional system of clearing without charge the items of each others' customers. The banks have begun to offer interest on current accounts to meet the challenge of the buildings societies. Furthermore the old style of cross-subsidising in the account-charging structure is under threat as the process of 'unbundling' takes place (Morris 1986). There have also been link-ups by Midland with the Hong Kong and Shanghai Bank, and by Lloyds Bank with Abbey Life Assurance. Table 2.4 shows how the banks have responded to building society dominance in the mid 1980s.

**Table 2.4: Personal Sector Liquid Assets Annual Inflows 1981-7**

	Banks	Building Societies	National Savings	Other**	Total
	m	m	m	m	m
1981	4,275	7,082	4,182	106	15,645
1982	3,788	10,294	3,522	-311	17,293
1983	3,222	10,250	2,911	39	16,422
1984	3,318	13,249	3,317	70	19,954
1985	5,139	13,314	2,469	158	21,080
1986	8,465	11,235	2,510	96	22,306
1987*	5,856	6,242	1,629	n/a	13,727

\* Jan-June

\*\* tax instruments and short term local authority loans

**Source: Mintell**

Banks have never obtained the full costs of customer transactions but have subsidised this by not paying on current accounts; however, as banks lost deposits to building societies and are forced to pay interest on cheque accounts (problems worsened by technological advance which enables account holders to operate with low working balances) a new strategy has to be adopted (Hammond 1981).

In the credit card market the late 1980s have seen the introduction of credit cards by building societies (Halifax and Leeds), foreign banks (Chase Manhattan) and financial companies (Save and Prosper). Reference to the Monopolies and Mergers Commission also gave competition a push, and banks are now members of both Mastercard and Visa operations.

## (ii) Technology

The pace of change in information technology in banking has been intense. In 1973 253m was invested by the banks. By 1981 this had risen to 750m. This has enabled the volume of business to be expanded without a comparable rise in employment.

There have been two main and overlapping phases in the development of new technology in banking. Firstly in the 1980s there was investment in mainframe computers which enabled central processing of bank accounts; following from this the Bankers' Automated Clearing Services (BACS) allowed inter branch bank transfer of funds by magnetic tape to take place. Secondly, in the 1970s new technology began to come to the branches themselves; back office

terminals - in effect, on-line mini computers which collected information during the day and then transmitted this for central processing. These were later followed by the automatic teller machine (ATM) (Rajan 1984), the dramatic expansion of which can be seen in Tables 2.5 and 2.6.

**Table 2.5: Total Number of Cash Dispensers and ATMs**

1975	1977	1980	1981	1982	1983	1984	1985	1986
565	875	1,735	2,846	4,061	5,740	6,815	8,851	10,174

**Source: CLSCB**

**Table 2.6: Building Societies' ATM network 1982-85**

	No of ATMs
1982	6
1983	112
1984	291
1985	652

**Source: CLSCB/Mintell**

ATMs exemplify the difficulties in drawing clearcut distinctions between product and process technology (Rajan 1984). Willman and Cowan (1984) explain how they fit both categories: a new product (i.e. 24 hour banking) and also account information storage. ATMs have been introduced both to contain rising costs and improve the quality of service. However, their development raises important questions in terms of the size of the branch network as building societies move in to provide money transmission services without incurring the cost of the present paper based system. Furthermore, sharing facilities, e.g. Abbey National and the Co-operative Bank, enables smaller institutions to overcome the problems associated with size and target profitable activities.

Nor are ATMs all of one type: while almost 2/3 are through the wall, others are placed inside the branches so as to maintain interpersonal contact and expose the customer to the range of services or more remotely placed in shopping areas so as to attract a wider range of customers. The banks have used ATMs to support a variety of objectives (Willman and Cowan 1984) with Barclays particularly slow to install them, preferring to use Saturday opening to attract customers.

In the clearing process there have been two major innovations recently: the Society of Worldwide Inter-Bank Financial Telecommunications (SWIFT) began operating in 1977 to allow for the electronic transmission of messages; and the Clearing House Automated Payment System (CHAPS) came into operation in 1984 to allow 'same day' settlement of funds in excess of 10,000 rather than use the manual clearing system.

The two major developments for the future are Electronic Fund Transfer at Point of Sale (EFTPOS) and home banking. The former allows the by-passing of existing operations involving the handling of cheques and cash by the electronic transfer of funds from the buyer to the seller. The implications of the scheme are not yet fully clear.

*"It is an open ended question then whether developments in EFT will render large branch networks redundant. If that proves to be the case then existing institutions with substantial networks would be at a major cost disadvantage until they had dismantled them or utilised them in some other profitable way. It would also mean that small localised banks or building societies could operate nationally at relatively low cost."* (Shaw and Coulbeck 1983 p5)

The problems and concerns, particularly for the consumer, have not yet been settled (Marti and Zeillinger 1982) and, given that restrictive practices legislation will prevent the banks having a closed system, the banks still fear that building societies will get a "free ride" (Quinton 1982).

Home banking will be the most significant of all delivery systems, although it is unlikely to have much of an impact until the 1990s, in that it does not depend on an established customer franchise. In Britain, Nottingham Building Society and the Bank of Scotland have operated Homelink since 1983 and TSB have launched Speedlink this year.

#### **(e) Impact on Organisational Structure**

The breakdown of barriers between financial institutions has called into question the whole concept of a clearing bank (Cooke 1986). The importance of the branch structure was related to its being essential to the money transmission mechanism, and the fact that the number

of outlets was regarded as the main method of competition (Blanden 1982).

As Frazer and Vittas point out:

*“conventional wisdom until recently has been that branch networks should be as large as possible. There are good reasons why in the past this was a correct view. Convenient branch location is a major factor in customer choice, so the banks with most branches tended to get most customers. Convenience was an almost overwhelming factor in the days when there was little to differentiate the products of different banks. Large branch networks also provided a higher level of service to customers travelling away from the vicinity of their own branch. Banks with large branch networks traded on the convenience they offered customers. Because personal customers were interested in having a safe place to put their savings, with easy access to them in time of need, high street banks could afford to pay low rates of interest. The core of bank saving accounts still represent cheap money since customers are prepared to accept a relatively low rate of interest in return for convenient withdrawal facilities.” (1982 p106)*

Furthermore the branch was a major barrier to entry although this has now been eroded by technological developments which, as has been noted, enable new entrants to compete without incurring the huge fixed costs. Hence the:

*“fundamental aspect of their business, the branch, is growing less relevant: more centralised management functions, such as business development, marketing and control of the balance sheet, are shifting the focus of organisation from the diffuse and largely unstructured branch network towards the centre. Developments in telecommunications and electronic technology are the main arbiters of this shift. Communication and information permit a much greater degree of central management, and hence strategic control, of the business. In effect, the banks are now in a position to structure their response to the environment, rather than, as in the past, the environment tending to dictate the*

*organisational form.*" (Howcroft and Lavis 1986 p192)

Changes in strategy are likely to place a greater emphasis on marketing and the structure will move from being mechanistic and problem solving (suitable for a stable environment) to a more organic structure (Cowan 1982). As Large argues:

*"the bank needs to be structured around its customers' financial needs and problems rather than its own operational procedures."* (1980 p99)

Paradoxically, one of the main features of the breakdown of distinctions between different types of institution is to increase the individuality of these institutions: no longer will it be possible to generalise about 'the clearing banks' or 'the building societies'. With the end to segmentation of the financial markets caused by regulatory or technological constraints it may be difficult for institutions to distinguish themselves either by cost advantages or product differentiation. A different strategy matrix is the 'focus strategy'. This means identifying limited groups within the industry-wide clientele for whom particularly advantageous packages of accounts, credits and services can be constructed, and making one or more of these limited groups the core of the business (Sontheimer and Thorn 1986 p116). The very broadest choice here would be to decide whether to compete in the retail or wholesale sector or both. Even though:

*"financial products may be similar for these two markets, the business of serving them are quite different, requiring different management skills."* (Pollock 1985 p38)

The pressures indicated do not necessarily signal the end of the branch network system (see Table 2.7). As Shaw and Coulbeck observe:

*"It is not possible for the large banks to divert very quickly from such enormous commitment to premises, equipment and staff so that a steady progress of streamlining is likely to take place."* (1983 p58)

Furthermore branches still remain a barrier to entry (although diminishing); they project the corporate image and meet the customers needs; rationalisation could lead to the loss of some accounts and costs will be incurred by transferring accounts and moving staff (Pattison and

Quelch 1979, Morrison and Frazer 1982).

**Table 2.7: British Bank Branches 1975–86**

1975	15,102	1981	14,749
1976	15,102	1982	14,681
1977	15,093	1983	14,500
1978	14,911	1984	14,377
1979	14,828	1985	14,143
1980	14,767	1986	14,005

**Source: Committee of London and Scottish Bankers (CLSB)**

Branch segmentation and downgrading seem set to continue as the function of each branch is defined more closely to the market it serves. In part this can be seen as a shift towards price competition with each branch needing to justify itself in financial terms. Barclays with 2,850 branches in 1985 aim to reduce this by 500 within ten years with a further 500 downgraded to money shop operations (Turner 1985). Midland have closed 500 branches in the last ten years, over 17% of the total network, and 300 in the last three years, although they have had to open new branches in the south at the same time (Gregson 1987). Changes within the branches are also taking place: open plan branches to allow greater scope for marketing products. Barclays are aiming to distribute shares through its branch network to personal customers, which would also alleviate cost pressures on the branches. Insurance broking is being pursued by Lloyds through the Black Horse Estate Agency, which, with 80% of the customers from other banks, will provide it with the opportunity to recruit new customers.

Clearly the clearing banks have the advantage of several million customers for whom the branch network is still important, although Plender and Wallace (1986) argue that this means the banks had never had to fight for customers or experience fierce competition. It is only in the last twenty years as the personal customer has become more important that the clearing banks have accepted the concept of marketing.

One of the fears for the future of banking is that:

*“the current pace of change is greater than at any time in the past with the possible danger that it would lead to ill considered decisions about future*

*strategies and business options taken under the impetus of immediate competitive pressure."* (Llewlyn 1985 p20)

#### **(f) Summary**

This section has examined the development of the clearing banks over the last twenty years and the shift which has taken place from conservatism, stemming from a natural market dominance to being more market driven with the end to the oligopoly. In addition, with increasing intensity of competition and the fragmentation of markets, there is increasing differentiation among the banks and also organisational change so as to enable the banks to respond more effectively to customer needs. The thesis is concerned to explore the impact of these macro-economic changes on the Co-operative Bank, the manner in which the Bank perceives and reacts to the competitive environment, and how it seeks to position itself in the financial sector. While there is consensus that banks are becoming more market driven, there is a need to examine what this actually means in strategic, organisational and human resource terms.

## **2 Employee Relations in the Clearing Banks**

### **(a) Introduction**

There have been several studies of employee relations in the British clearing banks, in particular Morris (1986) analysed changing business strategies and their impact on the management of labour over the last twenty years. Other studies focusing more narrowly on industrial relations include Allen and Williams (1960), Blackburn (1967), Robinson (1969) and Heritage (1983). The extensive literature on white-collar workers, the dual labour market, new technology and gender issues is also of relevance, e.g. Prandy (1965), Bain (1970), Doeringer and Plore (1971), Roberts et al (1972), Prandy, Stewart and Blackburn (1982) and Crompton and Jones (1984). In this section we examine the system of paternalism which has characterised employee relations in banking and also the dual union structure. We then look at the trends in the

1980s as the changing nature of the industry has impacted on employee relations.

Retail banking has traditionally been characterised as a highly labour intensive industry with labour costs some 70% of total operating expenditure. The banks have been regarded as highly mechanistic organisations (Burns and Stalker 1961, Cowan 1982) with staff seen as a fixed cost because of their association with money transactions and the branch structure (Morris 1986a).

Despite rapid automation and increasing competitive pressure, banks have not had to institute job cuts and indeed employment has expanded although not at a rate comparable to the volume of business (Rajan 1984).

The finance sector may provide a partial explanation of the paradox posed by industrial relations experts of enormous continuity in the institutions of industrial relations along with the evidence of enormous change at the workplace (Batstone and Gourlay 1986). At the same time competitive pressures in the 1980s have led to a shift from a national system of bargaining to an enterprise based system.

#### **(b) Paternalism in the banks**

The banks have been characterised by apparently harmonious industrial relations and have not suffered from the 'British disease' of industrial action associated with the manufacturing industry (Palmer 1983). The banks' oligopoly in the product market was reflected in similar management styles across banks. The banks have followed a strategy of bureaucratic paternalism similar in some respects to the Civil Service, ICI and some large private sector companies. The banks have promoted unitarism (Fox 1974) encouraging an ethos of teamwork, shared interests and loyalty. It is true that to some extent white collar workers have in any case been seen to identify more with managers, holding a 'prestige' hierarchy view of status rather than a polarised two-class concept (Lockwood 1958, Prandy 1965, Crompton and Jones 1984). Unlike blue collar workers, there is not a clear dividing line between management and workforce. Furthermore as Lockwood points out:

*"the outstanding fact which all but the most biased observer of the class system must recognise is that, although he shares the property-less state of the manual worker, the clerk has never been strictly proletarian, in terms of income, job security and occupational mobility."* (1958 p203)

The banks wanted a commitment beyond the cash nexus and reinforced what could be regarded as a natural identification by its policy of paternalism. Paternalism was thus to be seen as a strategy as well as a conditioning set of values (Morris 1986 p23) and, following Morris, it should be regarded as a multi-faceted concept.

As a result of the banks' position in the financial system, the banking manager was regarded as a 'financial GP', with responsibility to a wider community and not solely concerned with making money. The banks were thus distinct in some genteel fashion from the more vulgar occupations of industry and commerce (Nevin and Davis 1970 p198). A clearing bank chairman, speaking after the Second World War, claimed banking was not a business but a public service (Bevan 1987).

Secondly, banks were concerned with the 'whole man'. Lifetime employment was the norm for career staff and this was made possible by rapid expansion and high profits. Table 2.8 shows the growth in employment in banking.

**Table 2.8: British Banks' U.K. Staff 1975-86**

1975	244,522	1981	285,773
1976	248,535	1982	291,177
1977	255,907	1983	295,379
1978	262,886	1984	296,980
1979	278,413	1985	318,323
1980	191,793	1986	329,235

**Source: CLSCB**

As Lockwood observed:

*"job security did constitute a partial alternative to ownership."* (1958 p204)

There was also a social wage in the form of substantial fringe benefits: non-contributory

pensions, subsidised loans, etc. Enterprise consciousness was engineered by social activities (e.g. sports facilities) designed to encourage employee commitment (and also to some extent to discourage unionisation). Such benefits form part of what D. Roy terms the 'sweet stuff' employers' strategy (see Crouch 1982 p48).

From early on, banking employment was regarded as different to other forms of employment. Thus W. Gilbert, a Victorian banker, wrote that:

*"there would be considerable difficulty in applying the rules laid down by political economists with regard to the wages of labourers to the case of the bank clerk. A banker does not hire a clerk because he is the cheapest man he can get, nor does he dismiss him as soon as he can get another man to do the same work at a lower price. He would not find it in his interest to do this; for his work is of a peculiar kind. This clerk must have a certain degree of education and of manner and be taken from a certain class in society. They are not allowed to engage in any other employment. They have to maintain a respectable appearance. They must be prepared to take higher posts should a vacancy occur. And in every post they are entrusted with a large amount of property and upon their integrity and prudence reliance must at all times be placed."* (quoted by Cowan 1984 p9)

Thirdly, and most importantly, the career structure was vital in ensuring loyalty of employees. A system of internal promotion was underpinned by an unwritten agreement between the banks on no poaching. Hence opportunities for career advancement were with the one bank and, in theory, all who entered the banks' employment had the opportunity to reach the top management positions. This appeared to be supported by the fact that most senior management had risen through the clerical grades (the basic job structure in banking being four clerical grades and above that appointed and managerial posts). The total dependency on the internal labour market contributed to the ethos of legitimate management and forms part of the system of bureaucratic control (Edwards 1979). Thus the internal labour market within the individual bank is

more consistent with Edwards' argument on increasing control and dependence that the Doeringer and Plore (1971) thesis of skill specificity related to uniqueness of production and technology, for while banking skills themselves may be specific, there is little evidence to suggest that skills within one bank are non-transferable. Furthermore, the emphasis on general skills served two functions for the banks; it ensured the flexibility necessary if job security was to be guaranteed; secondly, it prevented or hindered thinking along careers based on specialisms which are self-evidently transferable (Marsden 1982). This cult of the all-rounder - the banker who can do anything - has clear parallels with the Civil Service, which has similar principles of job security, seniority promotion and lifetime careers; the bank manager is very much an 'organisation man' (Whyte 1960), who does not just work for the bank but belongs to the organisation. There are some similarities with the corporate paternalism found in large Japanese companies (Hill 1981 p53-60). Such a system rewarding loyalty and experience, for instance, by age-related increments for clerical staff seemed appropriate, given the stable product market.

For many white collar workers, careers are at the centre of their value system. Paternalism, and the loyalty it engendered, rested partly on the opportunity of career advancement for the bank employee. Bain, Coates and Ellis (1973) give it as one reason for the moderation of male bank staff. While managers only represent 7.1% of all staff (or 15% of men over the age of 25 - the age when turnover falls sharply), above half can expect to hold a managerial position at some stage in their employment in the bank (Marsden 1982). For this to occur, there must be a high degree of wastage from the clerical grades. In 1968 the wastage rate for women aged 18-23 in the clearing banks was 25% pa (Heritage 1983). As we have noted, historically it was the pattern that men were regarded as future bank managers and hence studied for professional exams while women would work only until marriage. While it was undoubtedly the case, particularly in the 1960s, that many women who entered banking were not interested in a career, bank policies on recruitment and personnel policies reinforced this. Thus the banks laid down minimum education levels for men but not for women. Hence in 1979, 52% of women had less than four O-levels as against 22% of men (Egan 1982) and so there were human capital

divergencies, themselves partly the result of recruitment; potential was assessed at different stages using different standards (Povall et al., 1982); age incremental scales in the 1960s progressively narrowed for women but widened for men after the age of 24; as recently as 1975 Midland Bank asked male applicants only if they were willing to undertake banking exams. In any case, study leave and access to training courses was very much at management discretion. Hence for some bank staff, there was a job rather than a career, and this tended to reflect gender.

There is an extensive literature on the two-tier career structure, e.g. Blackburn 1967, Egan 1982, Heritage 1983, Crompton and Jones 1984. Blackburn's reference to a "*clearcut sex distinction*" still holds true. While 60% of the workforce in the clearing banks are female (c.f. 37% in 1948), fewer than 17% of supervisors and junior managers are women, and above that no more than 3% (Boydson and Paddison 1986).

The work situation reinforced a co-operative ethos (Lockwood 1958). The majority of bank employees work in small high street branches where the work is not very fragmented and mutual co-operation is vital for the branch to function (Heritage 1983). With an average 14.2 staff at each branch (Child and Tarbuck 1985) this clearly facilitated informal communication and less rigid hierarchical structures. As Heritage (1983) notes small branch size leads to common and overlapping experiences of work and concentrates to 'branch norms' which influence attitudes at work.

Collective representation in banking has been characterised by dualism: representation of staff by 'Internalist' staff associations and by a national union existing side by side. This reflects banks' attitudes and strategies. Initially banks were hostile to collective representation and pursued "*forcible opposition*" but this changed to "*peaceful competition*" to head off union growth (Bain 1970) and the attempt to shape collective representation was reflected in the 'internalism' of staff associations which were initially set up, supported and encouraged by the banks, and indeed were dependent on them (Allen and Williams 1960). They were also facilitated by the internal labour market and the ambivalence of bank employees to unionisation.

Internalism has been described as:

*"system by which the staff of any particular business organise themselves to negotiate with their own management on all matters concerning staff conditions, with an emphasis upon the common interests of employer and employed."*

(Cowan 1984 p15).

Hence the company-based staff associations have been in conflict with the national Banking, Insurance and Finance Union (BIFU). While the terms and conditions in banking, and indeed the experiences of banking in general, are virtually the same in each bank, staff have not identified strongly with those in other banks, and this has been encouraged by the banks' emphasis on the enclosed culture of each bank.

Historically it has been true that for the average career oriented male clerk, the prospect of advancement was such that joining the union was likely to have the effect of hindering him, since union involvement and management status were regarded as incompatible. Women tended not to join, allegedly because of the expected short term nature of their employment and the fact that marriage awaited them. The work was also seen as fairly pleasant. Furthermore the opportunity to join the union was hindered since, without recognition, there was no access to the workplace and norms in small branches as we observed were heavily influenced by branch managers (Heritage 1983). Blackburn (1967 p51) suggested that white collar attitudes tend to be unfavourable towards unionism and, to the extent that white collar workers have joined unions, this has usually been explained as a defensive reaction to declining status (Strauss 1954, Mills 1951, Allen 1971, Roberts et al 1972), purely instrumental, accepting a loss of prestige for economic gain and very much motivated by a desire to maintain differences vis-a-vis the manual worker.

As noted, white collar workers are generally regarded as being more individualistic and less militant than manual workers, and bank workers in particular have been seen as the *"ultra middle class group of workers"* (Lockwood 1958 p176). The forerunner of the union, the Bank Officers' Guild, was keen from the inception to avoid association with the manual trade unions and maintain professional status (Blackburn 1967).

Between them the BIFU and the staff associations represent some two thirds of the 250,000 staff in the clearing banks. Also, the Manufacturing, Scientific and Finance Union (MSF) have a presence in the Midland Bank, having absorbed (when they were the Association of Scientific, Technical and Managerial Staffs - ASTMS) the Midland Bank staff association. Hostility between the two bodies has not abated, although the staff associations have become noticeably more unionate (Blackburn 1967) and there has been fierce competition for membership between the two.

The BIFU, formerly the National Union of Banking Employees (NUBE) has, as the changed name indicates, moved from a banking union to a more broadly based finance union, with less than 50% of its membership in the banking sector. The diversification was an attempt to respond to financial and organisational difficulties, but paradoxically, in order to make the union more attractive, power has been decentralised to the sectors and BIFU has adopted a more enterprise oriented approach - hence, close to the staff associations in this respect (Willman and Morris 1985). Thus, the bank clerical worker is no longer at the core of BIFU membership.

After the NUBE complaint to ILO and the resulting Cameron Report in 1965, government pressure and industrial action led to the establishment of joint representation at both national and domestic levels. However, NUBE withdrew from the Negotiating Joint Council in 1977, ostensibly because of opposition to the pay claim, which went against the government's income policy, but also as part of the Union's strategy to pursue majority membership by showing its greater power (Morris 1986b). In 1980 the Clearing Bank Union was founded by the staff associations of Barclays, National Westminster and Lloyds and collective bargaining was re-established with separate but identical arrangements for the BIFU and the CBU in 1983. While merger talks continued with the aborted Association of Banking and Finance Unions (ABFU 1973-6) and the Johnston Report of 1978, they were dogged by ideological difficulties and disagreement over control of subscriptions, employment of officials and the question of branch structures (Morris 1986b).

The collapse of the Federation of London Clearing Bank Employers in 1986 also spelt the

end for the Clearing Bank Union but this has not yet led to the re-establishment of merger talks.

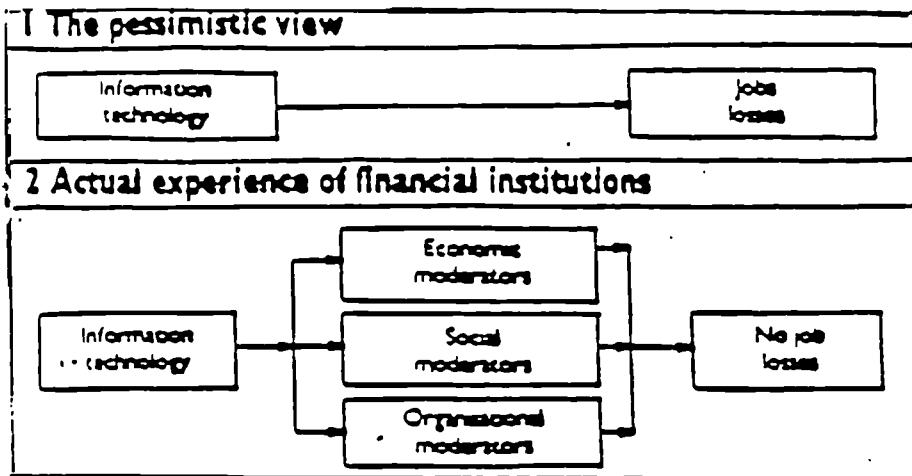
Overall, the management of labour has been important in the contribution to the banks' commercial success even if only in the negative sense of not preventing or hindering change. Paternalistic policies, divided staff representations and weak shopfloor organisation all enabled management to have a high degree of control and retain prerogative. The next section explores two key themes: firstly, changes in the context of banking and the destabilising effect this may have on paternalistic policies; and, secondly, the extent to which it is no longer enough for management to see labour as merely a facilitating force. As banks become more market driven, it is argued that far more active co-operation is required from employees and they must contribute in a positive sense to the commercial success of the organisation.

### **(c) The End of Paternalism? - Employee Relations in the 1980s**

#### **(i) Setting**

Much of the literature on the future of employment in banks (both in terms of quantity and quality, has been pessimistic (BIFU 1983, 1984) and draws from the work of writers on technology in general, e.g. Braverman (1974). In practice, many of the fears have proved to be unfounded (Cooke 1986). The impact of technology has been mediated by economic, social and organisational moderators (see Figure 2.1).

Figure 2.1: Conceptualisation of the Technological Impact on Jobs



Source: Rajan 1984

In the 1970s the rate of volume growth, the lack of trained specialists, customer attitudes and technical difficulties limited the realisation of the full potential of technology. However, in the 1980s competitive pressure has acted as an accelerator and employment growth has already slowed (Rajan 1984). Even in the 1970s, while business growth was 7% in real terms, employment only grew by 2%. It is difficult to estimate the effects closely since they vary between different levels of application. While some innovations are concerned with automating existing processes, others are designed to create new services and may, therefore, result in net employment creation (Cooke 1986)

The end to the oligopolistic structure of the sector in the 1980s has shifted strategic thinking away from the traditional problem solving approach (appropriate in a stable environment) to a more creative approach. Thus one banker observed that:

*"Banks are moving away from being successful bureaucracies - conservative, stable, formalistic, hierarchical and reactive; staffed by prudent career-minded*

*professionals, minimising risk (both corporate and personal) - to engagement in a wider spectrum of increasingly diversified and inherently more risky and less stable activities on a global basis."* (Mosson 1986 p53)

As each bank decides what package of financial services it will provide, this will lead to re-assessment of organisational structure and skill requirements. Given that industrial relations is not seen as an autonomous function but essentially facilitative and determined by 'first order' business objectives, changes in business objectives will affect the approach to the management of labour. The withdrawal of Midland from the Federation of London Clearing Bank Employers (FLCBE) in 1985 was a good example of product market change affecting labour relations. The Midland Board stated that: "*we can't go on paying all the staff on the same time honoured basis*", and argued for the need for more flexible pay structures so as to be more closely aligned with business strategy. Midland were also said to be motivated by the failure of the CBU and BIFU to establish a reasonable working relationship. Furthermore, the collapse of their US based subsidiary, Crocker Bank, had placed the Bank in a difficult financial position. This took place at a time of increasing domestic competition and concern with Third World debt.

Midland's withdrawal was, in retrospect, the beginning of the end for the FLCBE and national pay bargaining. In 1987 the FLCBE (consisting then of the Nat West, Barclays and Lloyds) collapsed under the combined pressure of growing competition for staff (Nat West's problems in recruiting staff in London being the trigger point), industrial action over pay and the product market changes outlined. It seems clear that, as the banks diversify, the traditional policies to manage labour will require change. This move to enterprise level bargaining is, of course, in line with national trends (Brown 1983). The national bargaining structure had been set up at a time when demand for staff was high, especially for white collar workers, and the product market was stable, and hence the structure had effectively taken wages out of competition. By 1987 the banks were positioned differently in the market.

Cost pressures are paramount. Even with increasing automation there was a belief that the banks were overmanned (Fanning 1981). Furthermore, given that some 60% of staff were

employed in the money transmission system, there is concern with the development of EFTPOS and home banking. The need to contain labour costs was evident in the withdrawal of the clearing banks from their commitment to unilateral arbitration in 1981, on the grounds that they did not want decisions on pay and, therefore, costs left to outside bodies. This illustrates how the priorities of conflict avoidance of the late 1960s clashed with the cost priorities of the 1980s (Morris 1984).

There are fears that this will threaten the paternalistic policies of the banks with an end to the notion of a fair wage and possible leapfrogging. It remains to be seen whether a pay club or round table network will take the place of the Federation.

The failure of the unions to control the process of technological change explains their pessimism. Both the BIFU and the CBU would like new technology agreements to ensure negotiating rights and job security, although this has so far only been achieved in the Co-operative Bank and the Yorkshire Bank, with watered down versions in the TSB and the Royal Bank of Scotland. Neither union is opposed to its introduction and both believe it could remove the drudgery of paper work and, for instance, bring a shorter working week. The BIFU Microelectronics Committee argue for the acceptance by the United Kingdom financial management of complete trade union involvement in the process of change. It is argued that if they are short sighted enough to resist participation, they should be warned that they must take full responsibility for the organised resistance of the workforce (BIFU 1982).

In practice, BIFU have had two major problems. Firstly, there is management insistence on prerogative, when it comes to technology, which they argue is justified by competitive pressure, and hence this means the unions have consultation rights only (Child and Tarbuck 1985). Secondly, of course, there has been difficulty mobilising members whom the union regards as complacent. In addition to fears of job loss, the main concern is with career structures and part-time working (Willman 1986). Yet, despite union pronouncements, banking seems well in tune with other sectors in terms of the 'lack of trauma' over the introduction of new technology and the relative stability of management-union relationships (Batstone et al 1987).

There are a number of explanations for this. Firstly, change has taken place over time and in a piecemeal, incremental manner. Secondly, it has taken place in the context of growth. Rajan (1984) has referred to the virtuous circle of growth - technical innovation and new business growth - although he does indicate that with more mature technology and a more competitive environment the honeymoon period may be over. Thirdly, the impact on employment may be much more complex than a one-dimensional view. For instance it may improve the content of jobs while restricting career opportunities. Fourthly, the paternalistic system could successfully be utilised to lubricate the wheels of change.

#### **(ii) Implications for Employee Relations**

The effect of changes in the finance sector in terms of employee relations is wide ranging:

*"As the range of business options is extended and as problems become increasingly uncertain and strategic options more risk prone, this requires cultural changes and a new approach to recruitment, training, career progression and motivation."* (Howcroft and Lavis 1986 p13)

Cowan describes banks as:

*"Typical mechanistic organisations and this type of structure has served them very well in the past. The question is whether it will serve them well in the future in a rapidly changing economic and technological environment. It would be wise to assume not, and human resourcing managers should be considering how their organisation becomes more organic."* (1983 p22).

Much speculation has taken place on future career patterns. It is clear that more (high calibre) graduates will be recruited into what were previously specialist functions. This has already happened with the electronic data processing function. Furthermore, the traditional system of top managerial posts only being available to those with long branch experience is threatened. Thus many of the new recruits are not bankers at all but financial market experts, computer systems designers, etc. The banks are no longer able to meet requirements by in-

house training. This is consistent with Handy's (1984) prediction of ever-increasing reliance on outside professional expertise. As Segal-Horn points out:

*"these are all groups with very real external labour markets and no acquired socialisation into the banking industry."*

(1986 p15)

Hence different styles of management, career paths, remuneration packages, etc are required.

A broader question relates to the general polarisation of career structures into career and non-career. The more routine jobs, e.g. cheque clearing, and those not requiring intensive training will be filled by the non-career scheme or married women, mostly part-timers. Hence the traditional model of careers in banking as a simple pyramid, implying that all who enter at the bottom have the opportunity to reach the top, is being modified, so that for many a non-career path is made clear from the start. As Rajan (1984) states, no longer will banking represent the principle that *"every private carries a field marshal's baton in his knapsack"*.

One must be careful not to see a two-tier career system as a sudden change - in many ways it could be seen official recognition of what in reality, was in practice two tier. In fact, multi tier recruitment has been taking place for some twenty years. Thus the traditional homogeneous entry of 16 year olds was replaced in the 1970s by a mixture of 16 and 18 year old school leavers (Mosson 1986). However it is the case that, it is unlikely for instance, that a 16 year old school leaver would become a branch manager by 45. With shrinking opportunities for many recruits at the lower level, and more women being career-oriented, this has implications for the proletarianisation of the workforce. Thus if:

*"only a minimum of women achieve promotion then this will constitute a serious threat to the established pattern of male non-manual careers."* (Crompton and

Jones 1984)

'Career' staff will thus consist of the new layer of specialists and a re-skilled group of generalists. The notion of core and periphery categories of workers, applied particularly in the manufacturing sector, is of relevance (Atkinson 1985). Nat West and Lloyds, in 1983 and 1984 respectively,

ended their programme of day release to study for IOB exams for all except those on management trainee schemes. Barclays has ended time off for the majority of new entrants, which has been interpreted by BIFU as an acknowledgment that career prospects are limited. While lip service has been paid to providing greater opportunity for women, with career breaks schemes being introduced by Midland, Nat West and Barclays, only highly qualified staff are eligible (Boydon and Paddison 1986). There are also few examples of positive action in terms of provision of child-care facilities, opportunities for part-time working in more senior management or a high provision of maternity leave above what is statutory (Povall et al 1982).

Segal-Horn argues that changes in the career structure shows how poorly established banking has been as a profession:

*"The professional qualifications offered by the Institute of Bankers served as an artificial and purely internal labour market since the banks had always controlled both the supply and the number of new entrants as well as career progression by operating a no poaching policy." (1986 p15)*

In a sense, then, exams were more important as a reflection of attitude than ability.

Traditional managers will have to adapt to a more pro-active approach, although some will have reservations about doing what they regard as a salesman's job. Hence the "management of exit" will become increasingly important (Hunt 1984). With new technology there will be a shift of staff away from processing items in the clearing system to marketing new products. As banks become more like retail shops, tellers become sellers, open plan banking becomes the norm and operations are divided into corporate and personal, the staff recruited will change to reflect this.

The extent to which the changes outlined are detrimental to bank staff has yet to be determined. One must be careful not to follow the Braverman type analysis (1974) which, by associating new technology with deskilling, assumes a technological imperative. New technology, for instance, could lead to greater variety and autonomy within the job, since it facilitates the making of more routine decisions at a lower level; job enlargement, if not

enrichment, with tellers performing back-office functions as well as speeded up front-office functions. The machine room in 'on-line' new technology branches' processes works via on-line terminals, and this requires the skill at the terminals and a more rounded task. Lobby work can be divided into bank tellers' jobs, routine and non-routine tasks, and the 'open plan' screenless counter has reduced their role. Child et al (1985) noted the differing responses of full-time and part-time cashiers to these changes and the divergence between what each sought from work was apparent. This raises questions on recruitment and motivation. In the very different occupation of industrial technicians, Roberts et al observed that:

*"as a solution to the lack of career advancement opportunities, management in some cases was adopting a policy of job enrichment and enlargement. It was hoped that by extending jobs by the addition of extra tasks and responsibility this would give the employees a greater sense of achievement and go some way to satisfying the aspiration of technicians for promotion and more control over their work."* (1972 p325)

In the 1980s:

*"automation has moved into the front office as well as proliferation of communications network and micro-computers designed to support management decision making. This has vastly expanded the range of jobs affected directly by changing technology."* (Cooke 1986 p15)

This would facilitate branches performing functions previously under Head Office control and hence line managers could become more involved in both setting objectives and assessing performance.

Thus, even a tentative examination of some of the changes makes it clear that existing personnel policy in recruitment, job design, remuneration, training, management development, etc will have to be re-examined. As noted, it has been external market pressure that has been responsible for the banks re-assessing their approach to the management of labour. As in other sectors, 'flexibility' is in fashion. The dual labour force is one aspect of this. In terms of pay

structures, there is likely to be a reduction in grades and incremental steps to ensure greater task flexibility and less rigidly defined jobs - although this has never been a problem for the banks. While job evaluation may determine the rate for the job, performance related increments will become increasingly important. Such remuneration packages have received most attention in connection with the City and the 'Big Bang', but the financial sector as a whole has experienced ripples from this.

With the banking culture now being oriented towards results the pay system is being adapted to reflect and reinforce this. Profit sharing has helped in the development of 'flexibility' since the payments are usually non-pensionable and thus not a fixed cost. Specialists require a different pay system altogether, since they may not be suitable for promotion within the general pay structure.

The building societies, with Abbey National at the forefront, are also in the process of re-assessing pay structure and abandoning across the board increases in favour of performance related pay.

However, concern should be expressed on the way such systems are being introduced: profit sharing for many banks has become very much the response to the market and hence one of the benefits expected to accrue from such schemes, a greater commitment and identification with the organisation, may not occur unless it is more fully integrated with a programme of information sharing and better communication. There is also a need to reward innovative behaviour. As Cowan observed, in the traditional banking days, it was the case that:

*"If you want to get on, you observe strictly the norms and conventions of the organisation....[and this] encouraged imitative behaviour at all levels."* (1983 p.41)

Targeting may also be part of the package for some employees. Barclays have in Nottingham introduced a Personal Target System (PERTS) on the selling of loans etc. Such schemes bring echoes of the theory based on the manufacturing sector, that tighter product markets and slacker labour markets will lead to an increase in direct control (Friedmann 1977).

The process of change has also focussed attention on communication:

*"this reflects a paradox, in that as the business environment becomes more competitive, the need for staff co-operation and commitment increases yet uncertainty is more likely as the old assumptions about job security and career progression are eroded."* (Morris 1985 p69)

Hence there are video presentations for managers on corporate strategy, experiments with quality circles and schemes designed to tap employee potential. This is consistent with policies pursued in other sectors (Bassett 1986), although it should be noted that the cause for such schemes is essentially product oriented and not concerned with employee satisfaction per se. The experience of joint consultative committees in 'Scotbank' is not encouraging, given its minimal impact on staff (Cressey et al 1985).

It is, of course, of far greater importance in the service sector to instil the right attitudes in staff. Given that the banks do not yet produce significantly different products, customer choice is often based on convenience and image, the latter of which is partly created by staff (90% of service organisation staff have direct contact with customers, as opposed to 10% of manufacturing staff). Hence customer consciousness and sales ability, rather than administration skills, are increasingly important and this will clearly affect recruitment policy (Irons 1983).

Hence, job security, career advancement, social esteem and rewards for loyalty have been characteristic of banking, and were indeed part of the implied contract. However, market changes and increasing cost pressures are threatening the entire notion of paternalism. Whether or not the erosion of entrenched values will destroy unitarism and lead to a rise in militancy is debatable (Hepburn and Handy 1985). The banking unions are in a difficult position with the spread of banking outside the traditional sector. Thus as:

*"banking moves out of the industry, BIFU's problem is the same as the NGA in trying to organise the entire product market."* (Willman 1986 p31)

There is also concern that American practices of de-unionisation may be followed; how far Barclays' and Nat West's refusal to recognise the unions in the merchant banking arm forms part

of a trend remains to be seen (Midland, for example, have set a minimum target figure to trigger recognition). There are, of course, wide differences in the degree and influence of unionisation in the banks.

It is possible that the exercise of management prerogative may create "*reluctant militants*" (Roberts et al 1972) concerned with their future careers. Changes in Saturday opening in 1967 galvanised many bank staff to join the union and take part in strike action. In a three month period the aggregate female membership went up by 60% (Heritage 1983). Barclay's return to Saturday opening in 1982 provoked protest from both the BIFU and the CBU. Midland's rationalisation process, involving a national reduction of 3000 by 1987, is an example of management's insistence on the right to manage, justified by reference to product market pressures. Barclays have stated that:

*"for the first time we are giving a clear sign that we do not just want to manage but that we want to be seen managing. We are adapting to a new industrial climate in which it is essential that management tells its staff where it wants to go rather than let other people do it for them."* (Financial Times 30.10.87)

Overall there is increasing attention in the banks to the management of human resources. There is greater emphasis on manpower planning and management development programmes. With the increasing competitive pressure and end to national bargaining, banks are developing more enterprise based policies. There are, of course, common themes: all the banks are becoming more market driven and performance oriented and are trying to promote active co-operation rather than mere compliance from staff. The environment and organisation seem to be ripe for applying the ideas of human resource management, and banks are placing greater emphasis on staff as a resource rather than a cost. Furthermore, the unions are apparently unable to influence much of management activity, which has remained unchallenged within the managerial prerogative. Much of the literature reviewed was pessimistic in nature and tended to assume the banks would be unable to meet the challenges of the 1980s. In fact, the banks' commercial success in the 1980s is well documented and, while there are cost pressures, the

impact of these on staff is alleviated because it is taking place in the context of high profits and rising employment within the sector. While change is taking place, it is long term and incremental. The last ten years have witnessed the resilience of existing banking employment practices and procedures.

#### **(d) Summary**

A review of the literature on this subject has shown that employee relations in banking has been dominated by a paternalistic ethos, largely non-conflictual and underpinned by steady growth and high profits. A national system of bargaining evolved in the 1970s under the conditions of a stable product environment which effectively removed labour costs from competition, and enabled the banks to take a fairly passive role in managing staff.

However, in the 1980s a more dynamic market has led to diverging corporate strategies, and the break up of the national system of bargaining. One of the main challenges is the maintenance of a paternalistic ethos at a time when there is pressure both to contain labour costs and develop staff as a resource. Hence the thesis will examine these issues.

### **3 Management Strategy**

#### **(a) Introduction**

This section examines the nature of management strategy. It looks at the problematic nature of the concept, and discusses some of the recent work on business strategy, applying this to the banking sector. It also analyses the nature of industrial relations strategy and in particular the recent interest in Human Resource Management. It goes on to examine management strategy in practice and the influence of culture. Finally it suggests that industrial relations needs to draw from this literature and that the strategic approach to banking has value.

**(b) Concepts**

Chandler defined strategy as:

*"the determination of the long term goals and objectives of an enterprise and the adoption of courses of action and the allocation of resources necessary for carrying out these goals."* (1962 p13)

While Chandler was essentially concerned with decisions on market and product positions and the relationship between strategy and structure in enterprises involved in continuous expansion, his emphasis on a long term approach is important since it contrasts with a process of 'muddling through'.

Nevertheless, the concept has been criticised for its emphasis on an analytical, de-personalised and rational approach. Firstly, it may impose a rationality which does not exist on a series of merely ad hoc decisions (March and Olsen 1976). Secondly, it assumes a direct relationship between intention and implementation. Thirdly, decision making by managers may have more in common with political deals than strategic choice (Thurley and Wood 1983, Cyert and March 1963). Hence, Pettigrew argues that:

*"decision making in organisations is not merely a thought process that balances goals and means, or a choice process in which the environment is discriminated as a limit to choice only through the mind of the decision-maker. Rather, it may be understood as a political process that balances various power sectors."*  
(1973 p196)

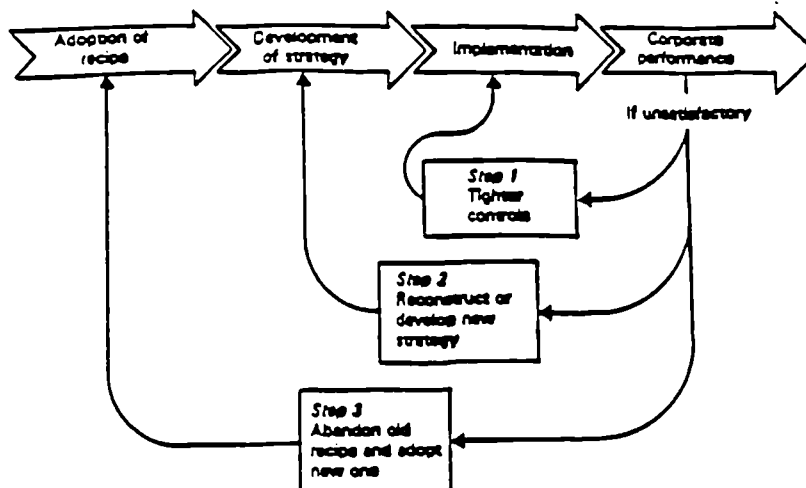
Fourthly, the assumption that strategy is an output rather than a process has been attacked. Thus Mintzberg (1978) regards strategy as being consistency over time in a *"stream of decisions"* and the testing of alternatives, making a distinction between intended and realised strategies and developing the concept of emergent strategies, whereby there is consistency of action over time without prior purpose of it. Hence deciding on a course of action is only a small part of the process. Quinn writes of:

*"logical incrementalism - a patterned set of initiatives and responses which is*

*not muddling through, but properly managed, it is a conscious, purposable, proactive executive practice."* (1980 p17)

Spender agrees that management do not systematically evaluate all the strategic options but will apply solutions in line with previous experience. In other words, the pattern of values and experiences helps define the area in which the solution must be found (Grinyer and Spender 1978), e.g. Figure 2.2

**Figure 2.2: Dynamics of Recipe Change**



**Source: Grinyer and Spender 1978**

### (c) Business Strategy

The distinction between corporate and business strategy is that, while the former relates to the concept of the firm's business which provides a unifying theme for all its activities (Ansoff 1969), the latter relates to the level of the individual business unit. Nevertheless, the terms are often used interchangeably. Ansoff regards business strategy as essentially concerned with the choice of product market portfolio, which was itself dependent on the environment in which the enterprise operated; strategic decisions are distinguished from operational or administrative decisions in that the former relates to the external environment. The process is analytical, and

rational changes in the environment would produce strategic changes which would affect management control decisions on e.g. investment and then operational decisions in a cascade like flow. The aim was to produce synergy.

Strategic planning grew out of two streams of thinking on the management of production: the programmes of planning and budgeting during the Second World War; and secondly, the influence of the Harvard Business School in the 1950s, arguing for more explicit attention to the process of formulating strategy (Porter 1987). In the 1950s, long range planning was in vogue, with the implication that the future was predictable by the extrapolation of historical growth.

The 1960s saw an explosion of schools of thought on how to create order from chaos. Portfolio planning became the order of the day, the most famous being the Boston Consultancy Group, who stressed the importance of 'relative market share' based on the 'experience curve' (a concept based on the relationship between accumulated experience and the ability to cut costs). Other models include the growth/share portfolio, the product life style based framework, the Profit Impact of Market Strategy (PIMS) programme, the company position/industry attractiveness service, and various other forecasting models (see Porter 1987, Taylor and Sparkes 1977, Thomas 1983).

Corporate planners were criticised by Argenti for:

*"devoting immense energy to making cash flow calculations on a computer or the building of elaborate manpower models, while giving no thought whatever to such clinical questions as to whether the company is too large or too small."*

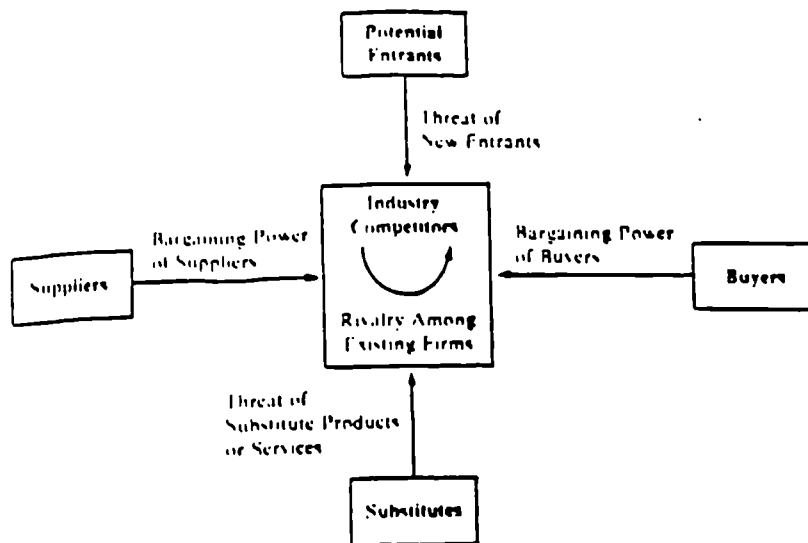
(1974 p3)

Argenti stressed that corporate planning was for the company as a whole and not the whole company. Partly as a response to criticism of over prescriptiveness, partly as a response to the break of the continuity of post-war expansion, corporate planning evolved into strategic planning, which emphasised 'doing' as well as planning.

Porter (1980, 1985), drawing on micro-economic theory, has developed a set of analytical 'techniques' for developing strategy. There are five competitive forces acting on the firm:

- (i) threat of entry
- (ii) Intensity of rivalry among competitors
- (iii) threat of substitution
- (iv) bargaining power of buyers
- (v) bargaining power of suppliers

**Figure 2.3: The Five Competitive Forces**



**Source: Porter 1985**

Thus, according to this model, profits will be low when threats of entry are high, the threat of substitution is greater, the bargaining power of buyers and suppliers is high and rivalry is high. Mathur (1986) comments that the model is important in what it omits: there is no explicit consideration of technology or government regulation. Thus the model implies that these are reflected in changes in the intensity of the five forces, so do not require explicit attention.

Hence this analysis is illustrated with respect to the U.K. Financial Services Industry below (Johnson and Scholes 1984, p.71):

#### **The U.K. Financial Services Industry - 1983**

A structural analysis highlights the competitive forces at work in the environment thereby

providing management with a basis for strategic evaluation.

This is a brief summary of a piece of research which employed structural analysis to study the U.K. personal financial services industry from the point of view of the U.K. clearing banks. Particular attention is given to the current account segment because of its importance in being a stepping stone to 'selling' other services such as loans and deposit accounts. Four key sources of competitive forces were examined.

**Threat of entry.** The main barriers to entry are: strict government regulation, the experience of the industry already gained by the banks, and the large capital requirements. Building societies are considered potential entrants because of their related experience in operating various savings accounts. However, the barrier they face is whether they can obtain cheque clearing facilities. The capital required to set up a clearing system similar to that already operated by the banks would be considerable.

**The power of buyers and suppliers.** Buyers (borrowers and buyers of services and advice) and suppliers (depositors) exert little bargaining power over the participants of the industry. Rates of interest remain the same between banks, being determined by macroeconomic factors. The large number of buyers and suppliers means that the individual customer will have little bargaining power.

**The threat of substitute service.** Substitute services come directly from the state in the form of Girobank and the National Savings schemes. While being a potential threat, they are not intended to capture the market, rather their role is one of funding the Public Sector Borrowing Requirements.

**The rivalry amongst existing competitors.** Competitive forces that result from internal 'jockeying for position' are low (though growing) because of the lack of product differentiation and the oligopolistic nature of the industry. The main source of competition takes the form of extensive advertising campaigns.

**Conclusions.** The analysis indicates that the major competitive force facing the industry comes from the possible entry of the Building Societies, especially into the current account

segment. Management therefore needs to pay particular attention to monitoring their movements and to prohibiting their entry to the cheque clearing system. Alternatively, the banks may consider allowing the Building Societies to use their cheque clearing facilities providing they could reap some benefit from letting them do so. Competitive forces resulting from internal rivalry were low at the time of analysis but warrant careful monitoring as a potentially significant factor. Substitute services could be a threat if the Government had to finance a longer PSBR.

Porter (1980) argues that there are three "*generic strategies*" to sustain a competitive advantage (see Figure 2.4):

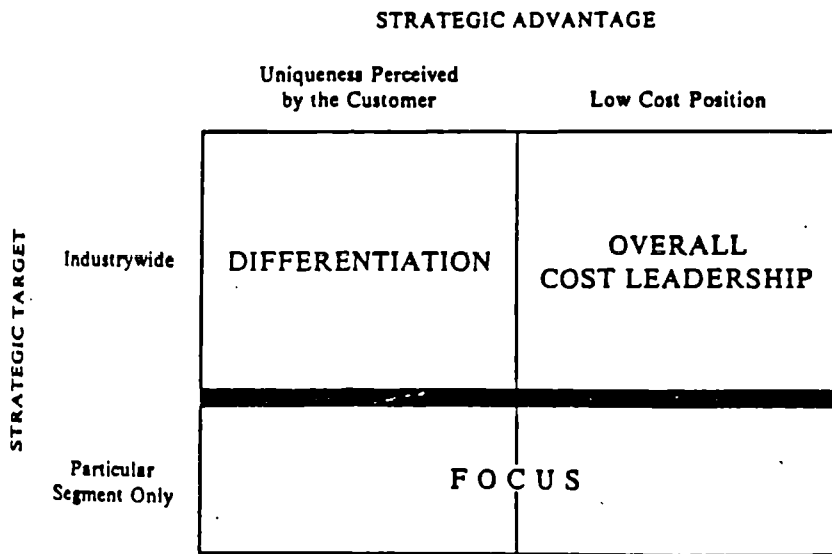
- (i) Overall cost leadership,
- (ii) Differentiation of the product or service so as to be unique
- (iii) Focus strategy - to target a particular group or segment of the market so as to achieve low cost or differentiation for that segment. (This is basically a narrower scope of one of the above.)

For Porter the greatest danger is to "*stuck in the middle*". Such a firm:

*"lacks the market share, capital investment and resolve to play the low cost game, the individual differentiation necessary to obviate the need for a low cost position or the focus to create differentiation or a low cost position in a more limited sphere."* (1980, p41).

There are also risks associated with each of the generic strategies (see Table 2.9).

Figure 2.4: Three Generic Strategies



Source: Porter 1985

Table 2.9: Risks of the Generic Strategies

RISKS OF COST LEADERSHIP	RISKS OF DIFFERENTIATION	RISKS OF FOCUS STRATEGY
<p>Cost leadership is not sustained</p> <ul style="list-style-type: none"> <li>* competitors imitate</li> <li>* technology changes</li> <li>* other bases for cost leadership</li> </ul>	<p>Differentiation is not sustained</p> <ul style="list-style-type: none"> <li>* competitors imitate</li> <li>* bases for differentiation become less important to buyers</li> </ul>	<p>Focus strategy is imitated</p> <p>The target segment becomes structurally unattractive</p> <ul style="list-style-type: none"> <li>* structure erodes</li> <li>* demand disappears</li> </ul>
<p>Proximity in differentiation is lost</p>	<p>Cost proximity is lost</p>	<p>Broadly-targeted competitors overwhelm the segment</p> <ul style="list-style-type: none"> <li>* the segment's differences from other segments narrow</li> <li>* the advantages of a broad line increase</li> </ul>

Cost focusers achieve even lower cost in segments

Differentiation focusers achieve even greater differentiation in segments

New focusers sub-segment the industry

**Source: Porter 1985**

Porter's model has been subjected to empirical testing and refinement (e.g. Mathur 1986). For instance, the notion of a single business strategy has been said to be misleading and choice is in any case qualified by the nature of the market. In commodity markets for example, non cost leadership is likely to be difficult (Morris 1987).

Furthermore, Mathur (1986) argues that two generic strategies overlap. Differentiation, he says, relates to the external dimension of customer perception, cost leadership, however, is concerned with inputs. Hence:

*"Cost leadership achieved by internal savings in factor costs is quite compatible with a high level of external non-price differentiation." (1986 p92)*

Finally, Porter has very little to say about the organisational constraints on strategy. His model assumes that the main constraint on the firm is the existing state of the market and that organisations will respond rationally to market analysis. However, as Pettigrew points out:

*"The rational approach describes and prescribes techniques for identifying current strategy, analysing environments, resources and gaps, revealing and assessing strategic alternatives and choosing and implementing carefully analysed and well thought-through outcomes. This rational picture of business problem-solving has as its concern the content or what of strategy - the outcome which is sought - and has nothing to say at an explicit level of how to achieve that outcome. In other words; it has no process theory within it of how and why to create the strategic outcomes so perceptively and logically derived from the analysis of competitive forces." (1985 p19)*

**(c) Industrial Relations Strategy**

Thurley and Wood define industrial relations strategy as:

*"long term policies which are developed by the management of an organisation in order to preserve or change the procedures, practices or results of industrial relations activities over time."* (1983 p198)

The link between industrial relations and business strategy has on the whole been neglected, partly because of the difficulty of access, partly because of the self-imposed parameters of the discipline and concentration on workplace collective bargaining (see e.g. Timperley 1980, Winchester 1983, Wood 1982), but also owing to the lack of explicit attention given to industrial relations matters at the top strategic level. The CIR Report on the Role of Management in Industrial Relations (1973) argued that industrial relations was too easily neglected by top management, who concentrated on purely business objectives and played industrial relations 'by ear'. Winkler (1974) wrote of an *"avoidance strategy"* whereby management had in effect subcontracted responsibility to local management, with industrial relations being regarded as *"external to the enterprise"*. Furthermore, the dominance of financial control has been said to militate against serious consideration of labour relations at top management level (Batstone 1984). It is also rare in the U.K. to have Directors for Personnel on the main Board.

One reason that there has been little discussion of industrial relations at the corporate level is the lack of union influence at this level (partly because of union bargaining being based at plant level). Hickson and Mallory observed that the scope of management choice in the making of strategic decisions appeared to be affected more by the prior *"programming decisions of the decision makers themselves than by union power"* (1981 p59). Of course that does not exclude the possibility that such decisions do not have significant consequences for labour.

A different approach is used in the labour process literature, e.g. Braverman (1974), Edwards (1979), Thompson (1983), which assume that management strategies are formulated with labour's role in the production process as central to thinking. Nichols and Beynon (1977)

argue that business strategy demands an industrial relations strategy of 'control', choice existing only in regard to the means of control. However, the labour process school has been criticised for monist preconceptions and the:

*"assumption that capital must and can devise a coherent system of control to ensure the structurally necessary extraction of surplus value."* (Storey 1985 p194)

and is not backed by empirical work which shows neglect of industrial relations considerations at the highest level.

The entire notion of strategy in industrial relations was strongly criticised by Anthony (1977) in a critique of the CIR viewpoint that it was advantageous to have a clearly defined industrial relations strategy in order to promote consistency in business decisions and create a high trust relationship which would facilitate change without disruption. Anthony argued that it was:

*"naive to talk of industrial relations strategies given that firms were not in business to develop industrial relations policies (the business of business is business) and hence pragmatism would predominate - industrial relations should not be seen as an autonomous function but essentially facilitative. The business of the industrial relations specialist is to see to it that business can get done."* (1977 p26)

Such non-strategic industrial relations, the so-called 'fire fighting' approach, has been characterised by Miller as implying a function which is:

*"separate from the business; reactive; short term; of no interest to the board of directors; constrained by a legalistic and institutional definition such that it is concerned principally with lower level employees."* (1987 p352)

The assumptions implicit in the CIR approach were that good industrial relations were somehow an objective in their own right. However, the same could be said with regard to production and marketing - these are regarded as more strategic but are also facilitative.

A middle view would be that although management do think ahead systematically about industrial relations, in terms of practices and procedures this is fairly well downstream in corporate planning. Nevertheless, while the above may represent a fairly accurate picture of the corporate mind and perhaps reflects a greater degree of unpredictability in industrial relations as opposed to other areas, it is *"a dangerously simple model with which to gauge its importance"* (Miller 1987 p348).

Indeed, the growth of interest and emphasis in human resource management has been regarded as a reflection of the growing appreciation of the importance of employee relations, although some would undoubtedly regard it as the 'flavour of the month' and no more than 'old wine in new bottles'. There have been a number of reasons for this interest: more competitive product markets, the Japanese example and the decline of union influence which has enabled emphasis to be placed more on individualism than on collectivism (Guest 1987).

The importance of ensuring the commitment of employees across industry has been emphasised, for example by Walton (1985), who argues that there is a shift away from emphasising control to one of commitment, but this can be even more significant for the service sector. In retail banking, the banks do not yet provide significantly different products and hence consumer choice is heavily influenced by convenience and image, the latter partly created by contact with staff, and there is thus a clear strategic link with quality of service and quality of employees (Irons 1983). Yet in banking, traditionally staff have not yet been recruited or developed for customer contact skills but for technical and administrative ability. Furthermore, with banks wanting to move away from being regarded as merely providers of a money transmission service to the selling of a range of financial products and services, the organisation will, in Burns and Stalker's terms (1961), become more organic and less mechanistic, and this will require greater commitment and active co-operation rather than mere compliance from its staff, hence the appeal of human resource management.

Miller, borrowing from Porter, defines strategic human resource management as:

*"those decisions and actions which cover the management of employees at all*

*levels in the business and which are related to the implementation of strategies directed towards creating and sustaining competitive advantage." (1987 p352).*

Those companies with a reputation for progressive human resource practices are significantly higher in long term profitability than their counterparts (Kanter 1983 p19). Hence, unlike personnel management, which has usually been regarded as a peripheral function, human resource management attempts to:

*"relate personnel practices to beliefs, to link each and every process of recruitment, induction, training, appraisal, rewarding of individuals, to an avowed set of articulated beliefs of the organisation." (Hunt 1984 p16)*

Behind all this is a belief that it will release greater commitment from employees although one has to be careful to examine the extent to which:

*"human resource management is genuinely concerned with creating a new equal partnership between employer and employed, or are they really offering a covert form of employee manipulation dressed up as mutuality."*

(Fowler 1987 p3)

Hence it is significant that human resource management was, particularly in the USA, initially associated with non-union companies.

Human resource management is part of the shift away from a concentration on management and union relationships to management-employee relations. To that extent, it may reflect the changing balance of industrial power rather than changing ideology.

While human resource management is regarded as having a strategic element, unlike personnel management, there is a danger, as Guest (1987) suggests, of comparing an ideal type of human resource management with a descriptive view of personnel management (see Table 2.10).

**Table 2.10: Stereotypes of personnel management and human resource management**

	PERSONNEL MANAGEMENT	HUMAN RESOURCE MANAGEMENT
Time and planning perspective	Short term reactive, ad hoc marginal	Long term proactive, strategic integrated
Psychological contract	Compliance	Commitment
Control systems	External controls	Self control
Employee relations perspective	Pluralist collective low trust	Unitarist individual high trust
Preferred structures/systems	Bureaucratic/ mechanistic centralised, formal defined roles	Organic devoled flexible roles
Roles	Specialist/ professional	Largely integrated into line management
Evaluation criteria	Cost-minimisation	Maximum utilisation (human asset accounting)

**Source: Guest 1987**

Despite the greater emphasis on employee relations in corporate thinking and the growth in importance of the human resource management function, the function still has lower status and is accorded less significance than other functions, e.g. finance and marketing (Kochan and Cappelli 1983), and is largely ignored in business policy and strategic management texts, e.g. Ansoff (1984). Nevertheless, there are said to be clear benefits from adopting such an approach (see Table 2.11).

**Table 2.11: Policies for identifying human resource and organisational outcomes**

POLICIES	HUMAN RESOURCE OUTCOMES	ORGANISATIONAL OUTCOMES
Organisational and job design		High job performance
Policy formulation and implementation/ management of change	Strategic planning/ implementation	High problem solving
Recruitment selection and socialisation	Commitment	Successful change
Appraisal training and development	Flexibility/ adaptability	Low turnover
Manpower flows - through, up and out of the organisation		Low absence
Reward system Communication systems	Quality	Low grievance level High cost-effectiveness i.e. full utilisation of human resources

**Source: Guest 1987**

### **(e) Management Strategy in Practice**

Chandler's classic account (1962) was concerned with strategic decisions taken with regard to the firm's product line and organisation and essentially he was examining boardroom decisions, corporate blueprints with clearcut distinctions between the 'executives' who determined corporate objectives and were responsible for structure and 'managers' who were responsible for the day to day operation of the enterprise.

Such analysis seems to be very much based on ideal types. As Johnson and Scholes point out:

*"solutions are not so much likely to be adopted because they are shown to be better on the basis of some objective yardstick but because they are acceptable*

*to those who influence the decision or have to implement it." (1984 p37)*

Hence one needs to see solutions in a political as much as a technical light, with the prospect of intra-organisational bargaining (Walton and McKersie 1985) and the possibility that what produces major changes is a process of adjustment and adaption with the development of sub-strategies, rather than corporate blueprints. Thus Alford (1976 p57) suggests that discussion of grand diplomacy and of major crises, involving so-called key individuals should be treated, if not with scepticism, then with great caution. Dalton (1959) illustrated the discrepancy between formal charts and lines of authority and the reality of management in practice and behavioural scientists have shown how managers pursue sectional rather than official goals.

The difficulty of formulating and implementing strategy in a changing environment with strong external constraints has been noted by Kochan, McKersie and Cappelli:

*"Strategic decision making can only occur where parties have discretion over their decisions, that is where the environmental constraints do not seriously curtail the parties' choice of alternatives." (1984 p21)*

If knowledge of the environment was perfect, parties could formulate and implement policies while allowing for contingencies. However, in a complex and dynamic environment this is not possible.

Thus, in a case study of the insurance industry, Knights and Willmot (1987) demonstrated the difficulty of making high level broad ranging executive decisions on situations of extreme uncertainty and with incomplete information. Hence there are cognitive limits to rational decision making.

Clearly parties under certain conditions may be compelled to adopt short-term actions to meet immediate product market and financial demands and hence the business strategy for the appropriate conditions in the Thurley-Wood typology below may be called into question.

**Table 2.12: Various Types of Strategy and Situation**

EXAMPLE	BUSINESS STRATEGY	APPROPRIATE CONDITIONS
Department Store e.g. Harrods, John Lewis Banks, Insurance	Economic Mission based	Stable single market environment with established market share
	Rational long term pursuit of objectives given by founders e.g. service or provision of products for profit	Low level of technological innovation Hegemony of top management established
	<b>I.R. STRATEGY</b>	<b>APPROPRIATE CONDITIONS</b>
	Recognition/Non recognition decided by top management beliefs	Labour market allows selection to be severed and dismissal a real possibility
	Selection of employees according to these criteria (non-union or closed shop possible)	Tight managerial control over work operations
	Narrow scope for collective bargaining	

**Source: Thurley and Wood 1983**

However, one must be careful not to regard a lack of autonomy due to constraints, and strategic thinking as necessarily incompatible. For to:

*“argue otherwise is to make the very common mistake of associating choice with freedom and treating its opposite as determinism.”* (Thurley and Wood 1983 p12)

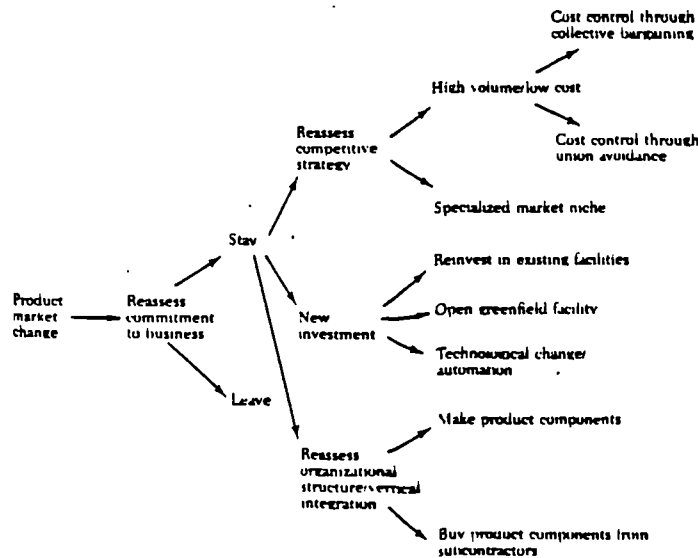
Thus Kelly's (1984) examination of strategic choice in two BSC plants showed how management faced with similar constraints produced very different policies.

The Thurley-Wood typology, while useful at a simple level, is clearly inadequate in that it is forced to overlook fundamental differences within the sector considered, in both product and labour markets (Morris 1986). Furthermore with the breaking down of the formerly clearcut distinctions within the financial markets between banks and building societies, for instance, there

is likely to be increasing heterogeneity among banking strategies.

Product market shocks can spark off a whole re-assessment of business strategies and organisational structure, for example,

**Figure 2.5: Sequence of Business Strategy Decisions Affected By Product Market Changes**



Source: Kochan et al (1983)

Hence, as Kochan et al observe:

*“Regardless of the cause, a sharp increase in competitive pressure forces firms to make a series of decisions whose effects reverberate throughout the organisation and its industrial relations system.”* (1983 p24)

The extent to which such decisions are affected by industrial relations considerations is, as we have noted, debatable. Kochan et al suggest that:

*“while those business decisions are typically made unilaterally, they are influenced by the history and current state of industrial relations in the firm and industry.”* (1983 p26).

The relationship between structure and strategy was explored by Chandler (1962) who produced the dictum that *“structure follows strategy”*. Clearly this is too deterministic and the

relationship may be symbiotic rather than causal; structure may constrain strategy, the process being interactive. Hence Supple comments that the goal of the institution or business may have to be adapted to the organisation rather than the organisation of the business having to be adapted to the goals (quoted by Alford 1976 p60). Pettigrew argues that the:

*"pattern of change at ICI was a complex and iterative process of adjustment in core beliefs of top decision makers followed by changes in structure, systems and rewards, with the bulk of business strategy emerging and being implemented rather more slowly after the change in beliefs, structure and systems had been legitimated and substantially implemented."* (1987 p423)

Furthermore if the firm has a strong position in the market it can pass on the costs of mismatch (Galbraith and Natranson 1978).

#### **(f) Value Systems and Culture**

The so-called soft aspects of management: style, shared values, staff and skills, have been the subject of much recent attention (e.g. Ouchi 1981, Pascale and Athos 1981, Peters and Waterman 1982). These writers have argued that financial goals are not sufficient in themselves, but need to be underpinned by a broader set of societal values. 'Excellent' companies create a sense of identification with the company and its own ethos.

Purcell points out that:

*"The new industrial relations, the growth of interest in human resource management, the move to decentralise and emphasise the role of line management and new approaches to personnel management, are all indicative of this search for a management style linked to business policy."*

(1987 p547)

However, the advantages of 'strong culture' firms should not be assumed. As Kochan and Cappelli observe:

*"they may be less responsive to short-run changes in external environmental*

*pressures than the firms where top management has not fully internalised these values and diffused them through the organisation.” (1984 p150)*

Pettigrew (1983, 1985) examined strategic thinking in terms of changes in leadership and organisational ideologies. He argued that, given that major strategic changes require the attention of the organisational ideologies about itself in relation to the competitive environment, for such changes to occur there needs to be some sort of ‘shock’ or ‘crisis’ to bring this about. However, the ‘crisis’ required to produce the desired change in organisational ideology need not necessarily be that resulting from objective change in business conditions. Pettigrew emphasises the role of management in the perception of choice and action and lays weight on both real and constructed crisis. Miles and Snow (1978) have examined the influence of the value systems and ideology of organisations through contrasting ‘defenders’ and ‘prospectors’. Defender organisations, with conservative values, tend to adopt strategies which concentrate on achieving a niche, while prospector organisations, with more dynamic values, look to innovation. Hence one cannot simply match organisational resources to the environment to produce strategy. Strategic choice is influenced by such values.

#### **(g) The Parameters of Industrial Relations**

Timperley pointed out that:

*“many of the major decisions in industrial relations are themselves contingent on other higher level context creating decisions which do not necessarily appear as industrial relations decisions at all,*

and argues that:

*“we are deluding ourselves if we assume that industrial relations activities would or should form a major or even moderate part in the determination of corporate strategy unless the level of labour unrest was of such magnitude to deflect the organisation.” (1980 p42)*

Hence in the car industry labour relations were seen as crucial to the success of the

company and the implementation of the industrial relations strategy was regarded as the key aspect to improvement in performance (Willman and Winch 1985, Marsden et al 1985), but contrast this to Williams et al (1987).

Certainly there are a number of first order business strategies which while not directly concerned with industrial relations, clearly affects the parameters in that it concerns plant size, locations, closure, diversification, etc. However, these are areas where unions have little or no input and are not usually the subject of collective bargaining.

If the subject area is broadened to include management development, training, motivation, etc (that is employee relations rather than merely industrial relations) then it is apparent that such issues do receive the attention of top management. The implications of the literature on management strategy and industrial relations are: firstly, to look more broadly at employee relations as indicated and, secondly, to examine the relationship between business strategy and employee relations which shifts the discipline and the traditional workplace focus (Poole and Mansfield 1980). As Timperley points out:

*"traditionally the approach within organisations has been to look at industrial relations from the bottom up, perhaps a top-down approach, using a time dimension to study the process of decision making and following through these decisions over time, observing both effects and the feedback into subsequent decisions, could be more beneficial."*

(1980 p43)

There is also the need to adopt a more flexible definition of strategy. As Child observes, the problem is:

*"stringent definition of management strategy has its failure to allow for the possibility that managerial strategy in the labour process may be more complex, less direct than a stringent perspective allows."* (1985 p110)

A loose definition is provided by Littler and Salaman (1984) who argued that the notion of strategy suggests no more than some degree of purposiveness or self-conscious deliberation on the part

of management.

One reason for the lack of emphasis on business strategy and employee relations is that personnel has traditionally never had a very prominent input into strategic development, being regarded as “*managers in ambiguity*” (Tyson 1983) and suffering from a crisis of legitimacy (Legge 1978). Yet, however good the strategy, it needs to be successfully implemented and this depends on the effective management of human resources. A case illustrating this is provided by Manning (1983). He gives the example of a frozen food company who act on the advice of consultants to institute a new corporate strategy. However, this implied a shift of resources from sales to marketing and also a redefinition of the role of senior manufacturing managers. However, the organisation lacked the necessary marketing skills, and long serving manufacturing managers (the main asset to the organisation) were outraged and left to join the competitors.

#### **(h) The Strategic Approach in Banking**

As Morrison and Frazer observe:

*“While the time horizon in retail banking is a long one, there remain many short-term considerations on what the banks can hope to achieve. Their plans can easily be blown off course by such external developments as changes in money and credit controls or in industries’ demand for finance. Moreover, the scope for formulating a truly distinctive approach to business development is heavily circumscribed by factors such as the practical difficulty of departing from the general level and structure of interest rates and the need for close co-operation with other banks in the smooth running of the money transmission system. So, although planning is of great importance and is taken increasingly seriously - within the individual banks - there are very real limits to what can be planned.”*

(1983 p106)

With a more dynamic environment, there is a greater than ever need for strategic thinking in terms of identifying the niche the bank wishes to compete in, but at the same time, with a state

of flux in the sector, contingency planning and flexibility are predominant to strategic thinking (Kudla 1982).

In terms of employee relations in banking, the strategic approach embodying a top-down approach has a great deal to commend it. Morris argues that there are a number of reasons why such analysis is appropriate. Firstly, the highly centralised nature of management control, with little discretion on either substantive or procedural issues at the local level, and the degree of centralised control has increased over time, further reducing autonomy of branches. Secondly, the emphasis on generalist skills, the all rounder, has prevented the emergence of an independent personnel function. Finally, the business environment has been conducive to long term planning and a strategic approach (1986, p6-7). However, in the 1980s, with a great deal more uncertainty, it is possible that the achievement of good industrial relations may not be compatible with other primary goals of the corporate strategy.

#### **(i) Summary**

The review of the literature on management strategy has noted the evolvement from corporate planning to strategic planning against the backdrop of a break in the continuity of post-war economic expansion. It also explored the increasing dissatisfaction with normative rational models of strategic decision making and an increasing concern with processual and incremental approaches. The notion of strategy in the management of labour was shown to have been strongly criticised and to have little empirical basis. However, we noted increasing interest in modern works on strategic human resource management, although it remains largely ignored in business policy and strategic management texts. In this thesis we will explore the way changed market conditions impact on management strategy and employee relations.

**Literature Review - Summary**

The literature on the three chosen topics is inter-related in terms of the thesis topic. However, the topics are by no means related at the level of the literature. This largely stems from the very different disciplinary approaches of writers on each of these areas. The literature on clearing banks is heavily descriptive, economic and historical, while the area of employee relations in banking has been most explored by sociologists interested in class analysis. Hence, one subject linking these two areas, the contribution of the management of labour to the commercial success of banks, is not considered by either of these areas of literature. Our third section, on management strategy, offers up a number of concepts and tools of analysis which can be utilised in the thesis. At the level of the literature, however, the concepts have rarely been applied. Few writers on management strategy have examined financial services. Furthermore, while the approach of writers like Porter is useful in understanding the banking environment, there is little evidence that bankers think in terms of a business policy rather than a financial policy model. The aim of the thesis is to link up these discrete elements of literature, to explore the subject of the relationship between business strategy and the management of labour.

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## CHAPTER THREE: RESEARCH METHODOLOGY

### (a) Introduction

This chapter examines and explains the research methodology that was employed in the research and the problems and issues that were faced. It looks firstly at the nature of the scheme under which the research was supported and then examines the conceptual approach adopted, and discusses the actual process of investigation.

### (b) ESRC Collaborative Award

The research was sponsored by the Economic and Social Research Council (ESRC) and was a Collaborative Award in Social Sciences (CASS). The scheme was *“designed to foster closer links between social scientists and non-academic organisations”*.

The advantage to the researcher is that *“the organisation will be involved with the student’s research from an early stage, in co-operation with his or her academic institution, principally as regards offering guidance and supervision and making facilities and perhaps relevant data available”*. Under the terms of the CASS award a senior member of the organisation is assigned to liaise between the organisation, the student and the university. In this case there were two individuals from the organisation: the Employee Relations Manager and the Assistant Employee Relations Manager, both of whom were members of a steering committee set up to monitor the progress of the research at regular intervals. The former was to have overall responsibility and control the direction of research, while the latter had day to day responsibility and arranged interviews, etc.

Over time, the Bank people on the steering committee came to act more as ‘informants’ than ‘respondents’ (Denzin 1978). The respondent is someone who has a passive role, reacting to requests by the researcher and sticking close to their official role. The informant is far more involved. Denzin says they should:

*“ideally trust the investigator; freely give information about their problems and*

*fears and frankly attempt to explain their own motivations; demonstrate that they will not jeopardise the study; accept information given to them by the investigator; provide information and aid that could jeopardise their careers."*

(1978 p198)

In practice, the Bank staff did not provide all these ideal characteristics but they were a source of information on issues and events to which the researcher did not have access, for instance, Board level meetings, and were also able to provide advice and guidance on the viability of certain proposals and to comment on propositions of the researcher. Crompton and Jones comment on the researchers' difficulty in achieving access as a:

*"long and often uneventful vetting by mostly suspicious management before he could even commence fieldwork."* (1988 p68)

This was avoided, and the collaborative nature of the work was especially valuable for the high degree of access it afforded.

The Bank input into the co-ordination of research changed over the period of research. A Human Resources Manager was appointed and he, together with the Employee Relations Manager, performed the role of liaison until the latter moved to another department and was replaced by the former Assistant Employee Relations Manager. The change in staffing did cause some problems, especially in the creation of some uncertainty on the part of the Bank as to what the research was about and how it fitted in with Bank expectations, which themselves changed over time. The original programme was for the researcher to pilot and be involved in the conduct and analysis of an Industrial Relations Audit which the Bank was planning to carry out. It was agreed that this would be a good vehicle for the researcher to gain insight into the organisation. However, after the piloting stage, the Employee Relations Manager was transferred to another department and the Audit was postponed and then eventually abandoned. This was early evidence of the dangers of having too rigid an approach to the research.

The advantages of the collaborative scheme have been outlined. There were also corresponding disadvantages, particularly in relation to loss of objectivity by over-identification

because of the close association with the department (sometimes referred to as 'going native') and also of being seen by others in the Bank to over-identify with one particular department. Thirdly, the department may well set limits to the scope of the research (Dalton 1959 p275) and this is especially dangerous when the department is one of the key actors in the area being researched. To some extent, one is always dependent on the goodwill of the organisational 'gatekeepers'.

The nature of the scheme raised the issue of feedback and reciprocity. Buchanan et al suggest that reports of the work should be made available first to the organisation to enable respondents to indicate sensitive information. This was the procedure agreed with the Bank. The censorship process has been criticised (e.g. Bulmer 1988 p155) but, as has been argued, in practice such an agreement is less restrictive as respondents are generally more concerned with accuracy rather than sensitivity and, moreover, such constraints tend to be relaxed over time as trust builds up and the passage of time removes the sensitivity of material (Buchanan et al 1988 p58).

### **(c) Approach**

A literature survey was undertaken on three main areas, management strategy, the clearing banks, and employee relations in the clearing banks. This served two main functions: firstly, the negative one of avoiding the errors of previous work or merely reiterating findings of previous research; and, secondly, the more positive side of developing concepts and ideas from existing work (Silverman 1985 p9).

The topic of business strategy and the management of labour suggested a top-down approach as the most suitable method of examining the process of strategic change and indeed filling in the gaps in the existing literature. Purcell has argued that:

*“there is a need both to examine industrial relations in the broader context of how the corporation manages the employment of labour, and to shift the focus of study away from what has become an almost exclusive concern with*

*workplace...[and that] the boundary definitions of industrial relations should be broadened to include corporate decision-making and the effects on labour, and to be more concerned with the whole gamut of employee relation policies and actions." (1983 p1-13)*

Furthermore, as Timperley points out:

*"traditionally, the approach within the organisations has been to look at industrial relations from the bottom up; perhaps a top down approach, using a time dimension to study the process of decision making and following through these decisions over time, observing both effects and the feedback into subsequent decisions, could be more beneficial" (1980 p43)*

Part of the reason for such a pattern of research, despite the recognition that management activity is primarily responsible for industrial relations within an organisation, relates to problems of access. Hence, this research was in an ideal position to carry out what Timperley suggests. A 'cascade' approach to the process of strategy was seen as worthwhile: that is following a decision down through the organisation, enabling one to see the disparity between policy and practice. Such an approach may be especially fruitful in the banking sector, where control is highly centralised (Morris 1986).

The approach was characterised by taking a broad holistic view of the organisation. The common danger in focusing on single variables is that it is too easy to assume that there are relationships between them, as they are the only ones being examined. In the banking environment, where chief concerns are related to uncertainty and change, it was deemed more valuable to analyse the reverberation within the organisation and the relationships between different areas, for instance, how a marketing plan of extended opening hours was achieved by offering profit sharing to the union. This is clearly not just a matter of listing every factor influencing the situation, which can become indiscriminate multi-causality, but examining the relationship between factors and seeing events in their setting or context. Such an approach is particularly important in analysing strategic change which is both complex and dynamic. Thus

Pettigrew argues for a contextualist approach, on the grounds that one needs to:

*"understand the emergent situation and holistic features of an organisation or a process in its context, rather than divide the world into limited sets of dependent and independent variables isolated from their context."* (1985 p228)

In terms of examining the management of labour this would be seen broadly, and include consultation, remuneration, training, recruitment, etc rather than concentrate on the traditional industrial relations focus of collective bargaining and union-management relationships, which is not generally recognised as being too restrictive (e.g. Edwards 1987 p168). Furthermore, in the finance sector, with a relative absence of conflict and a high degree of managerial prerogative, a broader approach is more applicable, since the absence of overt union resistance makes it more difficult to see where the changes are taking place.

A qualitative approach was adopted. As Fineman and Mangham observe:

*"if behaviour is viewed as situationally specific, idiosyncratic, multi-variate or holistic, then a 'richer', more descriptive analysis may well be taken to be worthwhile."* (1983 p296).

The objective of qualitative research is to:

*"describe, decode, translate or otherwise come to terms with the meaning, not the frequency, of certain, more or less naturally occurring phenomena in the social world."*

(Van Maanen, cited by Das 1983 p301)

Qualitative research is now more fashionable than in the 1960s when the stress on 'objectivity' and 'reliability' meant positivism, and the attempt to simulate the natural scientific use of theory was the norm. The archetypal approach was the application of a formula: a statement or hypothesis to be tested; an account of sampling and methods; and, finally, a description of results and a discussion of the implications (Silverman 1985 p3). Such a model has been criticised on the grounds that research in the real world does not fit this textbook model. In contrast, qualitative research tends to generate data in a non-standard fashion and hence has been described as *an*

*attractive nuisance*" (Miles 1979 p590). Furthermore, the process of analysis is said to be:

*"essentially intuitive, primitive and unmanageable in any rational sense."* (ibid. p597)

Walker puts it less strongly:

*"Analysis of qualitative material is more explicitly interpretive, creative and personal than in quantitative analysis, which is not to say that it should not be equally systematic and careful."* (1985 p3)

Turner has written that:

*"interest in qualitative methods for the study of organisations has grown, especially as such methods have come to be seen to be applicable to matters of urgent practical interest."* (1988 p108)

The thesis subject inclined the researcher to a relatively open-ended approach. Das states that:

*"longitudinal, in depth and open ended research design has almost become a necessity to capture the complex and multi-dimensional behaviour patterns within organisations."*

(1983 p385)

However, despite the work of Chandler (1962) and more recently Pettigrew (1973, 1985), such research is relatively rare.

Given the broad remit of the subject, it followed that no explicit hypotheses were set up in advance to be tested, although a number of issues were thrown up by the literature. Glaser and Strauss (1967) have emphasised the evolutionary nature of research, especially in the fieldwork phase. They point to the danger of sticking to a prescribed research design as this may lead the researcher to be less sensitive to theory and new ideas by the imposition of his own meaning on social relations, through his own prior definition of concepts. Thus, Glaser and Strauss warn of the dangers of developing theory from 'a priori' assumptions, and they criticise concentration on the verification of a priori theories.

Hence, in the early stages of the research, the remit in terms of the gathering of data and collection of material was very broad. Issues and questions emerged from the data and, as the process continued, the focus of the research narrowed so as to collect what was relevant, rather than what was merely interesting. Nevertheless, a degree of flexibility had to be maintained in order to allow the research to be re-specified. This was necessary as access to certain areas may have ceased or others opened, and it would also allow for a change of emphasis if there was dissatisfaction with the areas being explored (Silverman 1985 p22).

The research was a case study. This was defined by the sponsors of the research, the ESRC and the Co-operative Bank. It is generally recognised that, while survey work, e.g. Edwards Managing the Factory (1987), captures overall patterns, actual processes are best explored by case studies. However, the conventional view is that case studies are limited, in that they have limited generalisability. As Mouzells states:

*"It is obvious that, however ingenious the testing of hypotheses in one organisation, we can never be sure of their generalised validity. On the contrary, we can be almost certain that such hypotheses are only valid under certain conditions and for certain types of organisation. This being the case, the only way to find out what these conditions are is by the appropriate comparison of more than one case."* (1967 p178)

Such a view, however, has considered only one dimension of generalisability - statistical. However, the prospective generalisation of a case study lies in analytical generalisation. As Yin puts it:

*"case studies, like experiments, are generalisable to theoretical propositions and not to populations or universes. In this sense the case study, like the experiment, does not represent a 'sample' and the investigator's goal is to expand and generalise theories (analytic generalisation) and not to enumerate frequencies (statistical generalisation)."*

(1984 p21)

**(d) Process of Investigation**

The main method of research adopted to explore the thesis topic was longitudinal and contextualist, so to enable the research to capture the change taking place over the two years. It should be stressed that regular contact was maintained throughout the time of the research, and extensive periods were spent both at the Bank's Head Office and also at six other sites, including four branches. As Pettigrew observes:

*"without longitudinal data it is impossible to identify the processual dynamic of change, the relation between forces of continuity and change and, therefore, the indissoluble link between structure and process."* (1985 p233)

Nevertheless, while the research had the advantage of having longitudinal data and therefore not being a single snapshot, the researcher was obviously not present at all the events described. In a sense, then, the research can be seen as a series of snapshots supplemented by the perception of events by individuals who were there.

There is a tradition in the social science literature of emphasizing the advantages of multiple methods (Moser and Kalton 1971). Participant observation, interviews and documentation were the main methods employed. This procedure is known as 'triangulation' (Denzin 1978); the aim is that by:

*"combining multiple observers, theories, methods and data sources, sociologists can hope to overcome the intrinsic bias that comes from single method, single observer, single theory studies."* (1978 p317)

Hence different classes of data (observation, interviews and documentation) would help to overcome partial views so as to give a complete picture (Denzin 1978). Furthermore, multiple sources enabled the process of change, events and issues to be seen from a range of different perspectives and help overcome potential bias. Hence interviews took place in different departments and at different levels in the organisation. Documentary material also came in different forms: minutes of meetings, papers circulated for discussion at meetings, official reports,

company manuals, etc.

As we have noted, the aim of triangulation is to improve the validity and reliability of the research material, and it is argued that this approach has the virtue of at least recognising that in the social sciences:

*"empirical reality is a reality of competing definitions, attitudes and personal values."* (Denzin 1978 p294)

Nevertheless, triangulation has its own difficulties. Garfinkel has introduced the concept of 'irony' and warns of the temptation of treating behaviour and opinions in one setting as necessarily undercutting what appears to be happening in another setting. In other words, action makes sense in context and should be understood in those terms, rather than as a corrective to what is taking place elsewhere (See Silverman 1985 p21).

#### **(i) Documentation**

Documentary material was collected throughout the period of research, spanning November 1986 to December 1988, from a variety of sources. The most useful papers were those from the Policy Committee (the main policy making body below Board level) and two of the major subordinate committees, the Product and Technology Committee and the Human Resources Committee. Minutes were obtained from these meetings, together with discussion papers and other documents, including letters, agendas, announcements, administrative documents etc, which allowed the researcher some insight into the range of options envisaged and the different views existing, which was vital in terms of discussing the issue of 'strategic choice'. The problems relating to documentary material are well rehearsed and focus in particular on the issue of selective deposit and selective survival. Furthermore, some documents may be of limited value. For instance, the minutes of Policy Committee meetings clearly showed what had been settled rather than what had been discussed, and it was said that the Chief Executive liked very short minutes so as to emphasise agreement and collective decision making.

Other important documentation included the Corporate Plan for the period being

researched, and previous plans, which enabled one to see the development of corporate strategy over time and the gap between formal plans and practice; also personnel manuals, union agreements, etc. Consultants' reports provided an outsider's view of the organisation. Use was also made of more public papers: annual reports, Bank newspapers, press cuttings, bank journals, union papers and reports.

The aim in collecting and analysing such documentation has been well expressed by Yin:

*"For case studies, the most important use of documents is to corroborate and augment evidence from other sources."*

(1984 p80)

#### **(ii) Interviews**

These took place between November 1986 and December 1988 and were both semi-structured and unstructured. The former were open-ended and ranged from being short chats to more formal three hour interviews. The interview was kept flexible, allowing the interviewee to tell the story in his own words, allow his priorities to dictate the discussion and let him introduce topics himself, rather than impose on him the issues and structure in which the researcher was interested, although there was a checklist which was referred to.

Nevertheless, there are problems with such an approach. As Seltiz et al observe:

*"the flexibility frequently results in a lack of comparability from one interview with another. Moreover, the analysis is more difficult and time consuming than of standardised interviews."* (quoted by Silverman, 1984 p160)

As a general rule, the more senior the interviewee, the more open-ended was the interview. Many took the form of *"conversational interviewing"* (Dalton 1959 p280), which allowed better and richer data and the opportunity to probe for more sensitive data by being less openly obtrusive. As Ackroyd and Hughes observe:

*"the non standard interview is very often used when interviewing key personnel in an organisation when richer and fuller material is required."* (1981 p73)

Hence, when discussing employee relations, the interviews with senior staff in Personnel were less structured than when interviewing branch managers on the same issues. Such an approach had other difficulties: it was difficult to cut in on irrelevant monologues, and occasionally the researcher was given the official stance of the organisation (the espoused policy) masquerading as the operational policy, which was contradicted by other sources and occasionally in the same interview. For instance, the Head of Personnel said at the beginning of one interview: *"we consult with the union on everything which is being done"*, but admitted later in the interview: *"we by-pass the union on a daily basis"*.

The researcher used a tape recorder which, in the words of Buchanan et al (1988), has become 'accepted technology'. The advantages are well known: the ability to pick up much data and verbatim quotes, more time to concentrate on the interview and probe deeply rather than spending time on 'note taking' and hence perhaps losing course of the interview flow. The main disadvantage relates to microphone shyness, which is not an insignificant problem when discussing sensitive organisational issues.

For most interviews recorders were used; they were used especially when interviewing senior managers to whom access was difficult and insight was significant. It was used less frequently for those less directly involved in the issues being discussed, where the information had to be filtered more for relevance. In certain contexts they were not deemed appropriate: for instance, where the interviews took place in an open plan office or 'conversational interviewing' was taking place without the realisation of the interviewee. In the former situation brief notes were taken, with fuller notes being written up afterwards; in the latter, the researcher had to rely on committal to memory before being written up, a process known as 'memory dumping'.

Certainly, much useful information was gathered informally, with chats and observation at tea breaks, lunches in pubs, travelling with Bank employees and staying at the homes of Bank staff (In one instance for a period of four weeks).

Interviews took place with a wide range of people in the Bank over the two year period. Naturally, attention was focussed on those directly involved in business strategy and employee

relations, for instance, a great deal of time was spent with senior managers in Group Development (the Bank think tank) and the Personnel Department, where the researcher was based for part of the study. However, time was also spent with those less directly involved with strategic development, for instance, branch managers, whose concerns and insights could then feedback into interviews undertaken further up the hierarchy. It was not the intention of this research to take a bottom-up approach with a survey of staff members in the Bank. Hence the research was not strictly concerned with, for example, the impact on staff of organisational change and new technology per se, but only in so far as it affected management strategy and thinking.

Union representatives were also interviewed: these included the national negotiating officer for the union in the Bank, the control clerks (seconded staff), area officers and office representatives. Furthermore, in an attempt to place developments within the Bank in the context of other banks and the financial sector in general, a number of people outside the Bank were interviewed. These included national union officials at the union head office, various managers in other banks and building societies, staff in the Federation of London Clearing Bank Employees and representatives from the Co-operative movement.

Many of these interviews could not avoid problems of confidentiality, especially when exchange of information was expected to be reciprocal. Such difficulties are inevitable in this type of research.

Much of the research adopted the opportunistic approach endorsed by Buchanan et al, who argue that:

*"Fieldwork is permeated with the conflict between what is theoretically desirable on the one hand and what is practically possible on the other. It is desirable to ensure representativeness in the sample, uniformity of interview procedures, adequate data collection across the range of topics to be explored, and so on. But the members of the organisations block access to information, constrain the time allowed for interviews, lose your questionnaires, go on holiday and join other organisations in the middle of your unfinished study. In the conflict*

*between the desirable and the possible, the possible always wins."* (1988 p53)

### (iii) Observation

The researcher began his fieldwork with a two week period of familiarisation at the Bank Head Office in November 1986. This was important for the research for several reasons. The researcher had little knowledge of retail banking in the U.K. and almost no knowledge about the Bank. The period was valuable in allowing the researcher to immerse himself in the jargon of banking and the culture of the organisation. Furthermore, as Glazer points out:

*"insight gathered during this period contributes to developing or modifying the research design. It can alert the investigator to the reality of his research goals and to the possibility of him completing his work, given available time and resources. It can also sensitise him to the many pitfalls he must face as he continues in his research effort."* (1972 p49)

The researcher was for this familiarisation period placed in one of the offices occupied by two of the personnel managers. This was not perhaps ideal, since much of the department was open plan and such a location did not facilitate the gathering of informal material by observation and chats. However, time was spent visiting several departments so as to gain insight into the workings of the Bank and examining and collecting data. Furthermore, a number of people were met and contact established, and this enabled the researcher on his return to the organisation to be received with more confidence, having been 'seen around' the organisation regularly over a period of time, and hence established a relationship with the Bank.

Part of the research undertaken was participant observation. This is defined by Denzin as:

*"a commitment to adopt the perspective of those studied, by sharing their day to day experiences...defined as a field strategy that simultaneously combines document analysis, respondent and informant interviewing, direct participation and observation, and introspection."* (1978 p182-3)

The rationale for such a method was well put by Olsen and Whittaker:

*"Since the choice of method should be suggested at all times by the subject matter and the subject matter in our case was process, the choice of participant observation as the principle way of investigation seemed a good choice. Our rationale was that the best way to understand a process was to become part of it." (quoted by Pettigrew 1973 p53)*

The problems associated with observation are well documented. Briefly, it is heavily time-consuming and hence is best confined to a limited number of situations. There are dangers of bringing the researcher's own perceptions to the observation and hence the results may show more about the researcher's values than those of the observed. The presence of the observer may contaminate the 'data' in that he may affect the process being observed although triangulation reduces such a risk.

Denzin (1978 p182-3) describes four ideal types of participant observation:

**1. Complete Participation**

In this role the researcher aimed to become an ordinary member of the group and his full intent is not revealed.

**2. Participant as Observer**

Here the observer makes his role as an observer clear to the subjects.

**3. Observer as Participant**

In this role the contact is brief and formalised by a questionnaire and no relationship is established.

**4. Complete Observer**

The researcher is removed completely from interaction with his subjects.

The research under discussion falls most easily into the second ideal type. Hence, the researcher aimed at avoiding intrusion. His position as an academic observer was usually made clear and, when he attended meetings, he was generally seated well away from the main body of actors and in one case even sat in another room, being able to hear if not to see what was taking

place!

Over the research period, the following meetings were attended:

Human Resources Committee (see Appendix A8)

Product and Technology Committee (see Appendix A9)

Negotiating Meetings

Personnel Managers' Meetings

Job Evaluation Meetings.

These were valuable for offering insight into both the changing events in the Bank and the process of change itself. Access to Board and Policy Committee meetings was not gained, and this reflects one of the problems of triangulation:

*"that much involves the inaccessibility of critical data areas or levels"* (Denzin 1978 p306)

and hence the researcher had to rely on minutes of the meetings, together with interviews or more informal discussions with people who had attended such meetings. Cross-checking also took place with other sources.

#### **(iv) Action research**

The above refers to participant observation. There was more direct involvement: an element of action research. Clark writes that:

*"action research must possess an aspect of direct involvement in organisational change and simultaneously it must provide an increase in knowledge...[and that] one of its main attractions is that it provides access to otherwise hidden processes."* (1972 p23)

The researcher's involvement with the Industrial Relations Audit has been mentioned briefly. Together with one of the employee relations officers, a pilot was carried out, the results analysed and a revised version drawn up. In the event, the audit never got off the ground, but it was valuable in several ways: the student got an insider's insight into the organisation, as he was

regarded as working for the Bank, and into the attitudes of the staff; he was able to observe the intra-organisational conflict and the lack of communication between Head Office and branches or centres outside of Manchester; this was evident when the Head of the Customer Service Bureau failed to fill in his copy of the pilot audit, claiming that Head Office had not informed him that he needed to complete it.

A second period of action research took place when the researcher was involved with the introduction of a new disciplinary code and team briefings as one of the tutors. Initially the Bank wished for a very full and active role, including co-ordination of the series of workshops taking place around the country, but the amount of time and commitment this would involve in an area not central to the research, led to a very much more limited role. The researcher attended a one-day tutors' workshop and was one of the Bank tutors in the workshop held for the managers in the North-East. Again, being regarded as an 'insider' enabled much valuable material to be gathered in terms of attitudes to many of these personnel initiatives.

#### **(e) Conclusion**

The researcher adopted a top-down, qualitative approach to the research, which enabled the 'capture' of strategic change to take place, which was deemed as most suitable for examining the relationship between business strategy and the management of labour. Following the concept of methodological triangulation, interviews, documentary analysis and participant observation were combined so as to provide a fuller and more accurate picture than that provided by a single research bias. The sponsorship of the research by the organisation enabled a high access to be achieved.

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## CHAPTER FOUR: THE CO-OPERATIVE BANK

### (a) Introduction

This chapter traces the historical development of the Bank from its early days as the banking arm of the co-operative movement to its coming of age as a fully-fledged bank. It sets this against the backcloth of the changing fortunes of the movement as a whole.

### (b) The Co-operative Wholesale Society

In this section we examine briefly the development of the Bank's owners, the Co-operative Wholesale Society and the movement in general, so as to explain the pressures which the owners have been under, which is the context in which the Bank has been working, and also the unique culture of the Bank, strongly influenced by its association with the movement.

The Co-operative Bank, while one of the main clearing banks in the U.K., operates in a unique fashion in that it is owned by the Co-operative Wholesale Society (CWS) and hence is banker to the movement.

The origins of the movement itself has, of course, been well documented, as has the topic of 'Owenism'. Owen is generally regarded as the "*father of co-operation*" (Bonner 1961) and the man who "*set men's minds on the track of co-operation*" (Holyoake 1903) although he was never very interested in the idea of co-operative retail societies, which were some way removed from his ideal of universal co-operation.

While co-operative societies had existed before the Rochdale Pioneers, they are regarded as the founders of the first model co-operative society. It was rooted in a Lancashire textile town in Victorian England, where the transformation from the domestic to the factory system was taking place; "*workers were seen as hands*", as expendable resources for whom the employer had no responsibility beyond the legal obligations of contract (Bamber and Snape 1987 p35). The environment was one of harsh living conditions and inadequate consumer protection, with adulterated food being facilitated by the practice of Truck.

Workers responded to this in different ways: one response was unionism; another was co-

operatism, workers joined together to purchase basic foods on behalf of their members and a share of the profits (or surpluses in co-operative terminology) were returned to members in proportion to their purchases - the dividend (or 'divi' as it later became known). Hence the co-operatives differed in both structure and objectives from conventional companies, which exist to produce profit for the share-holders, whose voting power and profits are determined by the number of shares owned. In a co-operative, capital was not the crucial factor, and each member was entitled to one vote, regardless of the number of shares owned.

The development of the movement was based on the application of the Rochdale Pioneers Principles of:

1. Open membership
2. Democratic control - one member, one vote
3. Payment of fixed interest on share capital
4. Distribution of trading surplus to members in proportion to their trade with the society
5. Provision of education for members and workers.

The co-operative retail societies were organisations set up to supply their members on a mutual basis with the basic necessities of life, with surplus being distributed as above. However, the pioneers of the movement had much broader concerns than merely that of being a distributive organisation operating for consumer interest, and had ambitions for control of each facet of economic life - to include retail trade, wholesale redistribution, organised buying and production, shipping, banking and insurance.

The CWS was formed in 1863 as the manufacturing and trading arm of the co-operative movement. It was the Industrial and Provident Societies Act which made possible the establishment of a federation of societies by enabling a society to hold shares in another. The CWS was registered as the North of England Co-operative Wholesale Industrial Provident Society Ltd, but 'Industrial' and 'Provident' were deleted in 1867 and 'North of England' in 1872. The establishment of the CWS was motivated partly because of a reluctance by traders to supply co-operative stores and partly a belief in the advantages of large scale buying, especially the cutting

out of middlemen. After many unsuccessful ventures with producer societies, the CWS decided it should produce its own goods and began with the production of biscuits and shoes, followed by farming, clothing, tea making, furniture making and the processing of fish. Henceforth, the co-operative ideal was that goods sold in co-operative stores should be made by the co-op for the co-op.

With the merger of its Scottish counterparts in 1973 the CWS covered the entire U.K. and is one of Europe's largest wholesale organisations. In the year ended January 1987, the CWS had a turnover of 2.4 billion. Despite rationalisation of the manufacturing units, the CWS still has one hundred productive operations. However, the output of the CWS factories now is supplied to customers outside the movement. The CWS also has 35,000 acres of land in England and Scotland. It is Britain's biggest commercial farmer and biggest milkman. Regional distribution centres are used to supply the retail societies and 60% of the brand goods of the co-op brand are still made in their own factories.

The CWS employs some 22,000 people and is responsible for providing advisory services beyond the capacity of individual retail societies, e.g. advertising consultants, computer experts, etc. Furthermore, the CWS is responsible for both the Bank and the Co-operative Insurance Society (CIS). The latter has some 15 million life, household and motor policies in force and, after making provisions for reserves, distributes profits to policy holders in line with co-operative principles. In addition, societies are offered special 'cost price' terms and the CIS also pays a dividend on their premiums from the profits of the non life business as a whole.

The CWS itself is owned by some 100 retail societies (in 1900 there were 1,400), which have eight million members and over 5,000 shops employing 80,000 staff. The retail societies elect a board of directors for a three year term and these are usually retail officials and members of retail society boards. It is by this complex mechanism that the CWS is accountable to the societies, and hence, more indirectly, the Bank.

In theory the Bank's ownership means it is more responsive to the consumer than other banks who, being joint stock companies, are operating for the benefit of shareholders. It is probably fair to say that the Bank is not under the same pressure to make profits, although it has

to achieve a reasonable return on reserves.

The societies themselves are autonomous organisations with each society responsible for its own policy on pricing and procurement. The capital of the CWS consists of shares taken up by each corporate member of the CWS with the number of shares subscribed being directly related to the number of the societies' own members. CWS members receive a restricted rate of interest on their invested capital (not withdrawable) and also receive dividends payable in proportion to their purchases from the CWS. Voting rights are also proportionate to purchases from the CWS.

The above has presented a general picture of the structure of the movement and the CWS in particular, and something of the historical background. In fact, the picture of the movement since the Second World War has been one of continual decline; thus:

*"The American statesman, Dean Acheson, once said that in the postwar world Britain had lost an empire and failed to find a role. It could be said of the Co-operative Movement in the same period that it had lost its place on a road of progress that had been unbroken for a century and was still struggling to find its way back."* (Richardson 1977 p149)

In the 1980s the movement was under great pressure. Its membership declined from 13 million members in 1964 to eight million by 1987. The number of co-operative societies has declined from 1,438 in 1900 to 100 in 1987. Many mergers have taken place between societies in financial and trading difficulties, and the retail operating group of the CWS has also been active. In many cases 'merger' has been a euphemism as many of the societies taken over have ceased to exist as local entities (McDougall 1985).

The co-operative ideology has been criticised for lacking relevance in an era of individualism. While educational, cultural and leisure activities remain evident in the movement, many shoppers perceive the Co-op as just another multiple retailer competing in the market place. The Co-op thus faces a dilemma in attempting to stay true to its traditions of social responsibility by keeping open small uneconomic stores when economics dictate the opening of large superstores. People have higher expectations of the Co-op in such areas. Nevertheless

values of the movement, expressed by profit-sharing (high dividends for members), consumer service (involving cross-subsidising), fair prices and equity are still regarded as being relevant in the modern context.

The decline of the movement has many causes. One, mentioned above, has been the growth of individualism. In the long term has been the growing irrelevance of the objectives of the founders of the movement, born of particular circumstances, namely the exploitation of consumers in the 19th Century. A failure of management is a third factor, especially in terms of handling the change to more sophisticated consumer shopping techniques in retailing. The 1964 abolition of resale price maintenance proved to be a turning point, with the rapid decline of the independent small shopkeepers and the rise of the multiples. In 1961, the multiples had some 29.2% of the retail trade and by 1982 this had risen to 50.2%.

Many of the problems of the movement stem from its heritage. A strength of the movement has been its democratic and local structure, with each society making its own decisions within its own geographical territory. Hence there are eight million customers and members are share-holders in 95 retail societies, but a third of these are tiny, with a combined turnover of less than 1% of total Co-op sales, while the largest 25 account for three-quarters of sales. Societies, however, remain fiercely independent, although successive Co-op Congresses have formulated plans for 25 large regional societies, urging others to merge. It was proposed in 1983 that the CRS merge with the CWS, the former being under strain from its role as 'ambulance' to the movement, but negotiations broke down.

In practice then the movement has a strongly centralised wholesale manufacturing organisation linked with a fragmented group of retailing operations, who have no overall marketing policy and meet only annually to discuss strategy, and without any mechanism to impose decisions. This contrasts with the autocratic, centralised, national organisations of the multiple retailers. Recognition of these problems is not new: between 1953 and 1964 there were four major inquiries regarding the movement's constitution and trading methods; for example, Richardson examines the 1954 review:

The report said: *“One of the major difficulties facing the CWS is lack of co-ordinated demand of retail societies. This militates against efficient planning of production on the one hand and effective exercise of the warehousing function on the other. As a result, the Co-operative Movement is failing to secure the maximum economies possible from mass production and bulk buying respectively ... This is particularly evident in the dry goods trades where the multiple organisations are increasing their share of retail trade at the expense of both Co-operative and departmental stores.”* (1977 p203).

The next two sections outline the development of the Bank from its inception to the present day.

#### **(c) The C.W.S. Bank 1872-1971**

The Co-operative Bank was established in 1872 under the name of 'Loan and Deposit' Department of the Co-operative Wholesale Society (CWS), which itself had been incorporated in 1863. The latter had been set up so as to supply the needs of the retail co-operatives within the U.K.

The specific context which led to the formation of the Loan and Deposit Department was the growth in numbers and size of the societies in the 1850s, with consequent problems relating to control of cash. Redfern (1938) recounts how the treasurer of a co-operative society in Stockport:

*“took up the board of the bedroom floor and hid the money as far underneath as he could reach.”* (cited by Richardson, 1977, p.357).

The committee of the Campstall Society in Cheshire, believing that banks were not for the 'likes of us', resolved at a meeting in 1857 that:

*“if suppliers won't come for their money, [the Shopman] is to buy the goods from the person who will come. The committee were not agreeable for him to go to Manchester with any large sums of money.”* (ibid).

These types of security system were clearly inadequate, set against a background of emergent

joint stock banking.

The idea of a separate bank or banking department had been mooted at the 1869 Co-operative Congress, where papers were presented, and in 1870 informal discussions led to a 'banking conference' at Bury of co-operatives' representatives. J.M. Ludlow (later to be Registrar General of the Friendly Societies) agreed that there was no reason why there should not be a bank "*in closest association with the wholesale*". There was the example of experiments in Germany and France, although admittedly the Credit au Travail failed because of lack of financial expertise. Agreement was reached on the desirability of the co-operative bank, but the exact form of such an institution was debated. The major problem was the current status of the societies under the law. While Parliament in 1852 had given legal status and protection to co-operative storekeeping, and in 1862 allowed societies to join in federation (thus enabling the formation of the CWS), the Industrial and Provident Societies Act had debarred co-operative enterprises from entering banking. There was also debate over whether the bank should be under the wing of the CWS or a separate federation of societies and unions in which the CWS could participate.

On 4th May 1872 a shareholders' meeting of the CWS passed the following resolution:

*"That it should be a recommendation to the quarterly meeting as a means to commence and gradually develop a co-operative business, that they give us authority to receive surplus capital from the members, withdrawal at call and subject to the current bank rate of interest, the same to be used in our business or lent out on approved security."*

The potential advantages of a co-operative bank were seen broadly. It would, for instance, be able to bring together co-operative retail societies which had surplus funds, and co-operative production which lacked the capital required for further development. The Bank would provide money for expansion in a boom and help societies out during a downturn in the trade cycle, and hence insulate the movement from the vagaries of capitalism; it also provided an opportunity to be more independent of outside financial control. This also was part of the

principle of mutual self-help. Furthermore, in addition to financial considerations, Ludlow agreed that the formation and operation of the bank would contribute to the unification of the movement, and this:

*"might in this way give unity to the movement which, so far as I can see it, it can hardly attain otherwise."*

(Speech to Co-operative Conference, Bury, April 15th 1870, quoted by Redfern 1938)

After a confirmatory meeting of shareholders in August 1872, banking commenced under the title of the Loan and Deposit Department; the legal restrictions prevented banking being part of the name, although it was clearly a banking operation. In 1876 a consolidatory and amending Industrial and Provident Societies Act removed the ban on banking by societies and the organisation became known as the CWS Bank or bankers department.

The debate over the role and structure the organisation would take continued to be a matter for contention. For instance, should the Bank be run solely by the CWS or a separate federation of societies including the CWS and trade unions? Productive idealists wanted an independent bank to finance independent production (Redfern 1938).

In the same year that the Loan and Deposit Department was set up, the 'Industrial Bank' was launched at Newcastle-upon-Tyne. Inspired by Dr. Rutherford, a Congregational minister and prominent northern co-operator and educationalist, it was registered as a joint stock bank, and had as its main objective the assistance of the Ouseburn Engine Works. The collapse of both, associated with the onset of the Great Depression, resulted in both the CWS and the retail societies losing money. There were many other initiatives, especially after the turn of the century, notably the People's Bank (1912), Pioneer Mutual Banking Society (1918), National Co-operative Bank (1921) and the International Co-operative Bank (1921). Attempts were also made to change the CWS control of banking, but the Bank considered the CWS the appropriate body and was against fragmentation of the co-operative enterprise (Bonner 1961).

The Bank made slow progress in the early years and its ambitions were limited. At a time

when the CWS assets were only 0.5 million, the Bank's assets rose from 214,000 (1882) to 1,629,000 (1902). The few hundred accounts were those of co-operative societies. With the appointment of Thomas Goodwin as manager in 1907, the Bank began to encourage private customers, although in practice they were mostly the accounts of CWS officials which were credited there. In 1912 the Bank targeted the unions, and events like the miners' strike in that year led to favourable publicity. As Richardson describes it:

*"When the Northumberland Miners Association was refused accommodation by a joint stock bank during a strike in 1912, an application to the CWS Bank met with a prompt response. Experiences such as this were noted and learnt from by trade unionists, and active co-operators who were also prominent in their unions were not slow to press home the message to union conferences and executives."*

(1977, p339)

After the First World War, total assets were 10.8 million, turnover 0.5 million and the Bank had 5,300 current accounts, but the Bank had been under some pressure, having financed CWS capital extensions and lent to the state (the latter signifying that it was rather more than simply the internal organ of the CWS). Furthermore, shop price rises after the war affected the retail societies, who were the Bank's main customers, in the carrying of stocks at higher prices, while there had been over-investment in Government War Issues. In 1918 the Bank was invited to apply for clearing house membership, but the branch structure and overhead costs involved deemed this unviable and, in any case, the Bank regarded itself as a centre of retail trade, for which it formed its own clearing house (Redfern 1938 p192). To help the movement over the post-war period two issues of development bonds were made.

By 1924 the Bank had total assets of 6 million, a turnover of 522 million and 18,700 current accounts. The 1912 campaign to obtain trade union accounts had been a success, the number of accounts had increased from 49 (1913) to 1,980 (1938), although this greatly underestimated the growth of trade union business, taking into account the increasing centralisation of unions in the

inter-war period. The 1926 General Strike had displayed the flexibility of the Bank's retail society agency system, with instructions being telegraphed to co-operative societies to cash cheques for strike pay.

The inter-war period also gave birth to the first branches of the Bank being opened in London, Newcastle and Bristol. International connections were also established with Russian co-operatives (for the purpose of importing grain), Australian co-operative wheat pools and New Zealand co-operative dairy farmers. These associations continue to the present day by membership of the International Co-operative Alliance, which meets regularly to discuss and exchange ideas. With retail societies acting as agents of the Bank in accepting deposits and cashing cheques, this encouraged the development of personal banking and by 1939 total assets had risen to 114 million (from 28 million in 1926).

As in the First World War, the Bank took a wider role and was responsible for mobilising sums from the CWS and retail societies which contributed to wartime national savings (ministerial control ensured that capital expenditure was limited, with CWS funds rising from 113 million to 259 million, and over the war period the investment portfolio rose from 99 million to 237 million).

Richardson (1977) refers to the "*accelerated pace of development*" after the war and the election of a Labour Government in 1945, with Labour also doing well locally, led to increasing interest in the Bank, which took advantage of the opportunity and made headway in the public authority sector. Between 1946 and 1951 some 100 councils transferred their accounts to the Bank, including Derbyshire, Durham, Essex, Glamorgan, Monmouthshire, Northumberland, Nottinghamshire and Staffordshire County Councils, and the Corporations of Barnsley, Derby, Gateshead, Grimsby, Newport, Salford and Stoke-on-Trent.

However, a political element was part of the debate and some of the transfers were controversial and were opposed especially by local private traders and Conservative councillors. At Salford the Conservatives were divided, although the superior terms of the Co-operative Bank won the day. This sector has always been a great strength of the Bank, and in 1976 it was banker for one-third of the new Metropolitan County Councils, one-quarter of the new Metropolitan

County Council and London Boroughs, and one-tenth of all district councils.

A new phase of branch expansions took place, including Birmingham, Cardiff, Chelmsford, Derby, Durham, Grimsby, Leeds, Newport, Northampton, Nottingham, Sheffield, Stafford and Stoke, and by the mid 1950s there were more than 20 Bank branches. The Bank began to develop along more conventional lines. In 1947 it was recognised as an Authorised Bank under the Exchange Control Act and hence could participate in foreign exchange business. Changing economic and social conditions and the rise in income and associated demands for consumer credit, were a great opportunity for the Bank, especially with its distinctive mix of branch and store banking and also the association of many co-operative shoppers with semi-banking business within the stores, e.g. the paying of club contributions and payment and withdrawal of loan deposits.

The CWS Board of 1967, in recognition of the way the Bank was developing, agreed that it should be re-named the Co-operative Bank, which preceded the radical structural re-organisation two years later. There was also the establishment of a new subsidiary company, Co-operative Commercial Bank Ltd, to handle Euro-currency transactions, inter-bank markets and all the services required by the corporate sector; at the same time, a major shareholding was acquired in F C Finance Ltd, a publicly-quoted finance house of medium size, so as to enable the bank to be involved with hire purchase transactions (the so-called secondary banking sector).

In January 1970, the CWS Board set up a sub-committee with the remit of examining the question of establishing the Bank as a separate legal entity under the Companies Act (this issue had been raised much earlier in 1954 by a CWS enquiry into the future direction of the movement but a minority report suggesting 'hiving off' the bank had been defeated). In 1970 it was proposed that the new company would be a wholly-owned subsidiary of the CWS, with the Board being comprised of the CWS Chief Executive Officer as Chairman, the General Manager of the Bank and other senior Bank and finance officers. The CWS would maintain control and accounts would be published as before with the CWS report and balance sheet. The advantages would be that the bank could participate in the main banking forums, the British Bankers' Association and the

Clearing House; it would furthermore be able to enter wholeheartedly the national banking market which, in turn, would enable it to provide extra funds for the movement. In other words it *"would mark out the Bank in every sense as a bona fide bank"*. After approval by the Board, Parliament passed The Co-operative Bank Act in 1971, which was the wheel turning full circle, Parliament enabling the bank to operate as a separate part of the banking system after having forbidden co-operative banking in 1862.

#### **(d) Development of the Co-operative Bank 1971-1986**

Since its establishment by the 1971 Act of Parliament the Bank has grown strongly, albeit from a small base, quadrupling its customer account base from 250,000 in 1973 to one million by the end of 1981, and its development has seen a decline in importance to it of the societies, who represent no more than 10% of deposits. The Bank had a strong image because of the link with the co-operative movement and its in-store network, and promoted itself as the 'third force' in British banking (after the London Clearing Banks and public sector banks) with a reputation for innovation in customer service.

In 1972 the Bank became a member of the British Bankers' Association and in 1974 became the first new member for 30 years to join the London Clearing House. Prior to this, cheques had been cleared by the National Westminster Bank but this was regarded as expensive and administratively inefficient, hence:

*"This decision was a commercial one, balancing the rapidly increasing charges required by the agent against the high equipment and joining costs of setting up its own function. This was very much an operating decision, with no impact on the Bank portfolio or business or relationship with the co-operative movement. (The Yorkshire Bank chose not to join the Clearing House but their decision was no doubt influenced by the fact that they were already provided with a lower cost clearing service, being a jointly owned subsidiary of the major clearers themselves." (Bank paper, 1978)*

The Bank had assets of over £1.5 billion in August 1987 and operates via a network of 90 branches and since the First World War via agency points within the stores of retail societies. The transactions are carried out at some 4,000 banking points within the store network (the largest in-store network in Europe) and are dealt with by retail society rather than Bank employees. However, these distribution networks have caused difficulties, with the collapse of many societies and hence the Bank losing part of its network.

The Bank had 1.5 million accounts in 1987, and offers the full range of services: cheque cashing, clearing, overdrafts, mortgages, etc. The Bank is particularly strong in traditional areas of trade unions, local authorities and member clubs and, of course, there is also the huge corporate business of the movement. The retail societies had a turnover of £5.048 million and the CWS of £2.4 billion in 1987. While societies provide only 10% of deposits, bank loans provide half of the borrowing and 25-30% of the Bank's lending.

However, in the 1970s the Bank aimed at expanding both its personal and corporate business outside the movement. Nevertheless, the Bank still maintains relationships with other co-operative banks throughout the world, e.g. 4,600 Volksbanken and Raiffeisenbanken of West Germany, and is a member of various international organisations, e.g. International Confederation of Popular Credit, Association of Co-operative Savings and Credit Institutions of the EEC, International Confederation of Agricultural Credit, and Banking Committee of the International Co-operative Alliance.

The Bank expanded strongly in the 1970s at a time when there was the 'great unbanked'. In 1976 only 38% of adults had a current account while by 1981 this had increased to 50% and by 1984 65%. The Bank aimed to bring these people into the banking system, although they were also concerned to target those within the existing banking system.

Richardson (1977) identifies three main planks to the 1970s strategy. Firstly, the Bank aimed to provide a comprehensive package of financial services aimed particularly at a typical family. Furthermore, the Bank regarded itself as something of a pacesetter in British banking, being the first to publish its commission charges so account holders would be aware of the actual

cost of their account. In 1973 the Bank introduced the concept of 'free banking' - commission free banking for current account holders who keep their accounts in credit. In the area of personal credit the Bank gave facilities on unsecured personal loans for fixed terms up to five years and budget accounts on a revolving credit basis. The Bank was first to introduce a 'Truth in Lending Policy' before legislation was introduced on credit terms.

Secondly, the advantages in terms of the convenience of its distribution network were stressed. The Bank had both the traditional branches and also some 4,000 banking points providing basic services. The Bank was clearly not going to compete with the 'Big Four' for an extensive branch network, the efficacy of which had, in any case, been open to increasing doubt; indeed the Bank had some 10,000 customers per branch (1978), backed by a custom-built Central Services Bureau at Skelmersdale, which housed a centralised computer system and compiled statements and was responsible for distributing chequebooks, cheque cards and standard letters, hence facilitating the concentration on customer contact by staff. By contrast, the major banks averaged some 2,000 accounts per branch and it was believed that the heavy infrastructure was uneconomic. The Bank utilised its link with the movement to provide via the in-store network as many locations and longer hours than the banks.

Thirdly, the Bank promoted itself as the customer-friendly or people's bank, responsive to consumer needs (Richardson 1978).

The Bank's aim in the early years of its time as a clearing bank sought to build a loyal customer base via its current account service and to achieve this the Bank was highly competitive and innovative, most notably with the introduction of 'free banking'. However, the Bank's ambition was expensive, especially the heavy investment in the infra-structure of a transmission system - bullion centres, a London-based clearing house and a customer service centre. All this meant that the cost of raising current account funds was more pro rate than the other banks.

The Price Commission in its report on Bank Charges for Money Transmission Services, published in 1978, commented on the different position of the Bank:

*"during this period [the 1970s] it has more than doubled its bank branch network*

*and as 50 per cent of its branches are less than five years old, some have yet to make a contribution to overall profitability. In the mid-1970s it became a clearing bank, which required the establishment of a London based clearing centre and computer installation; the benefits of this development in terms of profitability are medium to long term. Unfortunately the Bank undertook the major part of this expansion during a period (1973-1977) which subsequently proved to be years of historically high inflation, which doubled payroll costs per member of staff employed and dramatically increased the Bank's infra-structure costs."*

(Cited In Co-operative Bank Paper, 1978)

With the bulk of profits coming from the domestic banking sector, this has meant the Bank's operations and profitability were greatly affected by the fluctuations of domestic interest rates and did not have the diversification into finance and international operations of the major banks, although the attractions of these declined with bad debt problems in the early 1980s. The Price Commission reported that:

*"An examination of the accounts of the Co-operative Bank shows that throughout the period under consideration it has consistently operated on lower margins than the major London clearers and that its return on capital, both before and after adjustment for inflation, is at a lower level. It is clear that, after taking account of inflation, the Group's level of profitability has not been adequate to maintain its free capital during the period under review. The Bank's policy (tariff) has been to keep the tariff as simple as possible in order to encourage customers. It sees itself as a specialist in providing money transmission services; it is actively pursuing new personal accounts, and its competitive rates are a sign of this policy. Its success may be gauged from the fact that its share of the personal sector market has doubled since 1975. Furthermore, the majority of this new business has been obtained by customers transferring from established clearing banks and not from first-time account customers, and a*

*large proportion of their customers are in the higher socio-economic groups. The Co-operative Bank also competes energetically for corporate business customers.” (Cited in Co-operative Bank Paper, 1978)*

The Commission concluded that:

*“Generally, the Co-operative Bank is in a position to become a real force in alternative banking. The nature of its branch network and its opening hours make it convenient and accessible to customers. By aggressive competition, it has expanded its market share appreciably in the past five years. For the reasons outlined, however, its overall profitability is low, and when allowance is made for inflation its capital base appears to have been significantly eroded.”*

(Cited in Co-operative Bank Paper, 1978)

The Bank in the 1980s had slowed considerably in its progress (see Table 4.1).

**Table 4.1: Co-operative Bank accounts 1975-1986**

	Accounts (thousands)
1975	360
1976	417
1977	500
1978	570
1979	700
1980	850
1981	1,000
1982	1,200
1983	1,250
1985	1,500
1986	1,500

**Source: Annual Reports**

Market share was no more than 2% by the mid 1980s. The 1981 Windfall Profits Tax, levied by the Government upon the average non-interest bearing deposits of clearing banks, hit the Bank disproportionately because of the structure of its deposit balances, the Bank paying 89% of its profits as opposed to an average of 19% by the other clearers. Furthermore, the concentration on building up current accounts customers (few of these being heavy borrowers) and the Bank

having few corporate customers meant that the Bank was underlent.

Part of the strategy developed to overcome this was to increase the Bank's lending book by Handycard, a budget shopcard introduced in 1978 to enable the consumer to make purchases on a revolving credit basis. Another scheme, Handyloan, was designed for more expensive purchases and had a fixed term repayment scheme. With some twenty million co-operative shoppers, this was clearly an area to be exploited. Furthermore, many co-operative shoppers did not have bank accounts so there was the opportunity of bringing them into the banking system. Hence the Bank could expand without 'poaching'. Thus in 1978, of some 80,000 new customers, 60,000 had never had a bank account before, being mainly shop assistants who switched from weekly cash to monthly bank payments.

The Bank maintained its innovative reputation; in 1982 the Bank launched the first interest bearing cheque book account to be offered by a U.K. bank. The Bank also pioneered links between banks and building societies. With spare capacity in the clearing house, the Bank agreed to provide clearing facilities for the Abbey National Building Society. The Bank made cheque books and credit cards available to the Building Society customers, while Bank customers could cash cheques at Building Society branches and also apply for Abbey National Mortgages.

In the 1980s a major development was the establishment of the trade union bank, Unity Trust, in 1985. The Bank took half of the voting stock and supplied the top management. Other stock was taken up by the trade unions and by sympathetic individuals. The immediate aim of Unity Trust was to take deposits from unions then either re-lend to other unions or invest on the money markets. In the longer term the new bank had more ambitious plans (rather like the original Co-operative Bank) to become a fully-fledged bank in its own right, providing personal banking services and being involved in commercial lending (following the example of German and Israeli trade union banks). It began with the advantage of a loyal customer base, and without the hindrance of a large branch network, enabling it to utilise the latest technology.

**(e) Conclusion**

This chapter has examined the historical development of the Bank to the present day. It showed the long-running debate as to what role the Bank ought to play within the movement through to the 1970s when the Bank began to take a position as a bank in its own right, and hence becoming much more in tune with the financial sector. However, the Bank's relationship with the movement left it with a rich and complex heritage which had implications both for business strategy and its industrial relations approach in the 1980s as the Bank sought to get to grips with the changing nature of the financial sector.

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## CHAPTER FIVE: BUSINESS STRATEGY IN THE BANK

### (a) Introduction

This chapter discusses changing business strategy in the Bank focusing on the new Corporate Plan and the attempt to implement this Plan. The first part of the chapter examines the competitive pressure facing the Bank and the Corporate Plan itself. The changing structure of the Bank is also reviewed. The second part of the chapter looks at the attempt to implement the Corporate Plan with particular attention to the organisational change and the positioning of the Bank. The section also examines the appointment of a new Chief Executive whose Strategic Plan considerably revised the Corporate Plan, modifying both the process of decision making and the substantive content of the Plan. The final section of the chapter examines the implications of the business strategy for employee relations.

The analysis in this section adopts Morris's approach that:

*"strategies are concerned both with certain broad goals and with the methods adopted to reach them"* (1986 p117)

and takes a broad approach to the management of strategic change. Most management writing adopts a linear and rational approach, e.g.

### Figure 5.1: Conventional Strategy Model

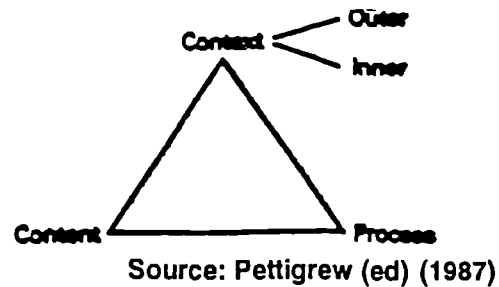
Environmental shock ---- strategy change ---- implementation  
 ---- results

Hence such models assume that an objective analysis of the environment will lead to appropriate strategy changes and a direct relationship between strategy formulation and implementation is assumed. The process of strategic change is thus an unexplored black box.

This chapter, following Pettigrew (1987), considers not only the content of business strategy but the contexts in which it occurs. This includes both inner context (the structure, corporate culture and political context of the organisation) and outer context (the economic and

business environment). Hence this chapter considers the 'what' of change (content) and the 'why' (inner and outer context factors) as well as examining the 'how' of change (process) see Figure 5.2.

**Figure 5.2: Context and Content of Change**



Mintzberg (1978) has a similar model whereby he considers strategy to be the interplay between the dynamic environment, the stabilising organisation and the mediating role of leadership which should maintain the latter while adapting it to the former.

## Part I

### (b) The Co-operative Bank in the 1980s

The changes in the macro-economic environment in which the Bank is operating have been discussed in the literature review. We noted that few industries have been subject to the degree of fundamental change that the financial sector has undergone (Rybcznski 1984). Thus, financial deregulation has removed barriers to entry and new technology has altered the basis of competition. The consumer has become more sophisticated and there has been a great increase in competition between banks and within the financial sector as a whole. The result has been a much tighter product market than was the case in the period of the Bank's rapid expansion in the 1970s and consequently a need to sharpen up the competitive edge of the Bank.

This section looks more closely at the Bank's position in the banking sector and the particular problems it faced in the 1980s. The Co-operative Bank is unique as a banking institution owned by a retail organisation and is essentially a domestic retail bank. This poses particular cause for concern in the 1980s as non-performing sovereign debt has led to a refocus on the

domestic retail market by the clearers. For instance, in 1985 international profits were only 17% of total pretax profits in the clearing banks (Hall 1986). As Middleton has pointed out:

*"The banks are only now really starting to appreciate the potential of the retail sector to have an impact on their profitability and the value of the consumer marketing techniques required to exploit the market. Traditionally, retail branch banking has been viewed as the ugly duckling of the banking world - high fliers gravitated towards corporate and wholesale banking activities where the rewards and glamour were perceived to be more attractive than in the retail sector, which was characterised by high operating costs and a less prestigious image than in other areas of the banking world.*

*A concentration on wholesale lending during the OPEC surplus recycling period and the subsequent horror stories surrounding sovereign loan portfolios diverted much senior management attention away from the retail operations which were often expected virtually to run themselves. In addition until recently there has been little appreciation of the positive impact of retail activities on overall profitability. Compared to wholesale markets; in retail finance spreads are larger, annual volumes greater, competition less intense and differentiation possible. The basis of competition in many wholesale finance markets is price alone - the long term leverage to be gained from marketing including such elements as branding, segmentations and innovation is often minimal." (1987 p13)*

Furthermore, the entry of building societies into the personal lending and transmission areas (and their ability under the 1986 Building Societies Act to become Plcs and raise capital) together with the interest shown by retail stores in financial services and foreign banks in domestic retail services (not to mention the TSB flotation in 1986) all add up to what Hall (1986) calls a *"herdlike push into the retail markets"*. At the same time, the traditional banking market has slowed in its expansion. The 'great unbanked' is now a myth with 70% of the population

having a bank account and some 88% some form of financial account (NOP 1987). Hence, the potential in terms of new accounts is limited to school leavers and switchers.

Using the structural analysis of Porter (1980), one can examine the competitive forces facing the Bank. The changes in the financial sector are evident in the difference between this analysis of competitive forces and that in the literature survey which was using 1985 as a benchmark.

#### **(i) Threat of Entry**

The traditional barriers to entry: strict government regulation, huge capital requirements and the long experience of the industry gained by the banks are being eroded. Deregulation in the financial sector has been the order of the day (Hall 1986), building societies have been expanding their banking services, challenging the banks' monopoly in transmissions, the 1986 Building Societies Act allows easier access to capital (Llewellyn 1987), technical change has facilitated the entry of new competitors by removing the branch network as the major barrier to entry.

#### **(ii) and (iii) The Power of Buyers and Suppliers**

It remains the case that buyers (both borrowers and buyers of financial services) and suppliers (depositors) exert minimal power over those in the industry. However, there is evidence of reduced loyalty and increased 'financial promiscuity'.

#### **(iv) The Threat of a Substitute Service**

While the public sector offers an alternative service via National Savings and Girobank, what is becoming increasingly important is the challenge of building societies and also now retail stores, for instance Marks and Spencer's, and various highly centralised financial service groups who handle money market funds.

**(v) Rivalry among Existing Competitors**

Until recently competitive forces have been limited in the banking sector because of the oligopolitic nature of the industry and government regulation and intervention to pursue its monetary goods. Product differentiation was limited. The 1980s have, however, witnessed intensifying competitive pressure and falling margins.

The environmental analysis of Porter, while shedding much useful light, unfortunately does not explain the different positioning of strategic groups vis-a-vis the five forces outlined. Thus, for instance, some banks offer longer hours (Mathur 1986 p90). A second weakness relates to the essentially normative based theory of strategic decision making, an issue to which we shall return later in the thesis. Nevertheless, the importance of scanning the environment for both threats and opportunities when establishing new strategies is a commonplace in the strategy literature (e.g. Ansoff 1984, Johnson and Scholes 1984, Luffman et al 1987). The Corporate Plan 1986-90 drew out the implications of changes in the environment for the Bank:

*"It is now commonly accepted that as customers become more demanding, they are increasingly interested in convenience, price and the quality of service. In looking harder at the terms of their financial services, they are beginning to opt for the best 'unbundled' price. However, by way of contradiction, as the financial needs of customers broaden and the choice of products from different institutions widens, there is to some extent, a latent desire for one- stop financial shopping. In this apparent conflict opportunities exist for those institutions who can get the formula right for their target products and markets. There will be room for a wide range of different and successful strategies and there is not one simple answer. However, the penalty for failure in any selected market will also be high."* (Corporate Plan p10)

While such an analysis was undoubtedly true it did beg the crucial questions: what were the target products and markets to be and what were the *"wide range of different and successful strategies"*? These issues relate to the Bank's positioning of itself in the market. In the

1970s the Bank established a reputation for itself as an innovator, and a thorn in the side of the Big Four and the public sector banks. While 'free banking', introduced in 1973, was the main flagship, the Bank was also responsible for innovations such as interest paying cheque accounts and the disclosure of tariffs to personal customers. As a small bank with only 2.5% of current account market share in 1986 (see Table 5.1) it was important to be "*closer to the customer*" (as Peters and Waterman (1983) term it) than the others.

**Table 5.1: Current Account Market Share 1987**

Barclays	21.3
National Westminster	19.8
Midland	15.9
Lloyds	15.3
TSB	14.0
Girobank	5.2
Royal Bank of Scotland	4.0
Yorkshire Bank	3.7
Co-operative Bank	2.5

As with Yorkshire Bank and the TSB, the Bank had proportionally more personal accounts than the other banks (see Table 5.2).

**Table 5.2: Numbers of Customers of Major Banks 1987**

	Personal m	Corporate m	Total m
TSB	6.5	0.5	7.0
National Westminster	5.75	1.5	7.25
Barclays	5.5	1.5	7.0
Midland	4.5	1.0	5.5
Lloyds	4.25	1.0	5.25
Girobank	2.0	0.5	2.5
Royal Bank of Scotland	1.5	0.45	1.95
Bank of Scotland	1.0	0.3	1.3
Yorkshire	1.0	0.15	0.15
Co-operative	0.8	0.05	0.85
Clydesdale	0.8	0.2	1.0
Others	0.5	0.05	0.55

**Source: Various sources**

Free banking had created for the Bank a niche in the market and the number of accounts held by the Bank had increased from 360,000 in 1975 to 1.5 million by 1985. However, the Bank's

apparently successful transformation from being the banking arm of the Co-operative movement to being a clearing bank in its own right turned out to be illusory. Since the loss of free banking as a source of differentiation as the Big Four took on the concept in 1984-5, the Bank had struggled to find something to replace it. Tagging behind the Big Four could not be a viable long term strategy.

The absence of a viable strategy was reflected in recent profit figures (see Table 5.3 below), stagnation in account numbers (see Table 5.4) and low profitability ratios (see Table 5.5).

**Table 5.3: Pre-Tax Profit of Clearing Banks**

Pre-tax profit (tm)	1984	1985	1986	1987 (half year)
Barclays	605	840	895	530
National Westminster	671	804	1011	717
Midland	135	351	434	251
Lloyds	468	561	700	369
TSB	153.8	169.3	205.6	131.8
Royal Bank of Scotland	131.3	166.3	184.5	n/a
Co-operative	13	12.9	13.8	6.5

Source: Annual Reports

**Table 5.4: Co-operative Bank Accounts**

Accounts (thousands)	1983	1984	1985	1986
	1458	1539	1507	1499

Source: Co-operative Bank Papers

**Table 5.5: Profitability Ratios for Major Banks (mostly 1986)**

	Pre-tax return on equity assets	
	%	%
Yorkshire	31	3.2
Girobank	28	1.4
Barclays	26	1.3
Lloyds	25	1.5
National Westminster	22	1.3
TSB	21	1.7
Bank of Scotland	21	1.3
Midland	21	0.8
Royal Bank of Scotland	20	1.2
Co-operative	18	1.0

Source: Banks concerned

While the above figures do not of themselves indicate a 'crisis situation', defined by Herman as a situation that:

*"threatens the high-priority goals of the organisation (i.e. its survival), restricts the amount of time available for response and surprises decision-makers by its occurrence, thereby engendering high levels of stress."*

(quoted by Slatter 1984 p61)

they do indicate a stagnant business and this may lead to a crisis situation for:

*"If a stagnant business is not turned around, a crisis situation will eventually ensue because the management of such a firm is unlikely to be taking the necessary steps to adapt to the changing product-market environment in which the firm is operating." (Slatter 1984 p14)*

In terms of Porter's analysis (1980,1985) one could say that the Bank had followed a differentiation strategy but competitors had imitated it and the result was that the Bank was *"stuck in the middle"* having neither cost leadership, differentiation nor a focus strategy. As Porter points out:

*"Becoming stuck in the middle is often a manifestation of a firm's unwillingness to make choices about how to compete. It tries for competitive advantage through every means and achieves none, because achieving different types of competitive advantage usually requires inconsistent actions."*

Furthermore, Porter argues that:

*"Industry maturity tends to widen the performance differences between firms with a generic strategy and those that are stuck in the middle, because it exposes ill-conceived strategies that have been carried along by rapid growth."*

(1985 p17)

### (c) The Corporate Plan

The previous section examined the environment in which the Bank was operating. This section analyses the new Corporate Plan which was to address these challenges.

#### (i) Background

Quinton, commenting on the planning process in banking states that:

*“the planning process has changed considerably over recent years, it is now a vehicle for the consideration of strategic issues rather than the formulation of annual budgets”*

(1986 p28)

This was a reflection of the more dynamic environment of the banking sector. The Bank draws up a five year rolling Corporate Plan. The object is to enable account to be taken of the year's performance and the changing environment so as to be able to alter, update or revise the Bank's corporate strategies. The 1986-90 Plan was drawn up by the Chief Executive in May and June of 1986 (exactly a year after he had assumed the position) in consultation with the Directors of the Bank, hence pulling together divisional objectives with the Head of Planning to ensure a fair allocation of resources and responsibilities and a consistent coherent 'Bank' approach.

The corporate planning process is clearly much more than taking the plans of divisions and using them as building blocks, as this would reflect the aims of second level managers and lead to a segmented approach (Argenti 1980). Furthermore the process is important as a means by which each division can learn of another's position and activities.

The Board gave approval to the Plan in September and authorised the Chief Executive to bring in the management consultants, Booz-Allen, to examine the Bank's existing structure in relation to the new Corporate Plan and to make recommendations as to an appropriate structure to support the strategy. Hence, this appeared to be a classic case of 'structure follows strategy', as in the Chandler thesis where strategy is defined as:

*“the determination of long term goals and objectives together with the adoption of courses of action and the allocation of resources for carrying out these goals.” (1962 p13)*

and structure as the organisation which is devised to administer the activities which arise from the strategies adopted.

## **(ii) The Plan**

Pressure for change clearly came from outside: falling profits and low returns on assets forced the Bank to re-examine its strategic position. While it is the case that interaction of the organisation with the environment is not a simple matter of cause and effect, so organisations can in fact enact their environment (Child 1972), this has little relevance to the case of the Bank with its small size and limited resources.

Furthermore, the unique position of the Bank being owned by the Co-operative Wholesale Society (CWS) was an important contextual factor. In the 1986 Annual Report the Chief Executive stated that:

*“Our co-operative philosophy dictates that we approach the bank market in a fundamentally different way.”*

As we have examined in C3, the relationship between the Bank and the movement has changed markedly over the years as the Bank has evolved from being the CWS Bank and essentially banker to the movement to being a fully fledged bank in its own right with wider aims and a broader customer base. Twenty-five years ago 90% of the Bank's deposits came from the movement and only 10% from outside. By 1987 that ratio had been reversed. This changing relationship has been the source of some tension: phrases such as 'separate but integral' were used to describe the existing situation.

There are those in the movement who were suspicious of the Bank, its loss of ideology and its ostensible philosophy of co-operatism. Some Co-operative union officials regard the Bank's link with co-operation as simply being based on ownership. Tension has increased with

the shrinking of the movement (12 million members in the 1950s down to less than five million by 1987) which is itself under tremendous high street pressure (see e.g. Arnott 1983, Bamfield 1987) and which we examined in Chapter Four.

An additional point to note is that the movement's financial operations are counter-cyclical in that it is more profitable in times of low interest rates, which is the opposite of the Bank.

The relationship is both a constraint and an opportunity. On the one hand, remaining banker to the movement implies that the movement has higher expectations to the Bank, for instance it expects the Bank to meet its demands with EFTPOS. The relationship with the trade union (BIFU) is also part of the movement's baggage which the Bank must take on board. At the same time, there are opportunities, for instance the 1986 agreement with the Co-operative Insurance Society (CIS) designed to increase cross-selling opportunities. Other aspects of the relationship present something of a mixed blessing: the image of the movement has both advantages and disadvantages and much depends on the specific region.

It is perhaps, therefore, somewhat surprising that in the purpose statement, the purpose of the Bank Group is defined as being:

*“to support the objectives of the co-operative movement by providing value for money banking and related services to personal and business customers at a profit.”*

However, the distinction between official goals (statements of intent) and operative goals (what is actually sought by operational policy) is an important one (Perrow 1970). Nevertheless, while the movement may have little effect on the Bank's policy on a day to day basis, the immersion of senior managers in the culture and values of the movement may have more influence than might at first appear to be the case in that cultural values affect the formulation of strategic options (Grinyer and Spender 1978).

The main objective of the Bank as stated in the Plan was:

*“The Plan has the primary objective of achieving a rapid growth in the Bank's customer base, which is seen as essential to its long-term survival and the full*

*and profitable exploitation of its resources and infrastructure.”*

(Corporate Plan p1).

The method or strategy arrived at to achieve this was to decide not to attempt to take/embrace a single approach to all markets but to secure sustainable competitive advantage through:

- focusing on the needs of target market segments; and
- providing differentiated (i.e. distinctive) approaches to these target markets.

Hence, the decision was made not to get involved in the areas of investment banking, international banking, private banking, factoring or corporate financial advice, where the Bank in any case lacked expertise. It was adhering to the “*stick to the knitting*” advice of Peters and Waterman (1982) and in fact made a virtue of these limited horizons by emphasising its attachment to its retail customer base. Even some of the Big Four Banks have not pursued strategies of being all things to all men. Shaw and Coulbeck, writing in the early 1980s, opined that:

*“all the clearing banks appear to be determined to tackle the market on the widest possible front and to develop a full range of financial services for all segments.”* (1983 p5)

In fact by the mid 1980s, increasing diversity of corporate strategies among the clearing banks was becoming apparent. While the National Westminster and Barclays have become huge financial conglomerates, Lloyds have created for itself more of a niche in the market with professional and high income accounts and has moved into estate agency and Midland has rationalised its activities so as to concentrate on areas where it has a competitive edge. Furthermore, each has taken a very different approach to investment banking after the Big Bang (Plender and Wallace 1985, Hamilton 1986). Hence, the implications of the changes in the financial sector we examined are for the banks to position themselves differently in the market.

For the Bank, it clearly made sense to focus its efforts rather than spreading itself thinly (for instance, marketing budgets could be concentrated more effectively). However, the Bank’s

strategy in the 1970s had been to see itself as a U.K. clearer, challenging the Big Four on all fronts and this identity it maintained had implications for the range of services it provided, its portfolio and its infrastructure. One of the major difficulties lay in heavy cost of maintaining the infrastructure (the weaknesses of the Bank outlined in an internal paper - see Table 5.6 - show this clearly.)

High overheads were inevitable given that all the clearing banks had to maintain similar functions, a clearing centre and system and financial and prudential control. The larger banks are clearly in a position to spread their fixed costs over a larger volume of output. This problem was exacerbated by a Head Office that was believed to be overmanned. In the words of one Manager: *"the Bank was creating so much paper it did not need any customers"*. Hence, while the Bank's income per head was not very different from that of Lloyds Bank in 1986, the retained profit was much lower (see Table 5.7).

**Table 5.6: Strengths and Weaknesses of Co-operative Bank Against its Principal Rivals, the Major Clearing Banks**

**STRENGTHS**

Small in size;  
lacking large infrastructure  
and heavy investment in High  
Street branches

Method of delivery service in  
major banks is radically out  
of date

Capable of flexible approach  
to business development

System less rigid and  
inflexible than rivals

Problems that a radical  
overhaul of method of  
delivering service to  
customers create tend to  
freeze major banks into an  
evolution approach

**WEAKNESSES**

Small in size;  
lacking public awareness,  
lacking economies of scale  
from high volume

Limited number of outlets

No easy access to capital  
through shareholders via  
rights issue etc

Cost of system development and  
price of 'being in the Club'  
favour large High Street banks

Major banks not liked by press and public causing them to spend on large building

Developing and controlling business in the past has created problems in Co-operative Bank

Lack of good quality managers in depth

To compete with major banks marginal pricing has to be employed with the necessary controls which currently do not exist in Co-operative Bank

Changes in working practice may be frustrated by Unions

Source: Internal Bank Paper

Table 5.7: Comparison of Income and Profit per Head of Staff

		1986	1985	1984
Barclays	Income	33,945	32,427	27,386
	Net Profit	8,136	7,932	4,948
	"Retained after overheads"	23.97%	24.46%	18.07%
Lloyds	Income	25,805	28,885	31,008
	Net Profit	6,047	6,604	7,903
	"Retained after overheads"	23.43%	22.86%	25.49%
Midland	Income	41,115	42,635	42,898
	Net Profit	6,441	5,284	2,013
	"Retained after overheads"	15.67%	12.39%	4.69%
Nat West	Income	38,925	33,586	31,666
	Net Profit	10,755	8,739	7,455
	"Retained after overheads"	27.63%	26.02%	23.54%
Co-operative	Income	27,405	25,013	23,116
	Net Profit	3,581	3,379	3,946
	"Retained after overheads"	13.07%	13.51%	15.12%

Source: Internal Bank Paper

Furthermore, the lack of a more extensive branch network, while cited as an advantage, does have a number of drawbacks as we noted in Chapter Two. While Shaw and Coulbeck posed the question of:

*“whether developments in EFT will render large branch networks redundant. If that proves to be the case the existing institutions with substantial networks would be at a major cost disadvantage until they had dismantled them or utilised them in some other more profitable way” (1983 p4)*

in fact branch networks are remaining surprisingly resilient. While there has been an 8% fall in branch numbers between 1979 and 1986, the major direction of change has been segmentation (Howcroft and Lavis 1986). Hence, in an effort to align delivery systems with market needs, the ‘all purpose’ high street branch is being replaced by a range of different branches, some of which specialise in the servicing of corporate customers. Branches are also being regarded more as sales outlets.

While the Bank has an extensive in-store network, the scope of the banking facilities it provides is limited. Thus, while the Bank has some 2.5% of the current account market it has only 1% of the deposit market. This is partly the result of the facility of withdrawal being limited to branches as the in-store network is unable to handle the sums involved in the deposit account market.

We have seen that the main objective of the Plan was to achieve *“a rapid growth in the Bank’s customer base”*, yet what strategies were formulated to achieve this? Much of the Corporate Plan was devoted to analysis of the existing markets and dealt only in very general terms of implications for the Bank, e.g. it was recognised that the *“requirements of the ‘Personal’ and ‘Non Personal’ markets are beginning to differ and it was necessary to develop somewhat different strategies for each”*, and it was acknowledged that the Bank’s commission rates when charged were amongst the highest, but it was agreed that customer awareness and utilisation of the total service meant no change in pricing policy was required.

The primary product requirement was regarded as being a money transmission account and although between 1970 and 1984 there had been an increase in accounts of some 20% per annum, with the loss of ‘free banking’ as a source of differentiation it was clear that the Bank would have to offer other attractions, for instance convenience, access and quality of service.

Furthermore, it was no longer the case that the Bank was operating in the banking market, the market was broader in financial services and, since the profit on banking services was low, it needed to be seen as a platform to sell other services, or cross-sell in the banking jargon.

A similar type of approach characterised analysis of the corporate sector (see Appendix A1). The Plan recognised that in the area of the Bank's major strength, namely the co-operative movement and local authority sectors, growth opportunities were limited. Falling margins in the large corporate sector market meant that the Bank could only offer transmission services. In the medium sized business sector the highly competitive nature and cost precluded the Bank offering a full range of services. Small business was the area to be targeted, building on the success of the 1985 Cheque and Interest Account. Finally, while the Bank had some 50% of worker co-operatives as customers, to fully utilise the Bank's potential in this area it was agreed that the Bank needed to provide risk capital to selected entrepreneurs and secondly, a management support team to be able to evaluate and monitor projects.

Distribution strategies were also re-assessed. The Corporate Plan stressed that:

*"In the broadest terms we see that banking services will increasingly need to be provided when, where and how the customer wants them, rather than where it suits the banks to provide them. The cost of adapting to this changed approach will be heavy, particularly for those banks most committed to the traditional outlet structure and High Street branches; although we are better placed than the Big Four Clearers in this regard - and thus have an important competitive advantage in this area - our own systems are still based on branch processing and we must pay due account to the existing investment in developing our more flexible and customer-friendly distribution strategy."*

(Corporate Plan p27).

The Bank was particularly concerned to develop two areas: firstly, to have greater Bank representation at outlets to meet customer needs and, secondly, to exploit more the advantage of ten million Co-op shoppers.

The Plan's revised distribution network was composed of 75 Full Service Regional Branches, the new high street shopping centre branches and the existing in-store banking points. The aim was to avoid investing in the huge cost and infrastructure of an extensive branch network while giving the Bank a fair representation across the country. The first shopping centre branch was opened in Darlington in April 1986, and they were characterised by being small and low cost, removing bank office functions by utilising technology to process at the 'parent' Regional Branch; thus staff could concentrate on personal customer service and sales. The in-store banking points were based on the traditional agency system provided by the retail societies but the Bank now wanted to upgrade this basic counter service with a wider range of services and to be run by Bank staff, and to this end developed the concept of Financial Service Centres, where estate agents, insurance and travel representatives are present, and supported Handybanks where only bank services are provided but these are offered by Bank staff. Pilots on both these were running and the distribution network would unfold in line with their success.

#### **(d) Changing Structure**

We have examined the Bank's new strategy to face up to new and more extensive challenges. We now examine the way bank structure was altered in line with this. In Chandler's view a new strategy requires a new or at least refashioned structure (1962 p15). A strategy-structure mismatch can prevent the successful implementation of strategic change. To a large extent a concern with organisational form is recognised as being a function of industrial maturity with a simple organisational pattern reflecting a simple business environment. Hence, a more complex environment requires both a more sophisticated form and a more effective allocation of resources to exploit opportunities which may be less apparent (Howcroft and Lavis 1986).

Thus the organisational structure of the Bank was to be reviewed taking into account the new business strategy. The management consultants concentrated on two key areas:

- (i) organisational structure, especially the revenue generating function, the staff support function and the senior management committees;

- (ii) *modus operandi*, which examined management processes and style. The consultants found that the planning process was in danger of losing “*credibility and direction*”, the operational planning was not in balance with business needs; personnel management was not carried out effectively; project management needed to be tightened up and credit approval needed to be related to credit strategy. A senior manager admitted that the Bank had a “*disjointed approach*” and that it was “*an amorphous mass relying on things to turn up*”.

In relation to management style, Booz-Allen commented on the need for more group mindedness of managers and more intense profit motivation. Furthermore, they drew attention to the failure of senior management to use their time effectively and the need to improve top-down communication with the Bank.

Hence the main thrust of the report lay in the lack of relationship between the strategic priorities and the organisational structure. Thus the existing structure (see Figure 5.3) was dominated by the Domestic Banking division which was responsible for 81% of the gross income, 56% of the staff and 50% of the assets and 40% of the liabilities of the Bank and de-emphasised the role of general management. Furthermore, the result was an imbalance of power, responsibility and workload among the Directors.

With this in mind, Booz-Allen recommended that Domestic Banking was split into Personal Banking and Corporate Banking divisions giving the diverging requirements and the need for separate marketing strategies; this also relates to growing market segmentation as banks structure themselves to meet customer needs (e.g. see Crawley 1982). Hence Personal Banking would consist of the personal side of Domestic Banking and Direct Financial Services (DFS) which had handled mainly consumer credit. They also drew attention to the cost implications inherent in having overlapping product and systems (see Figure 5.3). For example, the Sales function was the responsibility of both DFS and Domestic Banking Division.

As Large points out, banks need to be structured around the customers' financial management needs and problems rather than around their own operational procedures (1980

p99). The new structure was designed to align management with marketing priorities and balance the responsibility of the management. With each area having its own separate marketing plan, profit performance would be more measurable and this should enhance greater competition between business units.

Nevertheless, there are dangers that organisational change can become a substitute for real action:

*“Not infrequently they are the result of work done by management consultants who wish to demonstrate that something was achieved as a result of their work. Of course the theory would say that ‘structure follows strategy’. This indeed should be the case and when observers see a re-organisation they tend to assume that there is a clear strategy behind it. But in many cases only cursory attention is given to a careful definition of strategy, whereas enormous amounts of effort go into establishing the new structure during which time business activity may well suffer” (Emerson 1985 p31)*

Similarly Slatter expresses reservation:

*“The appropriate organisation structure for a firm is determined at least in part by the firm’s product-marketing strategy. Until such a strategy has been formulated major organisational change is usually premature, even though analysis of the firm may indicate the existence of organisational problems such as lack of co-ordination, poor communications, too wide a span of control, etc. Organisational problems are often symptoms of strategic problems, with the result that re-organisation has little or no effect on the firm’s performance except to cause confusion and mask the real problems facing the firm.” (1984 p86).*

To improve management processes the consultants recommended a committee structure to consist of a Policy Committee which would be responsible for major strategic decisions and a number of subordinate committees with delegated authority: the Product and Technology Committee, the Human Resources Committee and the Risk Management Committee, who would

study issues in depth and make recommendations. A new function, the Group Development Division would be the 'think tank', ensuring Bank Group consistency and allocation of resources.

The need to emphasise strategic perspectives in decision making rather than operational perspectives which are defined by a company's internal performances, has been argued by Haas (1987). Haas suggests that the difference is between asking "how can we do it better than before?" (operational) and focussing on "how we can use it to beat the competition" (strategic). The debate relates to whether special attention is required and whether this needs specialists rather than ordinary executives. For instance Ansoff argues that:

*"since strategic problems are harder to pinpoint they require special attention; unless specific provisions are made for concern with strategy, the firm may misplace its efforts in pursuit of operating efficiency at all times when attention to strategic opportunities (or threats) can produce a more radical and immediate improvement in the financial performance." (1965 p22)*

Stewart asks whether the fundamental style of management thinking is:

*"compatible with the concept of the manager as a planner, a concept which suggests a need for longish periods for thinking about and planning what to do?" (1983 p15-16)*

On the other side Argenti (1980) regards corporate planning as being best done by ordinary executives and a senior bank manager has written that:

*"once line executives have learnt to raise their sights from short-term problems and solutions they are capable of doing their own planning, consequently they are undertaking most of the processes themselves, one achieves greater commitment to the plan and a more practical action programme."*

(Lloyd in Taylor and Sparkes 1977)

The Bank had decided that a new structure would enhance long term thinking and strategic planning and it is to these new processes that we now turn.

Figure 5.3: Organisational Structure of the Co-operative Bank 1986

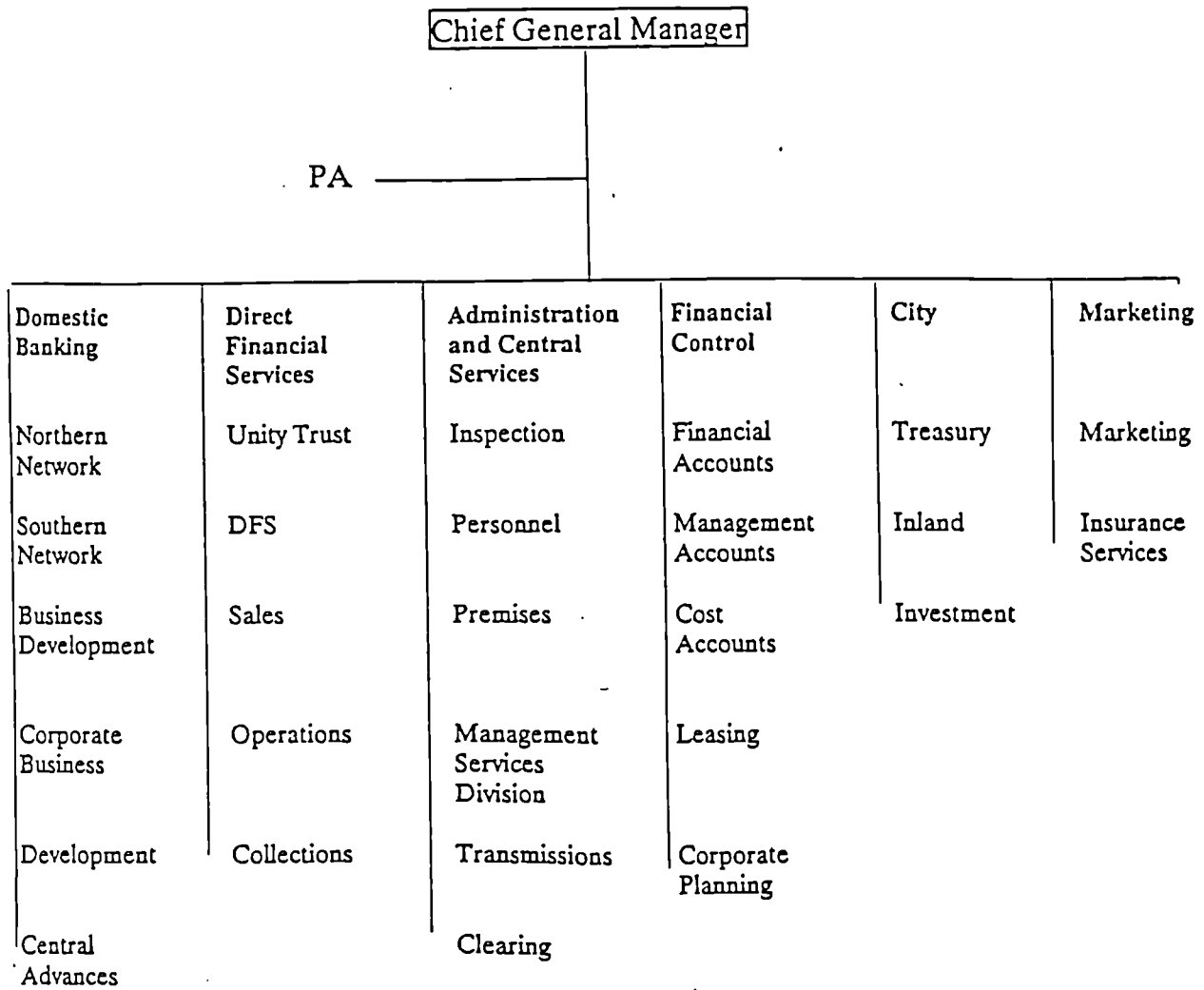
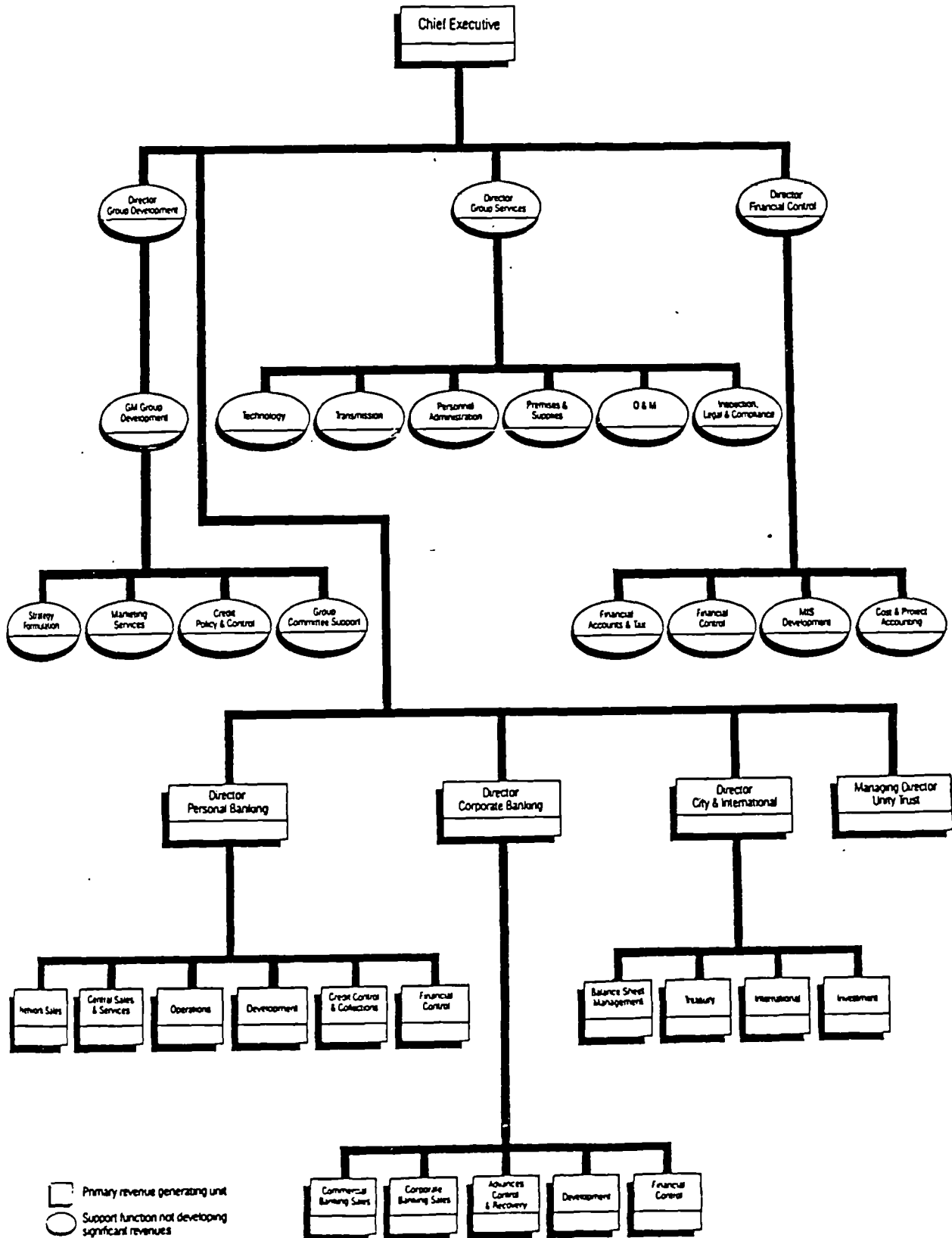


Figure 5.4: Proposed Corporate Structure, Corporate Plan 1986-1990



**Part II****(e) Strategic change**

The second part of this chapter examines the events in the Bank taking place after the introduction of the Plan; to term this implementation is, of course, to beg the question. What it seeks to do is examine the process of change over the two years following the Plan, including its modification by a new Chief Executive with his own Strategic Plan.

As we have noted, the starting point of the new Corporate Plan was, rather paradoxically, a new organisational structure. The first part of this was a new committee structure. The main decision making forum was the Policy Committee (formerly the Chief General Manager's Committee) on which sat the Chief Executive, the Divisional Directors of Personal Banking, Corporate Banking, City and International Group Services, Financial Control and the Heads of Group Development and Information Technology. Its terms of reference were to consider all major strategic issues. In practice, the Chief Executive regarded the Policy Committee as the forum where he gathered all his team together and could, therefore, bind in inter-divisional support for various projects. One manager compared it to the Cabinet. As he put it:

*"The Chief Executive liked the PC to be seen as the place where collective decisions are taken; they don't all like that but that is the way he plays it."*

It was partly for this reason and partly because of the need to 'bed down' the new organisational structure that operational issues as well as strategic were tabled. The danger with this, of course, is that the subordinate committee was held over again with a different set of people, hence wasting senior management time, to the misuse of which the consultants had drawn attention. However, the political learning process or conditioning role of the meetings may be more important. As Knights and Willmot observe of policy meetings in an insurance company:

*"could it be that the meetings were occasioned and structured for purposes of internal control and motivation for senior management or as a vehicle for the Chief Executive to set standards and expectations of management practice?"*

(1987 p32)

The committees operating below the Policy Committee were:

- i Product and Technology Committee (PTC)
- ii Human Resources Committee (HRC)
- iii Risk Management Committee (RMC)
- iv Professional Practices Committee (PPC).

The new system took time to settle down and in fact did not operate in the manner envisaged in the consultants' reports. The original system was to have the committees comprised of directors and chaired by one of them. It became apparent early on that the directors felt they were spending too much time on the detailed consideration of issues and it was agreed that the membership criteria would drop down by one level; at this level managers would have time for discussing these issues in detail and, secondly, it would provide a good training ground for future directors. Group Development Division, as Figure 5.5 illustrates, was to ensure Bank Group consistency by checking that changes are in line with the overall Corporate Plan, provide support services and maintain political balance between divisions. As noted it was designed to address the criticism of Booz-Allen as to the lack of strategic thinking, although the extent to which the creation of a think tank isolated strategic thinking from the reality of the business continued to be debated.



There were a number of 'teething problems' associated with the new structures, one of which was the extent to which subordinate committee meetings were in effect repeated at the Policy Committee. Far more serious was the extent to which managers carried along their departmental baggage to meetings rather than concentrating on Bank policy. Furthermore, some of the Executive Directors worked around rather than through the existing structures, regarding the committee system for instance as 'interference' in their divisional responsibilities. All this points to the power and career implications of structural change associated with new strategies. As Child (1984) points out, organisational change is as much a political as a technical question. Dalton (1959) has illustrated the manner in which managers pursue personal as well as organisational goals.

These inter-organisational difficulties were also evident in the segmentation of the Bank. The segmentation between the Corporate and Personal business was the key change between the beginning of the Corporate Plan and the end of the Chief Executive tenure. The original structure of the Bank was to have Corporate, Personal and Operations under the one manager. The new structure was to have separate Personal and Corporate managers in the branch so as to strengthen the Bank's local presence and thus be able to respond more effectively to competition and customer requirements. For instance, the Corporate section could now respond to the customer without consulting the regional office but instead going directly to the central department. The Personal section would itself be divided into pro-active (e.g. cross-selling campaigns) and reactive (administration etc). As with other banks this was attempting to get to grips with market segmentation by identifying separate target markets (Pattison and Quelch 1979).

The original Plan had envisaged a three-way split with Personal, Corporate and a local Operations unit, but this was reconsidered. There were two key reasons for this. Firstly, both the Corporate and Personal units would incorporate the service sectors relative to their area, especially securities. Secondly, systems development plans were to include major enhancement to existing screen based systems and these were to be implemented over the next 18 months,

providing significant alteration to current branch operating procedures, thus eliminating the need to maintain customer record cards, and there would also be screen based account opening for personal loans and free flow accounts, including credit scoring and the generation of letters and agreements.

However, many of the implications of segmentation was thought best dealt with at an operational level and a pilot scheme was run so as to shed light on critical issues. Among senior management there was a consensus that segmentation was appropriate but there was general and continuing debate as to how this was to be achieved. For instance, many of the directors believed that the process could be achieved most effectively if Head Office was dealt with first and the change then rolled out. However, a danger with this approach was the perception by branch staff that Head Office had looked after itself as usual while branches were considered a secondary issue and this led to uncertainty. The pilot schemes were designed to examine a range of issues: firstly, the implications of setting up a separate unit to service different customers; secondly, how the branches were to be run functionally with separate Corporate and Personal teams; thirdly, the changes in systems and procedures required; and fourthly, the question of obtaining new business and servicing existing business had to be examined.

Unlike the Big Four, the Bank had a very small branch network and hence was unable to divide branches simply into Personal and Corporate business. While at Cardiff the existence of a main and sub branch made a split possible, in Newcastle new premises had to be taken. Another option was to split the floors within the branch. Other considerations were the extent to which such a split would be divisive in terms of competition for resources within the branch and the presence of suitable staff and management.

Such concerns meant that the pilot schemes became, in the words of one of the managers responsible for supervising the schemes: *"a concept tempered by pragmatism"*. Initially four pilots were chosen, using the criteria of getting a spread of location, size and business mix and adequate resources. The intention was to feedback the results from here (to Personnel and Organisation and Methods) before rolling out the programme.

However, the disparity between theory and practice was wide. One pilot never got going at all because of premises problems and management difficulties. The results of the pilots took time to feedback into Head Office and little of this was communicated to branches, which created uncertainty and suspicion. This led to problems for Personnel in terms of moving staff, as many were unsure of the current position. This also meant that it was difficult to latch onto the initial enthusiasm of staff for change. Yet, while change took place too slowly for staff, it took place too quickly to get full feedback from the experience of the pilots. While on the surface the pilots appeared to be a case of incremental change endorsed by Mintzberg (1978), and “a *continual testing of alternatives*”, in practice the roll out of the segmentation was criticised for proceeding regardless of the experience of the pilots. It was, as one branch manager put it, “*seen as a good idea which they would go and do anyway*”.

Particular concern was over the financial targeting of branches. The Corporate and Personal sections had profit targeted separately, but the difficulty lay in allocating the costs of the branch and this caused friction between managers.

#### **(f) Positioning of the Bank**

The process of strategic change in the Bank lends support to the view that business strategy is a far more incremental process than many textbooks imply (Mintzberg 1978, Quinn 1980). In fact, as we noted the Plan left unanswered a good many questions and this section addresses the debate over positioning.

A fundamental issue related to the market positioning of the Bank. This has been defined as occupying a clear, distinctive and desirable place in the market and in the minds of target customers (Kotler 1986).

Since the loss of ‘free banking’ as its flagship in 1984, the Bank had no clearly defined edge in product or image. In Porter’s terms, it was “*stuck in the middle*”:

*“Such a firm lacks the market share, capital investment and resolve to play the low cost game, the individual differentiation necessary to obviate the need for a*

*low cost position or the focus to create differentiation or a low cost position in a more limited sphere.” (1980 p41)*

With increased pressure on the personal sector as the banks have refocussed on the domestic market (Hall 1986) the Bank had shown an awareness in the Corporate Plan of the need to find a niche for itself. However, as one marketing manager pointed out, by not making a choice the danger was that “*the Bank would go for a niche strategy by default*”. In other words, the Bank would be reduced to merely serving segments from which it had not been forced out.

Shaw and Coulbeck have argued that:

*“in the long term it is clear that in every area of retail banking competition will become much more fierce as a result of the increased ease of access to the market. Probably the vital factor as to what groups gain most advantage will lie in the quality of marketing.” (1983 p5)*

Yet banks in general have been poor at marketing, primarily concentrating on the upper end of the market, servicing personal, commercial and corporate business from the one branch, which removed retail services from the ordinary person (King 1981). With an end to the ‘great unbanked’ and the refocus of banks on the retail sector, banks have to overcome marketing myopia (Levitt 1960) of product rather than market orientation and the perception that banks are cloakrooms into which money is paid and later drawn out. Such marketing strategies that banks have had, have been aimed more at increasing volume rather than profit, for instance merely increasing the range of services rather than attempting to differentiate or segment the market (Laurent 1979). By the 1980s focus strategies were seen as important especially for smaller organisations. Thus niche institutions, e.g. Robert Fleming (Save and Prosper) have sought high net worth individuals.

With the break up of the cartel, positioning was crucial for the future of the Bank and this had implications for the Bank as a whole. A clear, consistent, integrated approach was required in terms of product, distribution, advertising and branch design.

In October 1987 a marketing specialist from ICI was appointed to become Head of Marketing and his priority was to address this issue. Almost a year after the new Corporate Plan

had been running, he argued to the Policy Committee that:

*"Whilst development in the areas of product, place (distribution) and price were being undertaken initial research had concluded that in the absence of any clear sustainable differentiation from our competitors these alone would be unable to sustain real profits and customer growth."*

Slatter (1984) identifies inadequate marketing as one of the main causes of a crisis situation. The Bank had squandered the opportunity of a huge steal on the market with 'free banking'. Partly this could be blamed on a lack of resources (and the tight rein of the CWS) but the end result was that only a limited breakthrough was achieved and, as one manager put it: *"free banking was the best kept secret British banking ever had"*. Furthermore, the Bank had failed to target or segment its customer base, so effectively was adopting what one manager referred to as *"a scattergun approach"*.

The new Head of Marketing, reviewing the Bank's position, pointed out that in many areas the capital costs of being an innovator were too high for the Bank. However, this was not seen as necessarily a point of competitive disadvantage, given that the banking sector had never been very innovative. More importantly the cost structure of the Bank was such that it could not compete on price: for instance its commission rates were among the highest.

Hence image and presentation were vital. Middleton reports that:

*"Recent research has indicated that the price elasticity of demand for many consumer financial products is low and suggests that if an institution's customer is happy with his overall relationship, a competitor who wished to poach one element of business, (say, that customer's deposits) would have to offer at least 3 per cent more for the money."*

(1987 p17-18)

Yet, according to Bank market research (see Table 5.8), the level of unprompted awareness of the Bank amongst the total markets was 6% compared with Barclays Bank 83% and Midland Bank 62% and there was a clear connection between level of awareness and the share of

the market. This affected utilisation of ATM services even more than those with lower awareness levels. For instance, small building societies had lower awareness levels but because they were localised there was not the same effect on ATM activity rates, as awareness was high in the trading area. The Bank clearly lacked corporate brand images; it had no sign off phrase, it was not the 'action bank', the 'listening bank' nor the 'Black Horse bank'. The building societies had their own slogans: 'Get the Abbey habit', 'I'm with the Woolwich', etc (Middleton 1987).

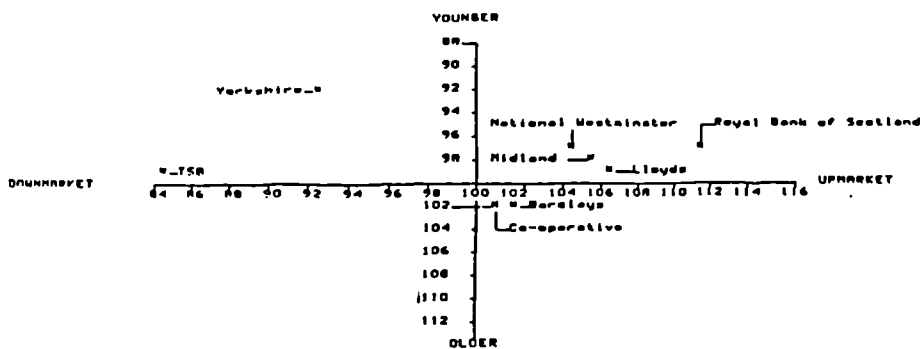
**Table 5.8: Awareness of Financial Institutions**

	Unprompted	Prompted
<b>Banks</b>		
Co-operative	6	67
Barclays	83	98
Lloyds	68	95
Midland	62	94
National Westminster	69	92
TSB	48	93
Royal Bank of Scotland	20	68
Bank of Scotland	24	68
Girobank	7	78
<b>Building Societies</b>		
Halifax	75	97
Abbey National	53	95
Nationwide	31	84
Leeds	37	85
Woolwich	22	90
Anglia	17	74
Alliance and Leicester	8	52
National and Provincial	12	68
Bradford and Bingley	45	89
Britannia	8	54

**Source: Co-operative Bank Market Research Unit, March 1988**

The demographic profiles of the Bank's personal customers (see Figure 5.6 below) showed that the Bank was in a similar position to the Big Four clearers (especially close to Barclays Bank, being slightly older and more upmarket than the norm). Apart from the Big Four, the other banks did have a distinct position, TSB being downmarket, Yorkshire Bank young and downmarket and Royal Bank of Scotland upmarket.

Figure 5.6: Current Account Positions



Source: Internal Bank Paper

Hence the Bank had no distinct position and had become indistinguishable from the Big Four, yet this placed it at a point of competitive disadvantage because of the high awareness of the major banks who had the advantages of size, high street presence and advertising expenditure. This related to Bank strategy in the 1970's of being a national clearer with all the cost that it entailed.

Nevertheless, as far as the Bank did have an image it was regarded as 'clean' compared with the Big Four, tainted by association with South Africa, Third World debt and City scandals and huge profits. The other element related to the image associated with the name and its ownership by the movement, which gave to some people the image of being, in the words of a marketing manager:

*"a leftist, Greenpeace type organisation appealing to Guardian readers and members of CND"*

Hence, in choosing a strategic position and image the Bank did not start with a clean sheet, and images are of course 'sticky'.

One possibility discussed was establishing a niche for itself as the ethical bank. This clearly had the attraction of being a route the big banks could not follow and hence avoided the risk which Porter observes, that:

*"imitation narrows perceived differentiation, a common occurrence as industries mature." (1980 p46).*

Yet, as Shaw and Coulbeck observed in 1983:

*"in competitive terms the bank has unique opportunities because of its 'caring, sharing' principles, its links with other parts of the co-operative movement in the U.K. and overseas and its links with trade unions and local authorities." (p 54).*

Furthermore, it would cut across the socio-economic divide and would fit in with its historical heritage in terms of social caring and the community. Like the movement as a whole, it needed to define its ethos in an age of individualism. Thus,

*"In a classic marketing mix the proposal means that the emphasis in communications will move from the product or the place where available or the price to existing and potential customer perceptions of the bank as a positive and caring vehicle through which they can care or, equally important, be seen to care." (Marketing Strategy Paper).*

Perception and image were crucial because they were long lasting rather than, for instance, product innovation. While the Bank's competitors, the Big Four, became larger, more international and impersonal, the Bank had the opportunity to stress its closeness to the customer and involvement in local initiatives, e.g. inner city reform and the community. A Community Affairs Manager was appointed to perform the role of emphasising social responsibility and links with the local community.

#### **(g) Strategic Decision Making in the Financial Sector**

We noted earlier in the chapter that the Bank's Corporate Plan had failed to take a number of key strategic decisions and, secondly, that there had been little attention to operational considerations. In the normal course of events a Corporate Plan for 1987-91 was expected to be produced and presented to the Board in April/May of 1987. Nevertheless, in practice senior management admitted that the effort required to produce the Plan was out of proportion with the

ability to implement it within a given timescale. The 1986-90 Plan had raised as many questions as it answered and even where strategies had been identified, the practical implications were not dealt with in any detail. As many managers continually pointed out, there was the need to put the 'how' into the objectives. Given the organisational restructuring taking place, it was decided by early 1987 to concentrate on the operational level, examining closely the implementation of plans and getting profit in line for the year, while at the same time not pushing the Plan for 1987 because it was seen as necessary to look beyond the current year at fundamental issues. They were very much aware that an organisation threatened by competitive pressures would be looking at shorter term planning horizons.

One major issue which illustrates the difficulty of making strategic decisions in a rapidly changing environment and the myth of managerial expertise is that of EFTPOS (Electronic Fund Transfer at Point of Sale). Clearly, if the environment is wrongly diagnosed, strategic decisions will be faulty. Yet in this case it was very difficult to get a grip on the environment, and the Bank was also not a major actor.

It was a view commonly shared by top management that if the Bank got this issue wrong it could be crippled. It was not addressed in great detail in the Corporate Plan but a working party was established and it reported that:

*"It may not be possible to clarify the way forward on a number of important areas of Bank policy until the EFTPOS environment has begun to resolve itself. Yet each player (especially the smallest, such as the Co-operative Bank) requires to optimise its decisions as to participation in EFTPOS and the commensurate investment required - in some cases, urgently."*

The decision to join appeared to owe much to the fact that everybody else seemed to be joining in. One Director argued that, after a number of years of poor profit performance, major capital expenditure of this kind was a vote for the future. However, it was pointed out that no income would be generated, at least not in the short term. Furthermore, given the confused state of EFTPOS in the U.K., it was almost impossible to quantify what long term benefit would accrue

to the organisation. The operational cost sharing formula had yet to be defined and account had to be taken of retailer and consumer reaction. Nevertheless, there was a belief that by the mid 1990s it would be at the core of the banking infrastructure and it was clear that the Big Four were rapidly and aggressively increasing market share and trying to preempt the competition. As the Head of Strategy Formulation put it: *"The Bank was all dressed up with nowhere to go"*. Others expressed concern that the major banks, especially NatWest, were spending money on new products and development, in an attempt to *"blow away the smaller banks"*, and that by following them the Bank was playing into their hands.

The issue of EFTPOS was, of course, part of a wider debate over distribution, regarding which the Group Development Manager commented that there was *"a very considerable divergence of attitudes among the Executive Directors over distribution"*. This broad area was the means by which the Bank would deal with customers and provide services to them. A general theme was to move away from being product driven to being market driven. More specifically, the two key questions related to whether the Bank needed to increase its branches on traditional lines, hence presupposing the need for a high street presence and, secondly, to look closely at the network of in-store banking. The 1985 Audit Report referred to the *"crumbling agency system"* which made the Bank vulnerable in certain areas. This area was of considerable strategic importance given that the Bank had emphasised distribution as one of the key points of differentiation.

Extended opening hours was launched but regarded as a defensive move, to retain customers rather than attack other markets. Originally it was aimed at the personal customer but in fact new customers proved difficult to attract, although existing ones may have found it useful and hence the Bank may have prevented some loss of customers. The business customers did find the change of greater use to them.

A further difficulty was the choice between the different routes to EFTPOS; there was national EFTPOS, LINK, VISA and Co-op EFTPOS, and how the Bank would utilise the systems. The main players had already taken up positions by 1988 and were not waiting until EFTPOS U.K.

came on stream in mid 1989. In November 1987 the Bank had a clear choice of entering the inaugural scheme which would roll onto EFTPOS U.K. or staying out and accepting that in the medium term at least it would not be a main player; entry could not just be delayed by six months. Senior managers expressed a reluctance to join EFTPOS U.K. if there was any cheaper suitable alternative.

The Bank's own scheme, Co-op EFTPOS, was 'live' in 26 stores and used to explore customer behaviour patterns and retailer acceptance. (This was essentially a defensive strategy; to hold on with minimum resources until it was decided what the relationship with the movement would be.) In the long term it was intended to integrate Co-op EFTPOS into EFTPOS U.K.; the former was essentially regarded as a short term solution to secure a position in the marketplace for the Bank. Furthermore the Bank wanted to emphasise its experience of over a hundred years in the retailing environment. The situation was immensely complicated. The LINK scheme provided another option but 4/5 of its founder members were committed to EFTPOS U.K. and no major developments were envisaged for 1988. However, if EFTPOS U.K. foundered, LINK could provide a medium term opportunity.

Other issues revolved around the EFTPOS decision. The Head of Marketing pointed out that the Bank had a very poor record in selling card products, e.g. with 2.5% of the current account market share but only 1.5% of the plastics market, and this needed to be addressed. Criticism was also levelled at the process of strategic decision making which merely followed the competition: and to choose to join and develop a system before deciding how it was to be used. Was it then a solution to a problem or a solution in search of a problem?

#### **(h) Problems of Implementing Change**

One senior manager complained that the Bank had an "*infinite capacity to change and remain unchanged*", and this illustrates a concern discussed earlier of changing structures rather than attitudes. Hence it was vital to convince staff that this was not just 'another change' and this had to be down from the top down. Strategic change was thus problematic.

The Head of Strategy Formulation emphasised that the Directors in the Bank because of their age and experience meant it was unlikely that they would be receptive to change. Hence change was constrained by political and cultural factors. Schon (1969) has argued that while organisations are conservative and do not accept change easily, to term them conservative is misleading since they are dynamic - in other words they fight to stay as they are.

We have seen earlier that there were teething problems associated with the operation of the new committee. Far more serious was the extent to which managers attending committee meetings took along their own departmental baggage and hence took a departmental rather than 'Bank' view. Furthermore, some of the Directors worked around the existing structure, expressing disinterest in the committee system which they regarded as interfering with their divisional responsibilities. Managers responsible for achieving the organisational change complained that, while Directors had agreed in principle to restructuring and other changes, in practice they would ignore or obstruct on issues which they felt might reduce their own influence, and these 'negative' views filtered down to other managers. The Group Development Manager said that "*the effort to get the minutest change is incredible*".

Many of these problems illustrate the views of Argyis (1972) that a change in managerial attitude is needed to precede organisational change. The case of the Bank shows that some matters were simply dealt with outside the existing official structure. Hence, as we have noted, managers pursue their own goals as well as those of the organisation.

Moreover, some Directors actually wished to obstruct elements of change and continued to engage in empire building. Cyert and March (1963) write of the negotiated nature of goals among influential participants and the inherently unstable position, as power balances change with changing business conditions. This is particularly true of organisations tending to be segmentalist dominated rather than integrative (Kanter 1983) and thus change will disturb the isolated segment and may consequently be resisted.

Anthony quotes Dalton's criticism of bureaucratic theory which:

*"slights the fact that in the larger organisations, local and personal demands take precedence in most cases" and that "the typical firm is thus a shifting set of contained disruption, powered and guided by differentially skilled and committed persons. Its unofficial aspects bulk large but are shrouded in a bureaucratic cloak." (1987 p179)*

A number of criticisms were levelled at the Chief Executive and his alleged inability to manage strategic change. The previous Chief Executive had been at the helm of the Bank from 1971 to 1985 at a time when the Bank had averaged 20% per annum growth. He had been regarded as a traditional authoritarian figure who had *"got things done"*. The new Chief Executive had come from Williams and Glyn's Bank and served as Assistant General Manager for a year before he became Chief Executive. He was said to believe in an open consensus style of management but, as one senior manager put it: *"while this was a great strength, it was also a great weakness"*. In particular there was an obvious difficulty in attempting to achieve major change with top level management familiar with a different style of management. Turnarounds are usually achieved by tough no-nonsense managers brought in from outside the company, who break consensus to get radical change (Slatter 1984). In this case the Chief Executive seemed to reflect the consensus and culture he was trying to change.

Many managers, not appreciating his style of management, accused him of being indecisive, very much influenced by his solicitor's background and always seeing two sides of view. One branch manager said that he *"always asked a lot of questions but could not himself provide any answers"*. Other criticisms were made of his inability to motivate managers and his *"lack of vision"*.

One problem lay with the perceived caretaker role of the Chief Executive. It was clear from the beginning that this was not to be a long term tenure. It was rumoured that the tenure might even be shorter than the existing contract. Hence some of the Directors wanted to attempt to 'hold out' until a new Chief Executive was appointed. Two in fact were in competition for the job which further coloured decisions about strategy and resources for the future.

The problem partly lay with what might be termed “*strategic slack*”; a lack of tight, clear objectives and plans about what was to be done and how it was to be done, which enabled senior managers to argue that what they were doing was in fact within their remit. The focus was too large and not crystallised into tight criteria. A Hay Group Performance Profile Report stated that senior managers:

*‘do not share a common, clear, strong vision of where the Bank is going, and what sort of organisation it wants to be. This may also imply that they are communicating conflicting views of the Bank’s objectives, plans and performance to subordinate staff.’*

More broadly, a problem of implementing strategic change could be said to relate to the strategic frame reference of managers (in Rumelt’s terminology, 1979) whereby managers perceive current actions in terms of past experience, which is essentially constraining.

#### **(i) Business Strategy and Performance**

The year 1987 gave reason for cautious optimism. The year had witnessed dramatic upheaval in the financial markets with record falls in share values in October. Among the major banks a steady increase in domestic profit had been overshadowed by bad debt repayment. The Bank, however, had very limited exposure to Third World lending. There had also been an intensification of domestic competition, with banks moving into the housing loan sector and the end to the building society cartel.

The primary objective of the Corporate Plan had been a rapid expansion in the customer base; this had not occurred, although negative growth trends had been reversed with a net growth of 7588 accounts in 1987. However, there were signs that some of the initiatives, especially cross-selling within branches from central initiatives were beginning to make an impact.

Nevertheless, caution was seen as vital as much of the positive improvement may have owed something to external factors, most notably high interest rates and the continuing consumer boom. The Bank’s share of the market had not changed markedly.

The results in 1987 (see Table 5.9) reflected the heavy spending on infrastructure, market developments and the separation of personal and corporate banking. Performance fell well short of the target of pre-tax profit of 18m.

**Table 5.9: Profit Figures 1986 and 1987**

	1987	1986
Profit before tax and debt provisions	15.684	13.771
Profit before tax	14.3	13.771
Profit after tax	8.319	8.360

**Source: Bank Papers**

In such circumstances the Bank saw *“no alternative but to cut costs and increase the volume of business”*.

The question of cost returned again to the problem of being a small bank but with an onerous support cost structure. It was agreed that the Bank would have to operate with more modest support services and without divisional duplication. The concept of autonomous business units was dismissed as impractical.

Hence many of the cost savings identified related to either ‘belt-tightening’ or stricter management control. However, senior management were aware that it was considerably easier to be specific on cost saving rather than income generation:

*“consequently it is considered that cost savings can more easily provide the bulk of the target, but that increased income generation will be a better quality and more lasting solution.”* Source: Internal Bank Papers

The corporate sector, especially small and medium sized businesses, were regarded as the key areas to be targeted, such targeting being facilitated by the new structure of the Bank and by the time profit for the half year of 1988 was published, considerable advance had been made with 10m being reached, compared with 6m in 1987. As part of the move to expansion, the Bank sought extra capital so as to generate economies of scales through balance sheet expansion based on the Bank’s present investment in infrastructure. It was the first time the Bank had sought

long term capital from outside sources, growth being previously financed from retained earnings and CWS contributions. The placing of the 40m Cumulative Redeemable Shares was seen as an historic event since the Bank had obtained non co-operative investment capital without departing from the principles of ownership and control within the co-operative movement.

**(j) A new Chief Executive, strategic planning and a reformulated strategy**

A new Chief Executive was announced in April 1988 to succeed the existing Chief Executive from October. He was comparatively young (aged 50), having joined the Bank from National Westminster in 1973 and had been the first Marketing Manager of the Bank. He was widely credited with being behind the introduction of 'free banking' and this reputation as an innovator produced a degree of apprehension, particularly among older staff.

Within two months of the announcement being made the Chief Executive Designate took over much of the policy making initiative. He emphasised the need for a flexible approach to the Corporate Plan. He argued that in a dynamic and fiercely competitive environment:

*"there can never be a realistic and viable total 'Corporate Plan' available for discussion at any one moment in time which has embraced every aspect of the Group's existing and potential business, all potential competitor strategies, line management experience, staff attitudes and shareholder expectations. If it was ever theoretically possible the 'plan' would be out of date before it was circulated."*

(Strategic Plan)

Thus the incoming Chief Executive embraced the concept of strategic planning. There is, of course, a link with corporate planning, but the two are by no means synonymous. Corporate planning decides both corporate objectives and corporate strategy. Strategic planning is concerned with the latter (Argenti 1980 p7). As we have noted in our discussion of the strategy literature the fashionable corporate planners of the 1960s and 1970s have been increasingly

replaced by the process of strategic management which encompasses all managers.

As the incoming Chief Executive argued:

*"This change in emphasis from the theoretical end product i.e. the Corporate Plan, to the process of continually thinking strategically at all levels of management has also resolved the question as to whether planning is, or should be, a top-down or bottom-up exercise. It is of course both, with the Board and senior executive expressing with clarity and consistency the strategic objectives and assumptions as to resources available and timescales within which to achieve those objectives, supplemented by experienced and successful line management feeding upwards the commercial realities within which they are operating on a day-to-day basis. It is in the inter-play between these two forces that strategic options can be identified and resolved within the framework of the ultimate objectives as determined by the Board....This approach is the antithesis of a culture which develops 'tablets of stone' or 'sacred cows' and recognises that a successful business must continually evolve, adapt and amend in relation to the economy and society within which it desires to profitably exist."*

This is certainly in line with the view of Kudla (1982) that while the process of decision making is more important than the plan which emerges, nevertheless the plan is important because of the discipline of thinking strategically.

The task of revising the previous Corporate Plan begged the famous Drucker question:

*"What business are we in, what business do we need to be in and what is the business from which we wish to depart" (1955 p55)*

It was generally accepted that the Bank was in the generic area of 'financial services' but deregulation had fundamentally altered the differences between different types of business and competitors. The four areas which the Bank identified as areas where they would have a future were:

Money Transfer

Risk Management

Customer Service

Advisory and related financial services.

There was a reiteration of the statement in the Corporate Plan that the Bank had to drop its international pretensions. While in the past it had been deemed an important justification that the Bank be involved in international activity so as to give the Bank the highest status, this was no longer relevant after the Banking Acts of 1979 and 1987.

The Strategic Plan of the incoming Chief Executive emphasised a new process of decision making as discussed. It also reformulated the Corporate Plan with significant changes in two areas. The Chief Executive was keen on quoting Drucker's view that middle managers will be extinct and cited the example of Mars with 17 billion turnover and a Head Office of some 30 staff. He was regarded as being much more action orientated than the previous Chief Executive and continually stressed that: "*managers must be managers*".

A new organisational structure would facilitate this by being more market driven, with autonomous business units. The Personal and Corporate Banking Divisions were to fall under a new regional structure with six regions each being comprised of 8-10 branches, branch managers reporting to Regional General Managers, who in turn reported to the Chief Executive, with Customer Sales and Service Division co-ordinating. More autonomy would be given to managers. For instance, there would be greater discretion to managers on lending rather than the much criticised references to Head Office which undermined branch managers' credibility and morale. Managers would be given targets, but how these were to be achieved would be left to them. The regional structure was linked to a new regional strategy (see below).

Other organisational changes included bringing the various financial control areas, e.g. Financial Control, Treasury, Audit, Credit Control, under a new Group Finance Division. The decentralisation and emphasis on giving greater responsibility to the line had clear human resource implications in that responsibility for managing the business would include greater

responsibility for managing people.

We noted earlier in the chapter the concept of managerial 'recipes' and the difficulty of achieving radical change in the face of 'political' obstruction and commitment to old recipes. It is highly significant that the Executive Directors were moved into more narrowly defined roles, with responsibility for particular issues rather than functions, so as to prevent power bases emerging. The Head of Customer Sales and Service was not a Director, nor were any of the Regional Managers. Furthermore, the number of Directors was to be reduced from seven to three (a number of Directors were expected to retire in the not too distant future) and the Policy Committee now included some senior managers who were not Directors but were obviously the 'men of the future'. Thus, the sidelining of the old guard of top management with the promotion of a younger element owing much to the incoming Chief Executive, would clearly make the management of change less problematic.

The second main theme in the Strategic Plan, but interlocking with the organisational change, was in terms of the philosophical approach to the market. The Chief Executive talked of *"revisiting our inheritance as part of the co-operative movement"*. Hence the Bank would:

*"differentiate itself from other banks by developing its involvement with organisations both at National and Regional level that in different ways see a closer relationship between owners and workers, customers and members as being beneficial to individuals, organisations and the community."*

While traditionally this had been expressed through the Bank's involvement in the movement, alternative ways could express the philosophy.

The policy would be national and regional. Nationally the Bank would develop services for the wider co-operative movement, mutual organisations, local authorities and members of such organisations, and organisations interested in creating employee participation in ownership through ESOP (Employee Share Ownership Plans). Regionally, a regional focus would enable the Bank to get closer to local organisations and the local community.

**(k) Business strategy and employee relations**

This section seeks to look at the consideration given to employee relations by top management during the production of the Corporate Plan and subsequent modifications to it. As we have noted in the literature review, employee relations has not usually been rated very significant in terms of strategic thinking by top management (Timperley 1980, Purcell 1986) unless the level of unrest was such that labour was seen as a problem as, for instance, in the car industry (Willman and Winch 1985). Hence, it was regarded as more of an operational consideration rather than a subject worthy of top management attention.

Nevertheless, the importance of the people input has been deemed to be of fundamental importance to the success of business (Peters and Waterman 1982). In banking, paternalistic notions of loyalty and security have flourished in a business environment with a stable product market and high profitability. Clearly the competitive environment has changed with the end of the bank oligopoly.

Kochan and Cappelli write that:

*“Changes in the competitive environment can occur gradually as products change in response to changing consumer demand (e.g. the shift to small cars) or as low-cost competition grows. The environment can also change abruptly because of competitive shocks such as de-regulation of the trucking or airline industries or the introduction of new products (radial tyres) and technologies. Regardless of the cause, a sharp increase in competitive pressures forces firms to make a series of decisions whose effects reverberate through the organisation and its industrial relations system.” (1983 p13-14)*

Yet while this is undoubtedly the case, the effect of such decisions was not given much consideration at top management level. Thus in the Corporate Plan, personnel issues fell into the category of the Strategic Support Section (together with computer capacity and reliability - very operational issues) and stated that:

*“Over the next five years the Bank will need to change its approach to Personnel Management both for a variety of the reasons which were touched on in the Banking Environment Section, and also as a consequence of the Divisional Business Plans.” (see Appendix A2)*

However, much of the discussion of issues was of a very general nature. For instance, the Plan stated that:

*“It will be strategically important over the planning period to ensure the Bank:-*

- is correctly structured to meet the demands placed on staff;*
- can operate with maximum flexibility whilst ensuring the requisite standards are not relaxed, or agreed structures compromised;*
- operates with maximum efficiency on optimum members of staff.”*

The Plan outlined and indicated areas in which there were likely to be changes but without going into any detail about what this would entail. Thus reference was made to the diverging staffing needs of the Personal and Corporate sectors; the shift of emphasis to selling rather than technical skills and change which seemed to be a catch all for increased flexibility, performance, orientation etc.

Much of the above lends support to Legge’s observation that:

*“while senior managements in the organisations involved were coming to a realisation that ‘something needed to be done’ about personnel policies in their organisations, especially in the medium sized and small organisations, they lacked the ability to think through appropriate and internally consistent personnel management strategies.”*

(1977 p37)

A senior manager (but not a Director) who had been given the responsibility for Personnel matters half way into the strategic review said that in the past staff had been treated as a cost overhead and, particularly given the expansion in the 1970s and the emphasis on external recruitment to meet staffing needs, the Bank had paid little attention to developing staff or seeing

them as a resource. This had been true of the clearing banks in general for, as Morris (1986 p22) points out, involvement in funds transmission meant that the majority of clerical staff have not been used as a means of marketing the banks' products nor directly for increasing business, but to process existing accounts. They have accordingly been regarded as an overhead rather than a resource to the banks. The senior manager emphasised the importance in strategic change of managing employee attitudes. The problem with many previous plans was that *"no matter how the strategies changed, the staff continued to work in the same old way"*. Clearly, for strategies to be implemented, people have to implement them and the way they implement them is crucial to the success of a business strategy.

Furthermore, in some respects the link with business strategy is not merely a knock-on effect of the type described by Kocnan et al (1983), or labour as an 'operational' issue to implement strategies, but actually, explicitly linked with business strategy. As Kitching has commented:

*"it is perhaps difficult for somebody not involved in the banking scene to differentiate one bank from another, no matter how every bank may claim its own superiority. The product range...is usually the same, the hours of opening are the same and the service is the same; only the personality of the staff at the Branch is different."* (1982 p57)

Hence the staff are an inextricable part of the product and not merely a link to it. Staff quality is thus part of creating sustained competitive advantage not merely a facilitating force (Miller 1987). This was more apparent as a marketing strategy was developed positioning the Bank as a caring, ethical bank. Such images were inevitably bound up with staff projection of such ideas.

Overall, there was very little detailed consideration of human resources in the Corporate Plan. In so far as a criterion of Human Resource Management is that it is considered by top management and integrated into business strategy at the level of formulation, the Bank does not meet this. However, the Chief Executive took an increasing interest in the area and, as one senior manager observed:

*"It was starting to register among top management that unless the staff were got up to scratch and on board with change, the Bank was not going to get there."*

It was not, however, regarded as a topic which should be dealt with in any detail when the Corporate Plan was being debated. This may be seen as simply a typical management approach to human resource issues. This would not be an accurate analysis of the case because senior managers did acknowledge the importance of human resources, a belief which would lead to the appointment of a Human Resource Manager: they did feel they lacked time (given the continuing debate over corporate strategy) and expertise to formulate policy at this level.

It is worth noting that in the Strategic Plan which followed two years later, there was explicit mention of a 'human resource strategy' and the importance of this to future business success (see Appendix A4).

#### **(I) Summary and Conclusion**

This chapter has examined the response of the Bank to the changing competitive environment with deregulation, increasing competition and technological innovation and the impact of this on the management of labour.

The Bank had, by the mid 1980s, lost its way. Its apparent successful transformation from being the banking arm of the co-operative movement to being a clearing bank in its own right turned out to be illusory. The Bank had seen itself as an alternative force in U.K. banking and had the reputation of an innovator, largely with the introduction of free banking. However, by the 1980s, free banking was no longer a source of differentiation as other banks adopted the concept and with a re-focus on the domestic retail market margins were squeezed and the Bank suffered several years of stagnant profits.

It became apparent that, despite a fourfold increase in accounts between 1975 and 1985, the Bank had failed to make a significant breakthrough. Furthermore, cost problems resulting from the heavy investment in infrastructure associated with being a clearer began to bite with 'creeping overheads'. The period under review saw a new Corporate Plan designed to address

these difficulties. The main thrust of the Plan lay in the emphasis on the need to achieve a rapid growth in the customer base but there was little detailed consideration of how this was to be achieved.

There were important strategic shifts. The Bank had always seen itself as a clearer with national coverage, a growing branch network and an in-store network maintained by the retail societies. The 1986-90 Plan raised major questions as to the future form of the distribution network and wanted a tighter, more customer oriented approach with bank staff in the retail sector offering a wider range of products, especially through the Financial Services Centre, so as to achieve synergy. The Bank was to adopt a 'focus strategy' with a core personal customer and a limited group of non personal customers. Certain areas would not be competed in, namely international and investment banking.

However, many gaps remained in the Plan. One manager said it was more an "*enormous housekeeping project*" to unravel the structure of the Bank rather than a blueprint for the future. A senior manager who was appointed after the Plan had been introduced said it was more of a "*framework for a corporate plan*" and that the Bank was "*still groping around*" in many areas, the Plan having raised more questions than it had answered.

As Mathur points out:

*"It is not enough simply to pinpoint the firm's intentions without specifying how progress towards them will be measured."* (1987, p77)

Furthermore, it was not clear how such intentions would be translated into practice.

While growth of the customer base was the key, the associated costs of expansion into, for instance, the targeted corporate sector was not examined, given the need to ensure an adequate return. While some attempt had been made to identify which customers the Bank wished to aim for, the question of how the Bank would attract them was only touched upon.

Thus paradoxically while structure seemed to follow strategy (a la Chandler) in terms of organisational change following the Corporate Plan, in reality the starting point of the new strategy was the organisational change. This, it could be argued, was the appropriate approach, given that

an unstable environment hindered rigid formal planning and a more flexible structure would enable the Bank to, as one manager put it: *"start the race second but finish first"*.

The example of extended opening hours was given; this had been mooted by all the banks but the Co-operative Bank had got its structure in place first.

Certainly insofar as structural change can be a success it needs to be reinforced by cultural change (see e.g. Pettigrew 1985). A non-banker at the Bank argued that traditional bankers had a rather narrow approach to the financial sector and said that this was based on the fact that they had achieved their success by lending skills. This fits in with the concept of a 'managerial recipe' developed by Grinyer and Spender whereby:

*"shared patterns of managerial judgment are closely tied to the field of experience in which they were generated and become less effective as circumstances change." (1979 p6)*

Quinn (1980) has stressed the advantage in not having concrete goals. The danger with concrete goals is that they may prevent the generation of alternatives. Secondly, it may provide a clear focus of opposition. Thirdly, they may be difficult to alter because of their public nature. Finally, it may give competitors information. Hence it may be more appropriate to have a set of general objectives to build consensus and allow flexibility. However, in the case of the Bank, having general objectives without a clear view of how these were to be translated into practice meant a high degree of 'strategic slack' which enabled senior managers to pursue their own goals while arguing that they were in fact consistent with the general objectives of the Corporate Plan.

It is probably too early to assess the success of the Corporate Plan. Before the second new Chief Executive was appointed there were signs of a turnaround, but this owed something to short term external factors, e.g. high interest rates and the consumer boom. The Bank's performance was undoubtedly helped by more effective cost control (although this too is short term) and by greater generation of income on the corporate side. However, this was not of the scale desired and the customer base remained stagnant. The period can be seen as one of consolidation after some years of fluctuating performance or as a lost opportunity to create a long

term positioning strategy. In a sense the solution was within the 'old recipe' (in terms of Spender): the application of familiar techniques, e.g. cost cutting, rather than a new recipe.

The second new Chief Executive was more action orientated and had much clearer ideas on the future of the Bank, emphasising a return to traditional regional strengths and a more sales and marketing driven culture which was to be facilitated by organisational change. It was highly significant that there were major changes at the top level. This returns us to the concept of a managerial recipe and the difficulty of achieving major change with managers committed to the old recipe. For instance, the old recipe embodied views on the provision of full services being an essential component of what a clearing bank was, rather than a strategy. In a sense, old recipes were based on financial models rather than business ones.

This chapter has illustrated several themes. Firstly, it argues that business strategy is a highly complex process and understanding the forces of change is only the first stage of strategic management, contrary to much normative writing. While external shocks may create the pressure, and perhaps opportunity, for change, much greater attention needs to be paid to the formulation of strategy and the effective management of strategic change, both of which are highly problematic. Linear models, as outlined at the beginning of the chapter, are inadequate. Porter (1980, 1985), for instance, has little to say about organisational constraints on change and regards the state of the environment as the main constraint. However, as Pettigrew points out:

*"The rational approach describes and prescribes techniques for identifying current strategy, analysing environments, resources and gaps, revealing and assessing strategic alternatives and choosing and implementing carefully analysed and well thought-through outcomes. This rational picture of business problem-solving has as its concern the content or what of strategy - the outcome which is sought - and has nothing to say at an explicit level of how to achieve that outcome. In other words; it has no process theory within it of how and why to create the strategic outcomes so perceptively and logically derived from the analysis of competitive forces." (1985 p19)*

Secondly, the chapter has shown some inherent dangers in the incremental strategic management approach. Quinn writes that:

*"The most effective strategies of major enterprises tend to emerge step by step from an iterative process in which the organisation probes the future, experiments, and learns from a series of partial (incremental) commitments rather than through global formulations of total strategies. Good managers are aware of this process, and they consciously intervene in it. They use it to improve the information available for decisions and to build the psychological identification essential to successful strategies. The process is both logical and incremental. Such logical incrementalism is not 'muddling', as most people understand that word. Properly managed, it is a conscious, purposeful, proactive, executive practice."* (1980 p58)

The problem with this type of approach is its assumption that *"good managers are aware of this process and they consciously intervene in it"*, and that they pursue corporate objectives. As we have noted, broad corporate objectives without clearly defined strategic policies lead to strategic slack and the opportunity for managers to pursue sectional goals under guise of corporate policy. This had implications for all aspects of policy. For instance, the Bank was expanding its branch network yearly. While the 1986-90 Plan talked of not being a national clearer, this was not clearly drawn out. Hence where the new branches were to be located was up for lobbying by Directors and a series of ad hoc decisions, rather than being allocated according to a strategic plan. The new Strategic Plan, in contrast, emphasised that the aim would be to achieve critical mass in certain regional areas and hence the network would be expanded in line with this strategy. Incremental change may be most effective where there is a stable environment, but in a fast moving dynamic sector the demand is for clearcut goals with signals of a change from the past (c.f. Johnson p429 in Hammond (ed) 1985). It is clear from the Bank that major strategic change is difficult to achieve with senior management committed to an old recipe. Hence a new Chief Executive and a new top management structure, with managers committed to the old recipe

effectively marginalised, may have been necessary to get the impetus for the change required.

In terms of the consideration of human resources, we have seen that the Corporate Plan included an indication of the direction the Bank was to be moving in. The need to change culture as the Bank itself became more market driven was a particular concern. However, there was little detailed consideration at this level. The area was acknowledged by senior management to be important but they saw their time as being taken up by more directly business related issues while a human resources manager would take over responsibility in this area. The formulation of strategy in human resources and implementation of new policies will be examined in the next two chapters and it is there that we will examine the implications of such an approach.

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## CHAPTER SIX: TOWARDS HUMAN RESOURCE MANAGEMENT

### (a) Introduction

The previous chapter examined the changing business strategy of the Bank in the context of rapid environmental change. This chapter examines the changing policy of the Bank towards the management of labour. We have seen that the Bank had accorded a higher priority to human resources, and this chapter looks at the implications and results of this new attitude. Hence the bulk of the chapter is concerned with discussing the attempt by the Bank to introduce a more strategic approach to its management of employees. The chapter looks at the reasons for the new approach, the key actors involved and the evolution of a strategy which incorporated cost control, a revised remuneration package, a re-shaping of the union and a new management style. This chapter is concerned with the period between December 1987 which was when 'the Human Resource Strategy' was formulated. We examined in the literature review the debate on Human Resource Management and saw that much of the material was of a prescriptive and campaign-like form and hence there is a need, as Storey (1987) argues, to contextualise by means of case studies. This thesis attempts to do exactly that. This chapter begins by examining why the Bank began to take the question of human resources more seriously.

### (b) Towards Human Resource Management

The Bank had a quite distinct approach to its management of staff because of two key influences. Firstly the co-existence of the two cultures of finance and co-operation within the Bank, with the latter fading gradually over time. In 1922 when the Bank Offices Guild (the forerunner of the present B.I.F.U.) demanded salaries for the clerks more in line with those in other banks, the official line was that

*"Your bank is totally different from any other joint stock bank in the country"*

(Quoted by Richardson, 1938)

Until 1971 the Bank was of course the C.W.S. Bank and the historical roots in the labour movement finds its clearest reflection today with the Bank's relationship with the union. Secondly, the Bank's rapid expansion in the 1970s (1680 staff in 1974 to 3250 in 1983) meant in practice the Bank had little time to develop its own resources and relied heavily on recruiting from other banks to fulfil its manpower needs. Thus, training except for new staff was a low priority and neither a manpower plan or a formal succession plan existed. Indeed until 1969, there was neither a specialist Personnel nor Training Department. In the early 1970s, the Personnel Department was largely concerned with the administration of salaries and negotiations over pay, with a significant input from C.W.S. specialists. In the later 1970s, with the rapid expansion of staff in the Bank and in the context of changing legislation and an era of incomes policies, there was a move to greater specialisation and professionalism, as evident across industry in general (Purcell and Sisson, 1983).

While the realities of the financial labour market ensured that the Bank followed closely the pay settlements of the Federation of London Clearing Bank Employers (FLCBE) there was a great deal of what was termed 'seat of the pants' management. For instance, until the introduction of the Hay-MSL job evaluation scheme in 1978, while a minimum managerial salary existed the salaries were awarded at the discretion of the Chief General Manager. Pragmatism was the key philosophy.

A more positive approach to the management of people can be seen to be identified with the Chief Executive assigning responsibility for human resources to a senior manager in July 1985. As the training manager put it, the low priority previously accorded to human resources was reflected in senior managers rejecting initiatives and giving reasons "*why we can't do it*". After the senior manager's appointment the attitude was to say "*why can't we do it*". What were the reasons for this greater emphasis on employee relations? Firstly infra-structural problems: growth in the Bank had taken place in the relatively soft markets of the 1970s, and had to some extent hidden rising costs associated with the clearing centre and Head Office which were widely regarded as being overstaffed. Secondly the increasing competitive pressure in banking had led

to greater attention to controlling labour costs and increasing labour productivity. Thirdly, the nature of change had moved the emphasis towards being a market driven rather than an administration driven organisation (or towards an organic rather than a mechanistic organisation, Burns and Stalker 1966) and this had implications for staff in terms of customer consciousness and a sales culture. Finally as the Plan developed there became an explicit link with business objectives in terms of the niche it was trying to establish: as a 'caring bank' whose customers 'care for the community' it was clearly necessary for the staff to care for the customers and management to care for the staff. Employee goodwill as well as technical competence was a necessity. Hence a clear strategic link existed.

The need to manage human resources more effectively was recognised in the Corporate Plan of 1986 and was part of the recommendations of the consultant's report on the organisation. A senior manager who had been allocated responsibility for human resources said that it had become increasingly apparent that for the Bank to achieve any success attention would have to be devoted to this area. In particular it was necessary to change the attitude staff had towards customers and to encourage a greater identification with the organisation. Hence the move to develop staff accelerated.

*"The staff had to see that it was the customer not the pieces of paper which the Bank were concerned with."*

However the Corporate Plan, while recognising the need for changes in the personnel area, did not explore in any detail what such changes would be or how they were to be brought about (see Appendix A2). Thus references were made to operating with 'maximum flexibility' and 'maximum efficiency on optimum numbers of staff', but only broad indication as to how this was to be achieved. Thus a sales culture was required, but what did this mean in terms of personnel policies and practices?

Rothwell writes that

*"The starting point of a company employment policy must be corporate policy: The employment policy must stem from the business policy and be an integral part of its implementation." (1984, p.31)*

However, the links between business strategy and employment policy are by no means clear-cut: one is not simply able to read off from company objectives a set of appropriate industrial relations policies. Even if one takes the labour process view that control is the overriding objective discretion does exist over how that control is exercised (Braverman, 1974; Nichols and Beynon, 1977; Edwards, 1979).

The human resource manager, in writing a paper on Employee Relations Strategy, made only a brief reference to corporate objectives:

*"The Bank has set out its objectives of business and profit growth in the Corporate Plan. Those objectives can only be achieved by: improved performance in all areas, particularly improved sales and customer service, effective cost control particularly head-count reduction and salary costs."*

(Employee Relations Strategy Paper, October 1987.)

Hence there was a recognition of the conflicting role of the Personnel Department: to develop staff as a resource on the one hand, and on the other to control costs. The paper developed this duality as one which must be addressed:

*"The Personnel function is developing strategies to help achieve these objectives within the key area of human resources. Effective utilisation of these resources will contribute significantly to the achievement of these objectives. The Bank must train and develop employees in this area. Success can only be achieved, however, if staff feel they are being treated correctly by the Bank and fully understand the Bank's objectives and rationale for their achievement. It is essential, therefore, that we develop an employee relations climate which facilitates these attitudes without reducing management's ability to manage the business. The key human resources objectives are therefore:-*

- a motivated and well trained staff geared to performance.

- Control and authority of staff by line managers with

*Personnel support."*

(Employee Relations Strategy Paper.)

What did this actually mean in practice? The Strategy Paper identified the key areas which needed to be addressed in order to meet the overall strategic objectives (see Appendix A5). In practice there were four central concerns. Firstly, cost control and head-count reduction. Secondly, a remuneration policy relating pay to performance and in the longer term a new pay bargaining strategy stressing affordability. Thirdly, it was necessary for 'good' union relationships although the union should not be in a position to obstruct change. Fourthly, this was to be underpinned by cultural change, new management style and greater line management authority and accountability for staff. These new policies will be discussed in detail later in the chapter, but we now move on to examine the key actors involved in the process of developing Human Resources Management.

Brewster et al (1983) identify three main categories of management involved in industrial relations policy. Instigators determine the espoused industrial relations policy: implementors (usually the main body of the managerial hierarchy) reflect the operational policy "*in accordance with his own abilities and limitations in the light of his understanding of what senior executives require of him*" or the organisation's "*internal value system*" (p.5). Thirdly, facilitators are usually the personnel specialists involved in advising and assisting in the implementation of policy. We now examine the instigators and facilitators involved in the process of change in the Bank.

As a sign of the Bank's commitment to human resources there was the appointment of a human resources manager, a newly created post in May 1987. This was filled by the former Group Employee Relations Advisor to Watney, Mann and Truman Brewers. Although the Chief Executive can be regarded as the initial instigator of policy his role was limited to pushing for change, but the content of a new policy was largely left to the Human Resources Manager. Hence his role was much more than that of a facilitator. He was to be the main instigator of policy and

would be responsible for a wholesale review of all aspects of employee relations. It was highly significant that the Chief Executive recognised that a specialist was required to make the necessary changes.

There were two other key actors. The head of the Group Development Division had overall responsibility for the function and had direct access to the Chief Executive rather than, as the organisation charts suggested, via the Director of the Group Development Division. This was for a number of reasons. Firstly the Director was also the head of the trade union bank Unity Trust (half-owned by the Bank) in addition to being closely involved with the marketing side of the division and was thus unable to devote much time to the human resource area. Secondly the Chief Executive had taken a particular interest in this area and wanted to be involved himself. Thirdly, given that responsibility did not lie with a Director it was felt necessary to have backing from the very top for radical change to be pursued. As Legge observes,

*"Without power and influence in organisational decision-making, a personnel manager cannot hope to successfully implement any sophisticated personnel strategy" (1978)*

The division of responsibility between the Head of Human Resources and the Head of Personnel was also not reflected clearly in the organisational charts which pointed to a strategic role for the former under the Group Development Division and an operational role for the latter under the Group Services Division. However, because of the two individuals involved, one new to the organisation and the other with a close understanding of the culture of the Bank and near to retirement, it was decided that the Head of Human Resources would combine both strategic and operational roles, hence avoiding the danger of being one of the:

*"paper strategists whose policy blueprints bear no relation to operational reality." (Hyman, 1987, p.34)*

The Head of Personnel would be given responsibility for particular tasks, notably the new pensions scheme and the reduction and relocation of staff.

It is certainly significant that the main process of developing a human resources policy was handled outside the line. Nevertheless there was an attempt to involve line managers by the establishment of a Human Resources Committee. This comprised the General Manager of the Group Development Division; the Head of Information Technology; the Head of the Sales Network (Personal Banking); the Head of Corporate Banking (Retail); the Head of Personnel Administration; the Human Resources Manager; the Head of Treasury and the Head of Transmissions. Hence there was representation from the human resources function, the 'systems' sections and those who had significant numbers of staff in their departments.

The committee was designed to facilitate a more strategic approach to human resources, but the lower level of representation on this committee, discussed in Chapter 5, than was originally intended undoubtedly reduced the impact of the committee, and the committee was where policy was explained rather than where decision making took place.

The 'gap' in the Corporate Plan relating to a human resources policy meant that the new Head of Human Resources had a relatively free hand to devise his own paper strategy for Human resources in so far as there were no set preconceptions or conditions as to what such a strategy would look like. Nevertheless, such a process clearly took place within a context which placed constraints on his plans.

We now examine a set of union agreements and practices which formed a major constraint on the policy formulation by the new human resources manager, but reflected very much the historical development of the Bank.

### **(c) Agreements with the Union**

While the nature and process of corporate planning in the Bank meant few decisions had been taken at the top management level regarding employee relations beyond the approval of the appointment of a human resources manager and hence he was the main instigator of policy (in Brewster's et al terms), nevertheless policy making clearly took place within a context which placed constraints on the instigators in particular, and placing direct constraints on the policy

maker were a number of agreements signed with the union which were largely a product of the Bank's unique relationship with the movement which we have addressed in Chapter Three. We now examine these agreements in some detail so as to be able to understand the context in which policy was formulated.

There were four important agreements with the union which we discuss in turn.

#### **(i) New Technology Agreement**

The Bank had been the focus of massive technical change. Large mainframe computers had removed paper chasing and number crunching from the branches and centralised them. The Bank was the first to introduce on line (i.e. direct transmission of data between the branch and the mainframe processing computer) customer accounting system; all this has been to improve staff productivity and control costs via the automation of clerical procedures. This also took place in a climate of optimism and expansion as the Bank was one of the only banks not to be rationalising its branch structure.

More recently, the second phase of branch automation has been oriented towards the provision of customer information as an aid to the development of the Personal Banker philosophy. Hence the front office communication network and micro computers would facilitate management decision making by improving indirect customer service and would also be an aid to the marketing of the bank's services to the customer. In addition a strategic decision was made to develop an ATM network. Of course the industry as a whole has been the focus of overwhelming technical innovation as we noted in Chapter Two. In addition to the development of ATM network, there has been CHAPS, and EFTPOS and home banking were looming on the horizon (Cooke 1986). Thus it is hardly surprising that there has been concern about job security, careers and deskilling (BIFU, 1983; Crompton Jones, 1984).

However, the agreement had been relatively uncontentious although it is worth noting that while seeking technology agreements since 1989, BIFU have failed to achieve even consultative rights or employment guarantees elsewhere (Willman, 1986) and the current policy (from the 1984

conference) had been to oppose new technology which leads to job loss. The agreement with the Bank (very close to the model new technology agreement of BIFU) gives full consultative rights (see Appendix A6.2). New technology then has hardly been an issue in the Bank. This can be attributed to several factors. Firstly, it has taken place in the context of rapid expansion in the Bank, so job security has not been threatened. Secondly, it has been regarded as having a beneficial impact on the content and quality of the jobs affected by change. For instance, on line systems were deemed to require more skill in terms of terminal operation and also to be a more rounded task. Two other factors were said to be important: good handling of the issue by management and finally the relatively young age of staff (average age 32) said to be less apprehensive of change.

Thus while conflict over new technology appears endemic in old craft industries, as illustrated by printing (Martin 1981, and is also affecting newer industries e.g. Television technicians and air traffic workers (Bamber and Lansbury 1988) the case of the bank and the industry in general supports the view at Batstone et al (1987) of a lack of trauma in relation to the introduction of new technology. We now turn to examine the Job Security and Mobility Agreements.

#### **(ii) The Mobility of Labour and Job Security Agreements**

These two agreements were a product of the labour difficulties the bank faced in 1983, but had become increasingly constraining by the late 1980s. In 1983 the Bank, facing up to the cost of its expansion in the 1970s at a time of high inflation and the 1981 windfall tax, had a major re-assessment which led to an attempt to cut costs by 2.5 million. Although the Bank denied it, the union claimed that this would mean 250 redundancies, and staff ballots in the major centres, namely Manchester, London and Skelmersdale, produced a majority for industrial action. To prevent the dispute going further the status quo was maintained while negotiations took place, and the result was the two agreements above.

The Mobility of Labour Agreement was referred to by a personnel manager as *“the biggest waste of time and cause of aggravation during my whole career with the Bank”*.

The agreement sought to highlight the need for mobility in order to achieve career advancement (see Appendix A6.4). Part of the difficulty lay in the limited branch network of the Bank; to gain experience staff had to move branches but where with the major banks this did not necessarily mean having to move house, in the Bank this was usually the case. Staff were asked to indicate whether they were fully mobile, had limited mobility or were not prepared to move at all. In practice, of course, changing circumstances would alter their willingness to move, and in fact the agreement made provision for staff to notify the Personnel Department and alter the scope of the mobility as long as new *“employed, professional, personal or domestic circumstances merit such change”*. The extent to which the agreement, although being of little use in practical terms, had something of a symbolic importance in that it focused staff attention on the need for greater mobility is debatable.

The second agreement signed in 1983 was the Job Security Agreement. Like the TSB Security of Employment Agreement (see Willman, 1986, p.241) it embodied the principle of no compulsory redundancy, stating that:

*“It is the policy of the Bank to provide security of employment for every member of its staff having due regard to the need for an increasingly efficient and profitable business. Such security of employment is best provided by careful planning in the adoption and development of new or revised business practices and/or procedures. In accordance with this principle and Section 1 of this Agreement, Parties agree that they share a common aim of maintaining the efficiency and profitability to the Bank and in continuing to further the best possible relationships in order to safeguard the current or future employment of the staff of the Bank.”*

The following mechanisms exist to reduce staff numbers:

- 1 Reduction of temporary/agency staff
- 2 Cessation of recruitment
- 3 Reduction of overtime
- 4 Enforced retirement
- 5 Voluntary early retirement
- 6 Redeployment and retraining
- 7 Voluntary redundancy  
(Job Security Agreement.)

A Staffing Review Committee was set up to meet and discuss and review

*“the implications for employees which may arise from the adoption or development of new or revised business practices and/or procedures and changed trading or economic circumstances”*

and

*“to consider as a consequence of such a review any appropriate means including the provisions of this Agreement for reducing to a minimum the number of employees who became surplus to the overall needs of the Bank.”*

(see Appendix A6.3)

In 1987 the absence of a section in the Agreement providing for compulsory redundancy was seen as unfortunate, not so much because the Bank would wish to utilise the clause but because the absence of such a clause was believed to generate the view that staff had a 'job for life'.

A paper on Employee Relations Strategy stated that

*“The Job Security Agreement can be viewed as a hindrance to the Bank's activities in that it limits the Bank's actions in redeploying or reducing staff. The Bank should, however, be able to manage the proposed organisational changes and staff reductions within its confines, though it may have to consider*

*introduction of compulsory redundancy at some stage if targets are not achieved."*

This issue clearly involved the union and it is to this subject that we now turn.

### **(iii) Union Membership Agreement**

The Bank differed from the 'Big Four' in that it operated a union membership agreement (effectively a closed shop) (see Appendix A6.1) and hence there was no staff association and thus no internal union conflict as in the other banks. Morris (1986) argues that divided staff representation is one factor responsible for banks' commercial success. The debate over the significance of the closed shop has changed markedly over time. The traditional view that it was a weapon of the unions (McCarthy 1964) was turned on its head in the early 1970s by those who argued that it was managers who favoured it (Hart 1979). In respect of the Bank it is interesting to note that one of the Directors claimed that it is *"on balance as advantageous to the employer as to the union"*.

More recent research has shown the danger of looking at the closed shop as a monolithic institution and the need to see it in many cases as the *"final piece of the jigsaw"* rather than being of huge importance itself (Dunn and Gennard 1984). In fact management enthusiasm for the closed shop has probably been exaggerated, and

*"tended to be, if not indifferent, at least non-committal. This may well have been indicative of a disappointment that the closed shop had not produced the practical benefits that had been expected. Nevertheless, they tended to value it as part of the status quo and thus were not keen to see it removed, although this in turn may have been due to their relatively short experience of the practice and of the fact that no opportunity had arisen for the practice to operate against management interests."*

(Dunn and Gennard, p.150)

Internally the relationship with the union was regarded as a good one. The major problems arose from BIFU's need to meet national policy on, for instance, working practices and hours of work. The 'big four' did not have this difficulty: claiming the 'right to manage' on issues such as Saturday opening they simply override the objections of the unions (clearly helped by divided staff representation). The Bank had to ensure that BIFU in the Bank are not 'embarrassed' in relation to national policies.

Not surprisingly the attitudes of those who had regular dealings with the union were by no means homogeneous. The Personnel Manager (a former leading lay union official) referred disparagingly to 'trouble makers' and 'political militants' who dominated committees. He was also critical of the people who were appointed to the position of Control Clerk (two shop stewards seconded by the Bank for a period of two years) whom he regarded as too junior effectively to represent the union and whom he felt were vested with too much power.

A senior manager with responsibility for personnel had a more positive view: getting rid of or fundamentally undermining the union was neither possible nor desirable. Hence, management should strive to work with the union. Indeed, he was critical of the confrontational approach of the 'Big Four' which he regarded as likely to store up trouble for future, particularly with regard to non career staff in the clearing centres.

One possibility floated to reduce the role of 'militants' would be to 'build up' people with defined career paths into the job, and Blyton, working in local government, found that

*"far from showing a reluctance and a fear of compromising their status by membership of, and activity in, unions dominated numerically by their juniors, the high ranking officers in the local government departments displayed a desire to exert similar degrees of involvement and control within the union setting to those which they were accustomed to wielding within the work organisation."*

(1980, p.135)

However in the Bank it was made clear to managers that while being members of the union, their role was as managers. As Arthurs (1983) illustrates in his study, there is tacit acceptance that managers retired from active union membership when they took on a post that required a significant role in policy making.

Hence with the union dominated by junior staff there was a tendency to reflect these interests, for instance in seeking flat rate increases during pay negotiations and in seeking the extension of certain fringe benefits as for instance the availability of preferential borrowing. Nevertheless no attempt had been made to have separate representation for managers outside the union as this was deemed to go against the culture of the movement; within the union a manager's and appointed staff's sub committee existed but was generally regarded as toothless. The whole union question was called into question by recent legislation on the closed shop which we will discuss in the next section.

We have discussed these agreements and their implications in some detail because they illustrate the concerns of those in Personnel as to the constraints they faced in formulating policies and the potential constraints in the implementation of such policies. We now go on to examine the policies developed.

#### **(d) The Development of a Human Resources Strategy**

We have now outlined the motivation behind the adoption of a more pro-active and positive approach to managing staff, the significant appointment of a human resources manager and some of the key constraints in developing policy. We now move on to examine the development of a human resources strategy for the Bank. There were a number of central themes running through the strategy: an emphasis on cost control and reduction; a new remuneration package; a new relationship with the union and a new management style and attitude. These were linked by a central strategic and organisational posture: to be a market driven organisation. We now examine these themes in turn.

**(i) Cost Control**

Rather ironically given the trend away from regarding labour as a cost and the move to looking at it as more of a resource, the first priority of the Bank was to reduce labour costs (which formed some 70% of total operating expenditure). Pressure for this came as a result of two factors. Firstly, low profits in 1985 (following on from a bad year in 1984) was likely of itself to lead to a re-examination of the cost structure of the Bank. Secondly, and the catalyst, was the pattern of pay settlements in the banks in 1987 after the collapse of the Federation of London Clearing Bank Employers in July which put enormous pressure on the Bank. The impact of the unanticipated increase in the London Allowance was a sharp one, with as many as a quarter of its staff eligible for this. The implications of such payments for the following year's expected profits was clear. The estimated costs for 1988 with the Annual Salary Review (ASR) and ancillary items (allowances etc.) would be an increase of some 10% of present pay roll costs or some 5m. This was also taking place with the background of a remuneration review and the introduction of a profit-sharing scheme both of which would be expensive.

Hence attention focused on the reduction of unit labour costs. Unit labour costs can be reduced in two main ways: firstly an increase in labour productivity, secondly a reduction in total labour costs. The first method could be achieved by measures like better recruitment and training, a new payment system, an improved organisational structure, a different management style and culture. However these are essentially long-term measures and the more obvious and immediately effective method to reduce unit costs is simply reducing the size of the workforce. Reducing the size of the workforce by 400 would realise a saving of 4.5m. However, the shortage of experienced staff (especially senior clerical and appointed) to support the growth areas of the Bank meant a gross reduction of 500 had to be achieved between May 1987 and the spring of 1988.

The methods to be employed to achieve the necessary reduction was rather ad hoc. The Personnel Manager who was responsible for this area said he would examine "*any conceivable way*". However, the crude reduction in numbers was complicated by another consideration. The

redistribution of existing staff away from the Head Office function, which was referred to by managers as the 'paper empire' and regarded as overmanaged and overmanned, to the 'sharp end' of the business. This would involve some retraining as staff were being asked to move from administrative jobs to servicing customers. It was recognised as one of the lessons of 1983 that any attempt to reduce numbers in the branches would be fruitless as to ensure the smooth running of the operation they would have to be replaced.

It was appreciated that the squeeze on labour costs would lead to problems with the union and possible detrimental effects on staff morale, and hence as far as possible the reduction in staff numbers would be achieved in an unobtrusive manner. Natural wastage was one method, as the Bank had a turnover of some 500 people a year. Secondly early retirement would not prove too contentious, it was thought. However, if the targets could not be achieved by these measures the introduction of a new disciplinary code would provide the Bank with another means to reduce staff numbers. The fact that this was being considered was itself indicative of a new more performance-oriented management style. The case of the Bank bears out the prediction of Hunt that the 'management of exit' would be an increasingly important function for the personnel function' (1984, p17).

Relocation was clearly made more difficult by the Job Mobility Agreement: since it would prove impossible to force people out (and also have undesirable effects on morale) the new approach would be to make Head Office jobs less attractive: for instance it would be made clear that the way to achieve advancement would no longer be via Head Office; benefits such as cars and housing loan schemes would be weighted against Head Office occupants and finally the Bank would, if necessary, down-grade Head Office jobs.

A more radical strategic alternative was mooted in relation to the location of certain Bank operations. Nearly a quarter of Bank staff were based in London in the following functions: the clearing centre; the handybank processing centre for retail societies; the City and Treasury function; Corporate and International offices. With increasing competitive pressure for staff and high infra-structural costs the Bank questioned whether they were taking the right perspective in

looking at ways of attracting and retaining staff and raised the issue of whether the function needed to be performed at that location. The clearing centre received particular attention. Leasing costs there were regarded as prohibitive and this, together with the London Allowance and outdated working practices (which it was felt would be too difficult to change with existing staff and union opposition) made relocation an attractive proposition. A possibility was therefore to relocate and recruit anew. Hence, with the highly competitive London labour market, staff could be eased out by natural wastage and there would be the opportunity to move into a purpose-built unit with greenfield site advantages. Furthermore such a strategy would have further attractions with the Bank having to pay neither redundancy or relocation costs. In addition there would be lower leasing costs, the possibility of an employment grant, lower staff costs and easier recruitment.

However, it was not considered feasible for a direct switch to be made. It was far more sensible to keep two centres operating, one as an exigency centre in case of computer failure or industrial action. While relocation is recognised as one mechanism by which changes in working organisation can be effected (Japanese companies in South Wales being an obvious example - see Bassett 1986) there are few documented cases of the strategic considerations of plant relocation (Whittaker 1986) and this example exhibits more the influence of negative push factors (i.e. cost) rather than the opportunity to develop better industrial relations.

We have seen how one of the concerns with the strategy of cutting labour costs was the anticipated reaction of the union. We now, then, turn to examine the aims of the Human Resources Strategy with regard to the union.

#### **(ii) Role of the Union**

We have already examined the agreements with the union which were a significant constraint on personnel policy. The new Human Resources Manager immediately identified the paradox facing the Bank in a paper to the Policy Committee on Remuneration Policy in August 1987:

*"We must amend, or cease, current agreements with BIFU which inhibit our ability to manage the business effectively, particularly the Job Security, Mobility of Labour and Union Membership Agreements. We must, however, maintain strong links with the Union which is a principle of the Co-operative Movement."*

Demanding early attention was the Union Membership Agreement, which we have discussed earlier on. Dunn and Gennard argued that managerial reassessment in the 1980s would come from three sources. Firstly that while industrial relations specialists may have convinced their companies of pragmatic reasons for its acceptance, it is probably highly unpopular among directors and managers generally on philosophical grounds. Secondly, the industrial relations specialists will be less enthusiastic since it has not delivered the expected benefits. Thirdly, the changing legislation meant the cost of maintaining a closed shop was a high one. In relation to the Bank it was the last force which was the catalyst. Because of the unique historical tradition of the Bank the closed shop was accepted by senior managers as part of the culture: indeed the Union Membership Agreement made provision that the Chief General Manager, the Deputy Chief General Managers, General Managers, the Head of Personnel and the Personnel Manager would have the option whether or not to belong to the union, and they all did have membership.

The main force for re-assessment was legal. Under the 1980 and 1982 Employment Acts the Bank (and BIFU) were vulnerable to action for unfair dismissal from an employee dismissed for non-union membership. The choices were to have a ballot as in line with the legislation; secondly to end the UMA but to ensure sole bargaining rights for BIFU (thus avoiding the possibility of another union and inter-union disputes); thirdly to leave things as they were. Given that BIFU were likely to reject the first option it was decided that the Bank would attempt to get an agreement granting sole bargaining rights and removing s.10 of the Contract of Employment which made the Bank liable with BIFU in contracting staff to forgo their rights under the Acts.

Changed relationships with the union would also have to occur as the Bank moved to performance related pay (see below). The Bank wanted to remove the top tier of management

(about 20 people) from the collective bargaining procedure. This could be achieved by invoking Part I of the UMA (1976) Appendix I of the Negotiating and Consultations Procedure. Although this itself was not seen as likely to be a major source of contention, the difficulty was convincing the union that this was not part of a wider process of reducing union influence, and to this end union membership was to be encouraged among those affected. A recent study suggests that grade specific de-recognition (especially that relating to movements to performance related pay) is an increasing phenomenon where unions have limited support (Claydon, 1989).

However, as The Times reported (12.6.83):

*"Employers generally are not anxious to create rifts with their union at a time when there is great pressure to introduce efficient working practices that need acquiescence."*

(cited by Fogarty and Brooks 1986, p.98)

The development of the Bank and its unique historical relationship with the movement has thus produced a number of constraints within which those responsible for formulating the personnel policy had to achieve union co-operation rather than impose Bank policy. Hence no crude union bashing would take place although the Bank would attempt to change the shape of the relationship.

As Morris observes,

*"Management strategies appear now to be moving towards a position which, while accepting unionism as legitimate, sees the need to sustain clear limits to joint decision-making in order to respond to the related issues of technological change and an increasingly competitive market place."*

(1986, p.120)

The Bank's position was undoubtedly more complex given that its relationship with the union largely influenced by its owners. The Employee Relations Strategy paper reiterated this:

*"Bearing in mind the Co-operative Bank's philosophies, objectives and position in the Co-operative and Labour Movement it is essential that we maintain good*

*relationships with BIFU. Maintenance of this relationship does not mean, however, that we have to meet all of BIFU's demands or requirements, or use the Union as an excuse for ineffective management."*

A number of initiatives were proposed to re-shape the Union more in line with the Bank's view of its role. Firstly, Head Office Union power would be reduced by cutting from two to one the number of control clerks. Secondly, it was proposed to amend the status of the Negotiating Committee so as to ensure it dealt only with major items such as pay negotiations, while minor items were to be dealt with by the grievance procedure, and it was agreed that much of the day to day relationship with the union would be conducted by less senior personnel. Thirdly, and this also reflected the new management style, responsibility for personnel issues would be devolved to line managers who would be encouraged to have regular local discussions with union representatives as part of the consultative process and this would also prevent them being by-passed as issues went directly to Head Office. A reduced union role was also apparent in the new remuneration policy, which we now examine.

### **(iii) A New Remuneration Policy**

The centre-piece of the new employment relations policy was a reformulated remuneration policy in the light of changing business conditions. While some elements of the policy outlined below had roots going back many years, for instance profit sharing and pensions, and others were acknowledged to be overdue, the timing and actual content of such schemes would form part of a coherent and integrated remuneration policy which reflected the market driven culture.

The Bank's basic pay structure (apart from the two important areas of profit sharing and pensions, and some fringe benefits) was similar to the 'Big Four' and while not a member of the FLCBE the Bank did follow their settlements. Until the collapse of the FLCBE in 1987 many employee relations issues were dealt with at an industry level including basic pay levels for clerical staff, minimum managerial salaries and other major terms and conditions including hours of work,

holidays and allowances (Morris 1986). Hence banks sub-contracted out part of their industrial relations policies. However, the industry wide job evaluation system introduced in the 1970s was a flexible one: four clerical grades existed at the national level with bench mark jobs for each grade, but discretion existed as to how the other jobs were graded and what the rate of progression was through the scales for each grade and promotion between grades (Morris and Willman 1988). Furthermore the system was essentially two tier with each bank being left to determine merit payments, and managerial grading and pay.

However in the 1980s with deregulation, increasing competition and increasingly differentiated business strategies the national system came under strain, and the beginning of the end was in sight when Midland Bank withdrew from the national bargaining machinery in 1986. Even before the break-up of the FLCBE the Bank had been considering the possibility of distancing themselves from the 'Big Four' in the light of both greater competition in the banking sector and the more aggressive approach of some of the banks in the pay bargaining arena.

An internal paper argued that stated that

*"We must ensure that remuneration is related to corporate and individual performance. We must cease the practice of following other banks' remuneration and base our policy on ability to pay. We are clearly in a different pay market to the other banks based on ability to pay against performance."*

(Internal paper on Remuneration Strategy, August 1987)

The collapse of the Federation would allow such a policy to be implemented. The Group Chief Executive of NatWest, T. Frost had said that the Federation was *"incompatible and at times in conflict with our business needs"*. However there were fears that there would be leap-frogging as the banks became more exposed to market and union pressures.

Hence 'disengagement' would proceed slowly. Thus while the 'Big Four' were faced with industrial action over their attempt to impose a pay settlement of flat rate increase to salaries and scales plus 5% across the board, the Bank and the union agreed in an *"atmosphere of relative goodwill"* to await the outcome of the dispute and there was no ballot or industrial action, nor did

negotiations go to conciliation, despite the exhaustion of the negotiating machines.

After the settlement by Lloyds and Yorkshire Bank, the Bank negotiated a 7% pay rise in August backdated to April, followed by a further increase of 10 in salaries and scales on the same date. The settlement was for 15 months, i.e. to June 1988, which would enable the Bank to get behind the Big Four from whence it could mark out its own pay policy. It also included the lengthening of each of grades 3 and 4 by one incremental step as well as updating territorial allowances (and introducing a south-east allowance) in line with other banks.

With the proposals to break away completely from the traditional scales to a single evaluated structure the Bank hoped to establish its pay structures so as to be in line with its own enterprise objectives and performance and so as not to be involved in increasingly fierce and expensive manoeuvrings with the Big Four. As an internal paper pointed out,

*"Now, however, the major Banks feel able to reflect their own operating need, without too much regard to what is happening elsewhere and against a background of good profits, combined with a highly competitive market place for both business and people, have begun to digress."*

(Employee Relations Update, August 1987)

There were a number of forces exerting pressure on the existing pay structure of both the clerical grades and the Hay evaluated points system for managers and appointed staff. Technical innovation was one factor; the need to reflect customer service and marketing forces were another. Furthermore the recent amendment to the 1970 Equal Pay Act - equal pay for work of equal value was also important. It was generally accepted that the existing structure had become distorted: for instance the clerical structure had been based on a hierarchy ranging from securities clerk to machinist, but new technology had changed this. Furthermore too many staff reached the maximum ceiling and there was thus a motivation problem. In the long term structures had to reflect a need to reward exceptional performance rather than merely long term loyalty.

The Bank was therefore looking to re-evaluate the Hay system, previously confined to managerial staff, so as to achieve a single evaluated and continuous structure of perhaps some 20 grades, thus providing both flexibility and avoiding the likelihood of equal opportunity claims.

We have already observed the decision to take the top management group (from Chief Executive to Assistant General Manager) out of the negotiating sphere with the Union with a view to establishing performance related pay. This was recognised as being likely to be controversial. Official BIFU policy was to oppose its introduction:

*"This will make its introduction more difficult and may mean that the Bank has to increase performance related rewards above current levels to introduce the concept for managers. Targets must be stretched to cater for this further. It also highlights the question of whether the Bank wishes to continue to recognise BIFU as having bargaining rights for the key groups of senior managers which it needs to motivate to really influence profit and improve group performance."*

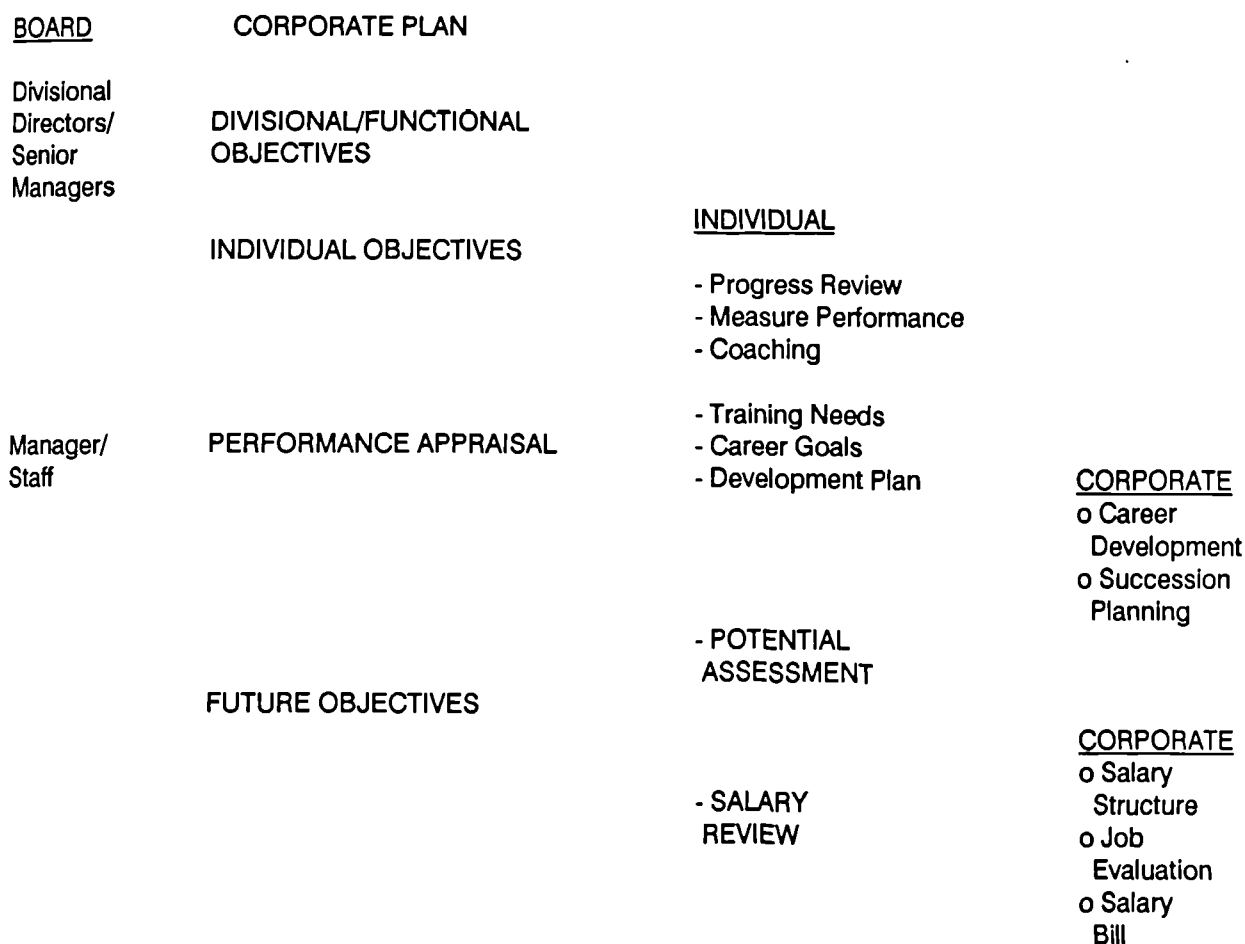
(Discussion Paper on Performance Management and Remuneration Review, May 1987)

Performance related pay would firstly involve relating the salary review to performance, hence abolishing automatic cost of living awards and incremental payments. Secondly there would be the introduction of annual bonuses as a percentage of basic salary. Such a system would start with senior management but it was clear from the outset that in the long run this would percolate down the organisation although there were recognisable difficulties in applying such a system to clerical and technical staff.

Initially the Personnel Department was aware that there would be union opposition to such selective payments, but was prepared to argue that the union had to recognise the risk involved at top levels and the ability of these managers to influence company performance. Furthermore, the new remuneration packages for Board and senior management, middle management and managerial and appointed staff would be designed by the Personnel Department in conjunction with management consultants while only the arrangements for clerical

staff would involve the union. Hence at this formulation stage there seemed little doubt that in the remuneration area the union would become increasingly marginalised.

**Figure 6.1: ANNUAL PERFORMANCE MANAGEMENT/REMUNERATION**



The mechanisms by which remuneration would reflect the corporate objectives of the Bank are illustrated in Figure 6.1, with the Executive managing staff through their line managers involving them in setting objectives and accountabilities which would cascade down the organisation.

Profit sharing had been the subject of a great deal of attention in the Bank for some years before 1987, and indeed an arbitration award on the issue had been made by the CWS in 1978 in favour of the Bank and against the introduction of a profit share scheme. Yet almost ten years after the Bank had refused to introduce such a scheme, despite union pressure, largely on the

grounds of cost and lower profitability compared to the other banks, the Bank now sought to introduce a scheme at a time when cost control was paramount and profitability remained poor.

What explains this change of heart? This must partly be said to be the result of the changing economic and social context. By the late 1980s there had been considerable interest in the topic of financial participation in general, and schemes have been promoted by the Government by exhortation and favourable tax legislation. Millward and Stevens (1986) report that the incidence of profit sharing schemes has grown and is also more widespread across industry. Such schemes are said to give employees a closer interest in the success of the company, performing an educative function and creating a more profit conscious atmosphere (Wright 1986). However, others have been more sceptical in their assessment of such schemes (e.g. Fox 1985).

There has been little analysis of the introduction of such schemes within the organisational context and the case of the Bank suggests a complex range of factors. Thus a whole barrage of arguments were utilised to persuade the Board of the necessity to accept the principle of such a scheme. Firstly, there was a simple need to link reward to performance. The issue of motivation was regarded as crucial. Secondly it reflected market trends - indeed it was partly because of the lack of such a scheme that the Bank had to 'buy out' such schemes in recruiting staff from other banks through basic pay that imbalances in pay structures arose. Thirdly it was part of the cultural change outlined in the Corporate Plan. Fourthly, it would introduce an element of variable cost into the pay settlement, and hence provide some of the financial flexibility advocated by Weitzman (1984). A final factor which was important in terms of timing was the collapse of the national negotiating body, the Federation of London Clearing Bank Employers. 93% of Bank staff surveyed by the union in 1986 regarded the existing situation as unfair and the implications of the end to the Federation were clearly identified:

*"In the past it was likely that staff would have taken action to achieve a higher settlement to offset gross pay disparities, but were prevented from doing so by the national agreement. This year, freed from the restraining influence of BIFU's*

*acceptance of the Federation settlement, staff may seek to achieve a higher corporate settlement to make up any imbalance in gross pay caused by disparity between the Co-operative Bank's pay and benefit package and that of competitors."*

(Internal Bank Paper on Pay Strategy)

The senior manager responsible for much of the prioritising of human resources said that he had been trying to get staff to see the importance of profit for the last three years. It was clear to him that

*"Unless we get their minds linked with profit we weren't going to get anywhere on the Corporate Plan."*

Nevertheless he admitted he had a 'terrible time' convincing first the Directors and then the Board, the former failing to see a link between across the board profit sharing and motivation and the latter hostile because it went against the philosophy of the Movement. As a 'sop' to the sensitivity of the Bank, shareholders' profit sharing would be called a summer bonus. Nevertheless the importance of the CWS and the movement clearly shows through in this instance. Furthermore while it was difficult to convince the Board, the changing market environment and its impact on the Movement were crucial in facilitating these changes. Members of societies elected to previous Boards tended to be old fashioned co-operators, sticking loyally to tradition. The more recent Boards had more businessmen who were said to be far more receptive to change, especially the arguments being put by a Chief Executive who had previously worked in the major clearing banks.

The Board agreed in principle to the 'bonus', subject to three conditions. Firstly, that it was to be part of a total remuneration package; secondly, that it was self financing; thirdly, it was to be linked with the Bank's national roll-out of extended opening hours which was being negotiated with the union.

In fact the union had been pressing (unsuccessfully) for profit sharing for a number of years and had in 1986 again put in a claim for a scheme at a time when the senior manager

responsible for personnel issues was attempting to convince the Board of its necessity. The union claim was in fact a very modest one - an annual distribution of a sum equivalent to 5% of the previous year's agreed pre-tax profits (which would only amount to about 1% of salary).

M. Poole, in his analysis of profit sharing schemes in the U.K., makes a number of points which are supported by the experience of the Bank. Firstly, profit sharing is usually linked to overall personnel policies - in the Bank it was part of the new human resources policy. Secondly in the overwhelming majority of cases, decisions over the scheme were taken by management alone - this too is clearly borne out by the case of the Bank. Furthermore as Poole suggests

*"financial participation in paternalistic companies may be seen by management as a way of encouraging employee loyalty and identification with the company."*

The case of the Bank contradicts the thesis of Ramsay (1977) that profit sharing schemes are introduced to render labour more compliant, when management's prerogative to control labour is under threat. In the Bank it was management who wanted the scheme regardless of union pressure, and indeed the union were in any case on the defensive. Thus, more attention needs to be paid to specific organisational contexts in evaluating such schemes.

Finally, we will briefly examine the final piece in the remuneration jigsaw. The pension scheme in the Bank had been the source of continual friction as the Bank gradually moved away from its roots and evolved from the CWS Bank to being the Co-operative Bank. The scheme operating in the Bank was for blue collar workers, i.e. factory and shop workers, and did not provide the 2/3 final salary scheme available in the major clearing banks. A union claim in 1971 had led to industrial action involving strikes and an overtime ban in 1973-74 and references to the central Arbitration Committee, with the claim eventually going to the Divisional Court and the Court of Appeal.

As with the introduction of a profit sharing scheme there were a number of forces, including government legislation (the Social Security Act 1986 and the Finances Act 1987), market forces and continual union pressure. Again, as with the profit sharing scheme, negotiations took place with the CWS: given that the Bank had a young age profile and was therefore a net

contributor to the CWS scheme, there were financial implications; secondly as with profit sharing there was an ideological issue to be considered. Market pressures and the changing human resources policy proved crucial and it was finally agreed to introduce a Bank scheme more in line with competitors. While the debate over the principle of a new scheme had gone on for many years the actual scheme was defined to reflect current personnel priorities:

*"We need to develop a package which allows us as management the flexibility to encourage staff who quality, or nearly qualify, for a full pension, to leave where it is deemed to be appropriate by the Bank. We should then consider carefully the need to replace them directly or to secure head-count savings by non-replacement of their successors, particularly if they are from indirect staff areas."*

(Bank Paper on 1988 Remuneration Policy)

In concluding this section on remuneration it may appear somewhat paradoxical that at a time when the Bank was attempting to disengage or distance itself from the Big Four policies, partly for cost reasons, partly so as to align such policies more closely to corporate objectives, the two main factors which separated the Bank from the Big Four were in the process of being eliminated. However, this can be explained in terms of a long term movement away from the CWS towards banking; but at the same time the banks themselves have become less homogeneous as the cartel breaks down. In other words the Bank has moved closer to the main banking pack, but this is now in the process of disintegration.

We now move on to discuss the fourth aspect of the H.R.M. strategy, namely a new management style and culture.

#### **(iv) Changing Culture and Management Style**

What linked the central themes explored was the attempt to develop a new culture in the Bank; and reflecting that, a new management style. The 'Excellence' studies illustrated how financial goals were inadequate unless backed by a broader set of values. To a large extent the culture of the clearing banks had been very similar and reflected the business environment of a

stable product market, a cartel and high profitability, and the smaller banks tended to import elements of that culture.

A senior banker described banking culture thus:

*“We are rather paternalistic and resistant to major changes. Indeed over the timescale of this decade nothing fundamental will happen to our staff numbers or even their career developments. We shall close a few branches but we have been doing that for years. Even the idea of diversification should not be overstated. Yes, changes will occur but very slowly.”* (Cited by Rajan, 1984)

Hence key components of the banking culture included a job for life philosophy, highly bureaucratic and centralised decision making processes, a pay policy based on rewarding experience, loyalty and service, a grow your own philosophy based on an internal labour system, a heavy paternalistic approach with a focus on processes rather than results. The Co-operative Bank culture was even more complex, with a strong co-operative ideology which instilled in the staff that they were *“not just working for a bank”*. However the emphasis since the 1970s, when the Bank became a bank in its own right, was to stress the need for a banking culture.

However, in the 1980s this culture and the values were increasingly being regarded as outmoded in the present financial environment which demanded a market driven organisation with a more customer conscious approach, the active marketing of a wide range of services and an emphasis on performance. This change can be seen in terms of the mechanistic and organic organisations of Burns and Stalker (1966). As the Director of the Federation of London Clearing Bank Employers has argued,

*“Banks seem to me to be typical mechanistic organisations and this type of structure has served them very well in the past. The question is whether it will serve them well in the future in a rapidly changing economic and technological environment. It would be wise to assume not and human resourcing managers should be considering how their organisation becomes more organic.”*

(Cowan 1983, p.23)

The need for cultural change was recognised in the Corporate Plan which noted that:

*"In common with others in the industry, the Bank has traditionally recruited and trained for a single career structure, with a strong technical (or professional) bias. However, in the changed circumstances not only the recruitment and training, but the whole 'culture' of the Bank will have to change radically."*

(Corporate Plan 1986-90, October 1986)

Changing culture provides the Personnel Department with a major opportunity. As Hunt points out,

*"The redesign and reconciliation of the organisation's culture, values and beliefs provides an immense opportunity ... to influence strategy and move out from its preoccupation with discipline and control."* (Hunt 1984, p.17)

One important component of culture is management style. This has been defined as

*"a deliberate choice linked to business policy"*

(Purcell 1987, p.533)

or very simply a philosophy of management towards employees. The Warwick survey of enterprise level Industrial relations found 84% of companies claiming to have an overall policy on the management of employees, but case studies have shown how vague and general intentions have not been translated to practice (Cressey et al, 1985), a clear example of the difference between espoused and operational policy.

The Employee Relations Strategy drew attention to the need for a more open management style and that the impetus had to come from the Bank's Executive Directors and senior management, who would not merely exhort, but involve staff more with setting of objectives etc. The type of initiatives that were suggested included 'open door' policies, suggestions schemes and managers 'walking the job'. As the Human Resource Manager put it in his strategy paper,

*"Effective communications and cultural change can be achieved if the Bank operates an open management style. Such an approach would in no way*

*diminish the management's ability to operate. It merely reinforces management's authority in a different manner.*

*These issues must be seen as part of the Bank's management culture and encourage staff to view their Manager as the natural leader to whom they should turn for information. The 'Co-operative' culture should enable the Bank to foster such an approach, but it does require full commitment and example from the top of the organisation to ensure its effectiveness together with constructive action arising from staff involvement, particularly if it aids business development."*

(Employee Relations Strategy, October 1987)

It was also important that this culture was reflected by the line manager and to facilitate this responsibility for personnel issues would be devolved.

Hirsch (1987) has shown how the pendulum of fashion has swung in favour of decentralisation but suggests that decentralisation reflects the changing structure of management rather than being based on personnel rationale. However, Purcell (1985) has argued that the general trend towards devolvement of personnel issues is appropriate given that the issues of the 1980s, productivity and performance were best handled at the operational level, in contrast to the 1970s issues of union power and changing legislation.

The Bank stressed that

*"Line managers must be given authority and accountability for employee relations issues. They should be the prime movers in any staff related action though this must be undertaken in conjunction with Personnel Department which will ensure the action is equitable and consistent and does not create adverse precedents for the Bank. The personnel Department should be the facilitator of all actions relating to the Bank's human resources, particularly quality, service and development, though this should in no way detract from the ultimate accountability of line managers for aspects of staff." (1988 Remuneration Policy, August)*

Hence authority was to be returned to line managers. This contrasted with a situation in the early 1970s when the Personnel Manager would see every recruit, decide every regrade and handle all disciplinary problems. There was consequently a tendency for matters at the local level to be referred to the Personnel Department or union at Head Office. This had led to long lines of communications. Managers, in the words of the Head of Personnel, "*became chief clerks*". They became lending experts and lost responsibility for motivating and managing staff. Furthermore with Personnel dealing with circumstances with which they had little familiarity, there developed a belief that they were too distant from line management. Hence, the trend in banking, and indeed the finance sector in general, has been to devolve greater responsibility to the line (e.g. Bailey and Ross 1981, Handy and Hepburn 1985). Of course to get the line to accept responsibility has been a perennial problem of British industry. Flanders commented that

*"The trouble with the greater part of the best of line management in British industry from top to bottom is that it does not want to accept the responsibility for the human aspects of its job, what is sometimes called, although I dislike the term, man-management. By training and inclination it prefers the greater security it experiences in dealing with the more calculable technical or commercial problems. Labour policy it is quite willing, even eager, to leave to a personnel department with the necessary expertise."*

(Flanders 1975, p.62)

What is striking about the discussion of human resource policy above is the range of new policies adopted and secondly the contradictory feeling it would engender. In the final section of this discussion on Bank policies we examine how the Bank planned to deal with this dichotomy.

## Conclusions

This chapter has sought to examine the development of a human resource strategy in the Bank. We saw in Chapter Five that the changing competitive environment was crucial in changing Bank policy towards its management of labour, with the crucial mediating force being provided by the Chief Executive. While the Corporate Plan had little detailed consideration, this chapter has shown how the appointment of a Human Resources Manager was to lead to wholesale re-assessment of existing employment practices and the adoption of Human Resource Management.

In terms of the actors central to the process of change, what is interesting is the way many of the initiatives were formulated outside the main body of senior managers. This reflects a number of factors: firstly that senior management did not have the time or expertise to deal with these issues, which may of course, partially reflect the low priority allocated to personnel issues which this new strategy was designed to overcome; secondly that if they had been involved there was a fear of obstruction and hence the Chief Executive threw his weight behind these initiatives; thirdly that speed was crucial and the sooner the human resource strategy was hitched up to the Corporate Plan the better.

What is striking concerning the developments and policy initiatives outlined in this chapter is the range of initiatives and the scope of the changes involved. Some commentators have been sceptical about the type of initiatives they have investigated, e.g.

*“In the main the initiatives were piecemeal and not infrequently incoherent.*

*Moreover in many instances the changes, while familiar, had only a tenuous connection with them.”*

(Storey 1987, p.5)

However, the case of the Bank does exhibit a more strategic approach. The question of 'strategic fit' has been recognised as the crucial issues for Human Resource Management (Guest 1989, Miller 1989). The central theme which linked the business strategy to the new policy was 'flexibility'. This relates to the necessity of managing in an environment of rapid change and

uncertainty. Hence the organisation, and the staff must be able to respond in a rapid way to the environment. This returns us to the movement towards being a more market driven environment. As Streeck argues, flexibility requires a closer integration of industrial relations and industrial strategy:

*“Present industrial relations policies of employers can be interpreted as attempts at dismantling institutional barriers that have served to insulate industrial relations from concerns for, and changes in, economic performance.”*

(1987, p.2)

Flexibility has both quantitative and qualitative dimensions, and the latter is a particular concern of the Bank relating to the assertion of managerial prerogative and the ability to manage change. This of course immediately raises a question mark over the role of the union. This chapter has brought out two key themes relating to the union: the first is the relatively little attention which the union was given. This tends to support the view of Hickson and Mallory (1981, p.59) observed that the scope of management choice in the making of strategic decisions appeared to be affected more by prior *“programming decisions of the decision makers themselves by union power”*.

Second, this of course is not to say that the union would not be affected by the new policies. The result of performance related pay and direct communication with the workforce for instance would clearly entail a more limited role for the union.

Furthermore, one of the key themes to emerge from the chapter is the mix of policies both favourable and unfavourable for employees. As Morris comments:

*“There has consistently been a dichotomy in management policies stemming from the efforts to control labour costs on the one hand and the desire to sustain commitment and motivation on the other.”* (1986, p.12)

The above illustrates the problem facing the Bank as it attempts to achieve radical results on both sides of the equation. Hence on the one side there is redundancy, relocation, a new disciplinary code and performance management which may lead to suspicion, uncertainty, fear

and self-protection, with detrimental effects on morale at a time when the Bank is attempting to work on the other side of the equation to achieve greater commitment and identification with corporate objectives. There is clearly a tension between the two. These types of problems have characterised industrial relations in British industry in the early 1980s as it attempts to adjust to a more competitive product market with a drive for greater efficiency (Batstone and Gourlay 1986).

A senior manager argued that what the Bank was trying to achieve was both *“logical and sensible”* and hence could be defended. Nevertheless it was acknowledged by the Personnel Department that many moves would be unpopular with staff and that there was likely to be a union reaction. Thus:

*“We must be prepared for some conflict if we are to introduce the unpalatable measures listed”*

and the Bank would either have to

*“achieve a satisfactory negotiated situation or be prepared to take on the union if necessary.”*

(Employee Relations Strategy Paper, October 1987)

Of course the danger with forcing through change by asserting the right to manage is that the loss of union good will may endanger the success of other initiatives.

A way out of the dichotomy is better communication and the creation of high trust industrial relations (Fox 1966). A more open style of management could dispel the apprehension many staff would have of what the change will mean for them. An industrial relations audit (never completed) a year previously had raised questions over the Bank's communication policies and practices. However, this was the brainchild of one manager, and when he left to take up a position in another department the impetus was lost.

Team briefings were to be introduced to facilitate change. This is *“a system of regular meetings to pass on management information to all employees”* (Industrial Society). It involves a cascading of information down the organisation through a series of meetings at different levels at which appropriate local information is added to a core brief. Such a system would perform

several functions: firstly it could increase commitment to and identification with the Bank by greater understanding. Secondly it would reduce reliance on written forms; thirdly it would ensure that all levels in the organisation were up to date. Fourthly it would reduce reliance on the grapevine, and finally it would reduce reliance on union channels and be a method by which management could increase their authority. As in other sectors, an increase in communication and consultation has part of its purpose in being a union-by-passing (Purcell, 1985).

It is generally recognised that employee relations are essentially second order and facilitative to business strategy. Employee relations does appear to be given more consideration when it is seen as an obstruction to corporate strategy, as for instance in the car industry (Willman and Winch, 1985). However, in a service sector where product differentiation is limited and the organisation is becoming more market driven with greater focus on the customer, one might suspect that a higher priority would be accorded to employee relations. The case of the Bank lends support to both views. On the one hand the need for greater attention to the management of staff was recognised and reflected in the appointment of a human resources manager. On the other hand, the secondary nature of the strategy was also evident: there was no detailed consideration at top management level, and while the Corporate Plan was formulated between June and October 1986, the human resources strategy was not developed until a year later, from June 1987. The question which will have to be resolved in the next chapter is whether such a relationship is sufficient for a tight degree of strategic fit. The next chapter will also be concerned to examine how far the formal policy was implemented.

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## **CHAPTER SEVEN: HUMAN RESOURCE MANAGEMENT POLICY AND PRACTICE**

### **(a) Introduction**

The previous chapter examined the origins and content of the Human Resource Strategy adopted by the Bank. We have seen that there was wholesale change in the Bank's policies on employment practice. This chapter takes the story forward from July 1987 when the H.R.M. strategy was officially adopted to December 1988. We are concerned in this chapter with examining the developments in the Bank in this period and how they relate to official policies adopted. Thus the concerns in this period are not necessarily those for which the policy was formulated. Hence the key policy areas we discussed in the previous chapter do not fall simply into implementation categories in this chapter.

Indeed, since the 'strategy' was for a five year period this is not perhaps surprising. Secondly implementation may of course be itself problematic, hence formulation and implementation do not fall into neat bundled packages. Thirdly, if we consider strategy as a process rather than an output, this too suggests a more cautious approach to evaluating implementation.

This chapter takes the following form. Firstly we examine industrial relations between July 1987 and December 1988, incorporating the changing industrial relations scene, focusing particularly on the Bank's concern with head-count reduction, relocation and the status of agreements with the union. Secondly, we examine pay strategy during this period, and the balancing of strategic and opportunistic considerations, and then move on thirdly to discuss the growing emphasis on the development of human resources. Fourthly, we examine the new communications strategy. Fifthly, we look at the debate over the introduction of a new style agreement in the Bank between the Chief Executive and the Personnel Department. Sixthly we assess the changing role of the union and the personnel function. Finally, we return to the debate on Human Resource Management.

**(b) Industrial Relations**

One of the themes emerging from our discussion of the formulation of the human resource strategy was how this had to be developed within the framework set by the Bank's owners, the CWS. It was noted how over time the Bank had gradually moved away from CWS's terms and conditions and in the Remuneration Review had got agreement from the CWS to introduce profit sharing and a new pension scheme, issues which had been on the agenda for a number of years. However, what was not open to negotiation were the procedural agreements, some of which dated back to 1938. This section examines the implications of this for the new policies.

As part of the process of moving towards remuneration packages more in line with the new market driven stance the Bank did achieve two important successes. The Bank, after negotiation with the union, revised part of the 1938 agreement (Appendix I of the Negotiation and Consultation Procedure 1978) by removing the top strata of management (some 20 people) from pay negotiations with the union. As we have noted in C5 the union was essentially concerned with terms and conditions of clerical workers, so this issue by itself was not contentious; however, the union did have to be convinced that this was not part of a wider process of marginalising the union. Thus the Bank partly re-assured the union by affirming that these managers would nevertheless be 'encouraged' by the Bank to retain membership of the union. As part of these negotiations agreement was also reached in principle over the introduction of performance related pay for managers, which the national union had conceded to in 1988 after resolutions against such practices the previous year.

A problem which had not been fully addressed in the initial policy formulation stages was how to deal with the issue of the closed shop, where the Bank was caught between the CWS 1938 principle and recent Government legislation. The CWS negotiated with some 22 unions and this was a sensitive issues for them, not one they wanted to be openly discussed. As the Head of Personnel said, they "*instructed the Bank to play it low key*".

This was of course the view strongly supported by the union. They argued that it was in neither the interest of the Bank nor the union to be faced with the prospect of so called 'bounty hunters' (opportunists inviting themselves to be sacked so as to claim compensation). Officially the Bank followed this line, making it clear to prospective employees that they would be expected to join the union in line with CWS policy. However it also became apparent that the Human Resource Manager regarded this as highly unsatisfactory and he sought to test the resolve of the union, by getting the Personnel Department to advise a new short term contract employee that he would not be required to join the union. This was immediately challenged by the union as the changing of CWS policy and the test case was dropped. Thus issue does illustrate firstly, the constraints which the Bank faced in attempting to develop a H.R.M. policy, where the union role is an issue, secondly, the pushing against these boundaries and thirdly, how the union relied on CWS support rather than that of its own membership.

However, a more important source of conflict lay in the Bank's attempt to cut costs, both in terms of an overall long term objective to get the cost structure right and also in the short term to get profit in line with the Corporate Plan. With labour costs comprising some 2/3 of the total operating expenditure of the Bank, it was deemed necessary to reduce the head-count, mainly in Head Office but also in the branch network.

The Head of Personnel was given the responsibility for achieving head-count reduction, thus illustrating Hunt's point concerning the

*"Dramatic shift in the personnel function from personnel resourcing to personnel exiting."* (1984, p.17)

All methods short of compulsory redundancy were utilised: the contracts of temporary staff were not renewed, staff aged 60 with 40 years service were given the opportunity to retire and others identified who would take early retirement if a 'favourable' pension payment was offered. Of the 500 staff originally identified as the necessary reduction required, some 300 had been identified as the number to be achieved with reductions in the branch network and Direct Financial Services (DFS) by the middle of 1988 with the introduction of automated systems and

natural wastage. However while over 100 staff had left by the end of 1987 (by non recruitment and non replacement) it became apparent that the branches could not meet their target and alternative methods were examined: for instance the removal of fewer higher paid people would enable the Bank to make an equivalent saving. At the same time the Bank was assessing and removing duplication of some specialist areas of Divisional Development and Financial Control and would move people out of indirect functions to the branch network. Over the longer term a model branch exercise was taking place to ensure full efficiency.

However, many of the manoeuvrings of the Bank came under fire from the union. The major source of contention was the status and interpretation of the 1983 Job Security Agreement discussed in Chapter 6. The dispute over the Manchester branch illustrates the problem. Against the backdrop of head-count reduction there was organisational change, most notably the splitting of branches into personal and corporate sectors. Organisation and Methods (O. and M.) suggested that the branch run by 141 staff could be done by 123 because of duplication of work etc.; there were also hints of downgrading. All this took place at a time when it was being speculated that the Manchester complex (i.e. Head Office and the branch) would be reduced by half from 300 to around 150 staff. There was, in the words of a local union official, 'a bad staff reaction' and there were threats of industrial action over this issue, which later died down.

Furthermore, the union regarded the issues as under the control of the Staffing Review Committee, which had been established under the Job Security Agreement of 1983. However, management argued that this related purely to redundancy rather than merely reorganisation and redeployment, and it was not the intention of the Bank to force people into redundancy. It became apparent that the managers concerned, because they were not party to the agreement, did not feel themselves bound by it; indeed one manager threatened to give notice to cancel the agreement. The general feeling was that the agreement would be reviewed by the Bank and the opportunity to do so could come as a result of the revised pension package, since a part of the 1983 agreement concerned pensions.

The approach to putting pressure on labour costs in this manner continued to be

debated. It is apparent from many studies that this strategy may not be addressing the fundamental problem - the inadequate growth of the customer base. In their analysis of Austin Rover, Williams et al (1985) argue that there was a misplaced emphasis on reforming labour relations which distracted from more fundamental problems, notably product development and capital utilisation.

In the Bank a similar argument took place. One group of managers argued that this type of cost cutting exercise was a once and for all measure which would only hide the Bank's poor performance for a short period of time. As in 1983 this did not represent a long term strategy. Hence more attention should be concentrated on examining the position of the Bank, the structure of its business and branch operations.

However, the Group Development Manager responsible for over-seeing this policy disagreed with this analysis. The mistake in 1983 had not been the cost cutting exercise but the manner of its implementation, with too many staff being 'lost' in the branches and a failure to introduce tight control measures. Hence, cost cutting was crucial to the Bank's future and this would take place with tight control measures. Furthermore, the problem of moving staff out from Head Office to the branches would be facilitated by the Remuneration Review which was expected to give greater emphasis to creating business. These moves had run into intra-organisational politics as Directors were reluctant to release their staff even when functions had been devolved.

### **(c) Remuneration**

In Chapter Six we saw that one of the central threads of the new H.R.M. strategy was a wholesale revision of existing remuneration practices. In this section we examine the initiatives which had begun, looking firstly at the Bank's pay strategy in some detail as the H.R.M. policies began to come into force, and secondly at the broader remuneration package.

**(i) Pay Strategy**

We have discussed briefly in Chapter Six the intense product and labour market competition which led to the collapse of the national negotiating body, the Federation of London Clearing Bank Employers (FLCBE) in July 1987. As each bank sought to attain pay policies in line with their own enterprise objectives a new pay calendar arose.

**Table 7.1: Pay Calendar 1988**

January 1st	National Westminster Bank
February 1st	Barclays Bank
April 1st	Lloyds Bank, Royal Bank of Scotland, Bank of Scotland, Yorkshire Bank
May 1st	Trustee Savings Bank
June 1st	Midland Bank, Co-operative Bank

Hence this re-alignment of the pay calendar meant NatWest began the round in January and it was not completed until June with the Midland and the Co-operative Banks. This very much reflected the Bank's wish to be disassociated from the market leaders in terms of pay policy. However, the development of a more enterprise-based policy was constrained by external labour market factors. Thus claims of pessimistic commentators in the 1970s proved to be ill-founded, and there had been an increase in the number of people employed in the financial sector. Secondly employment in banking was concentrated very much in the south-east where there was becoming increasing difficulties in recruiting staff.

The Bank, with several years poor profit behind it, wanted to operate a 'pay what we can afford' principle. It was postulated at committee level to take a hard line: to meet the budget the Bank could give just a 2.5% pay rise with no profit share scheme or annual salary review.

It was considered that the union would be unlikely to take significant action because of the fear of redundancy, and would hence adopt an 'inconvenience' strategy. One senior manager said that if the computer at the clearing centre was stopped by industrial action the Bank would save money! It was also regarded as vital that the Bank had its new communications strategy in

place before the 1988 pay round. In the lead up to the 1988 settlement a number of internal papers stressed that the Bank had to cease following the major banks' policies. Barclays were regarded as being 10% ahead and NatWest 20%. In 1987 the Bank had made a profit of 14.4 million after provision for sovereign debt (as compared with its budgeted profit level of 17m). At the same time, however, it had substantially increased salaries and the London allowance. Hence, while satisfactory progress was being made the Bank's salary bill remained out of balance with profitability. Overhead costs in the Bank were 15.2% high while profit per head was considerably lower - 3.5k in the Bank compared with Yorkshire Bank (17.5k) and the Big Four (between 8 and 12k).

The Bank policy, as previously noted, was to move to a later settlement date and so have the opportunity to review other bank's settlements and also the reaction of both the union and the staff to the profit share offer. With regard to the former the claims in 1988 were round 12% (even though profit share payments ranged from 5 to 12%). The actual pay settlements in the financial sector ranged from 4.5% in the building societies to 7% in the banks (annual pay bill costs together with improved benefit packages) showing little regard to inflation (RPI 3.5% in March). The union claim was for an increase to salaries and scales of 350 plus 9% (equating to 12% overall staff costs).

The Human Resources Committee agreed that it was necessary to show that the Bank had to pay less than other clearing banks because of the difference in its profitability along with the fact that possibly the skills in the fields in which it operated were not required to be the same as the others. In any case higher settlements were seen as an indication of an aggressive policy by the major banks, especially Natwest and Barclays, to recruit and retain.

There were a number of internal influences shaping the settlement. Firstly, there was union pressure to increase the relative earnings of lower paid staff. Secondly, staff levels had been reduced from 4304 to 4154 over the year. Thirdly, the Bank was attempting to introduce a more performance oriented culture. Finally, there had been a change in personnel on both sides: a new Chief Executive was taking office from October 1988 and a new union full time official from

August. Hence while a long term pay deal (2 years as at Barclays) was considered. It was decided that because of changed personnel and continuing changes on the remuneration front that a normal one year settlement would be more appropriate.

The Bank in their negotiations pressed the point that the pay settlement had to be placed in the context of an improved pension scheme and a new profit sharing scheme (together with the continued provision of the Christmas bonus and annual salary review) and the need to link pay and profit; if a 'reasonable' settlement was not reached it was threatened that head-count reductions would be necessary. The settlement was for one year from June 1st and comprised 125 plus 6% increases for clerical, data processing, assistant and appointed staff and 6% for managers. Discussions also took place on the establishment of a separate bargaining unit for managers and appointed staff.

We have discussed the background and process of the 1988 settlement in some detail so as to illustrate the complex interaction of a range of factors in influencing the eventual settlement. The Bank regarded the settlement as a clear sign of the success of their new H.R.M. policy. Firstly, the settlement was reached speedily. Secondly, the Bank's new open pro-active communications policy had been seen to deliver the goods. The day after the settlement a terminal message was sent across the network and faxed to London and Skelmersdale (the big labour centres). The Personnel newsletter was hand delivered to managers in Manchester and staff were consequently briefed within 24 hours, and importantly before the union had been able to give its message. Hence management had taken the initiative. Thirdly, there seemed to be evidence that something of the arguments that the Bank had been trying to put across concerning profit/head and the dangers of being priced out of the market had been taken and there was positive feedback from the staff.

**(ii) The Remuneration Review**

As discussed in Chapter Six a comprehensive review of policy and practice was being undertaken in the remuneration area. There were a number of aims: firstly, to reflect organisational change and remove outdated remuneration practices, as with salary differentials because of personal job points; secondly, to safeguard the Bank from equal value claims and grading issues; thirdly, to integrate the Bank's salary structure into a single continuous evaluated structure of 15 grades to ensure stability and cost control; and finally to move to performance related remuneration to reinforce standards of performance, move away from automatic increases, award key objectives and place a greater emphasis on line management contributions rather than the central functions (the Hay system being criticised as putting too much emphasis on 'know-how' rather than the responsibility for generating business).

Hence there were a number of processes taking place in the Bank. There was the job evaluation exercise for managers and appointed staff upon which trade unions were consulted, and the clerical and technical scheme where the unions were involved in the design of the scheme, up to the point where agreement was reached on the format of the grading structure. With each job in every branch being highly individual, the task was a long one. The consultants assisted the process so as to provide industrial comparisons.

The remuneration review took place separately from the pay round already discussed; this enabled the Bank to set the scene for change and maintain the initiative. The Bank insisted upon a separate bargaining unit for managers and then extended this to the whole management group including assistant managers and branch administrators in order to keep the whole management team together. By July 1988 senior managers had been removed altogether from the negotiating sphere. The Bank also insisted on the freezing of salaries for staff whose jobs fell above the grade boundaries, and no increases of salary for those operating below an acceptable performance level. It was only then that the Bank would enter into negotiation on the composition of the scheme including salary ranges to apply to each grade.

The new structures were to come into place for January 1989, although the Bank wanted

a 'cooling off' period for 2 months before appeals. The union's main interests, as we have noted, were clerical workers and this explains a relatively trouble free negotiating of the structures, as it was generally thought that clerical workers would do well out of the changes. Nevertheless it was clear that the union was being marginalised to representation of clerical workers. There was uncertainty over the managerial position as the new system of performance appraisal for managers was to link the award to the Bank's performance over the year, so if there was a poor profit year no increment would be awarded regardless of personal performance.

The background to the introduction of a profit sharing scheme has already been discussed in Chapter 6. Objections had been raised in terms of principle (a clash with the ideology of the movement) and impact - the extent to which an across-the-board scheme would assist employee motivation. The Personnel Department persisted in their view that firstly the 'market' demanded action on this and secondly that the scheme should be regarded as part of an integrated remuneration package and not merely as another cash bonus. Eventually the Board agreed to the principle of the scheme but there was continuing debate as to the form of a scheme, the Board having to be convinced that the union would not accept a scheme which excluded the benefits of increased capital. As the Personnel Department argued, the staff were expected to achieve greater profitability from the increased capital (and shareholders increased dividends and capital growth through higher retained profits). Furthermore, there was the matter of keeping the Bank's side of the bargain with the union over extended opening hours, discussed in the previous chapter.

The next stage was to assess the appropriate time to introduce the scheme. One possibility would have been to use the scheme as a quid pro quo for a low settlement, but the percentage settlement was regarded as too low for this. Hence the plan would be to introduce the scheme well before the pay negotiations and aim to condition the staff to accept a 'reasonable' settlement for 1988.

The Group Development Manager responsible for much of the negotiation both with the Board and the union said of the expected impact of the scheme:

*"if that doesn't crystallise their minds and make things easier for them to see how to help customers, I don't know what will!"*

Hence the contribution of profit sharing to greater motivation and commitment was central to the whole scheme, yet not explicitly addressed but assumed. Yet there is little evidence to suggest that the introduction of such a scheme would of itself increase motivation and commitment. The link has become something of a black box with alleged magic properties. Thus, ambitious claims have been made by the Industrial Participation Association and the wider Share Ownership Council and indeed in some prescriptive text books, e.g. Bell and Hanson (1987). Furthermore, the example of John Lewis is often cited. However, empirical work suggests a more cautious approach may be warranted. A Glasgow study (1987) reported that such schemes have very limited impact on industrial relations and are very much more a feature of the reward system rather than part of a programme for increased involvement.

Certainly it would seem that there is a danger in failing to address and thus activate 'the black box' between the scheme and employee commitment. Why should staff link their performance to an across the board payment? Information on the performance of the individual, his department and the Bank itself would appear a crucial part of this process. To some extent team briefings and a more open management style would facilitate this. However, perhaps more explicit attention to this could have been given. The danger is if such schemes become regarded by staff solely as a response by the Bank to the market, and a long overdue one at that, motivation effects will be dissipated.

Some writers, for instance Fox, have been particularly sceptical of the impact of such schemes, believing they are inherently flawed:

*"The belief persists, ... that to give employees an ownership stake in the enterprise or a share in profits will arouse the desired spirit of involvement and commitment. This is to offer increased participation, not in decision making, but in the outcome of the organisational effort. There is no evidence, however, of any lasting effect upon the employee whose job remains highly prescribed and*

*subject to hierarchical control.” (1985, p118)*

#### **(d) The Development of Human Resources**

There was little detailed consideration in the H.R.M. strategy of issues like career patterns, recruitment, training etc. This related partly to little immediate attention being required, and secondly, to uncertainty as to what was required. Hence it was not until after the H.R.M. strategy had been adopted and was being implemented that attention was given to these issues.

In recent years, there had been an increasing belief that the development of human resources is no longer a luxury to be achieved when other objectives have been met (Hayes and Ford, 1986), but an essential part of the management of strategic change. Demographic change has meant a diminishing number of school leavers from which to recruit; secondly, and particularly relevant for the Bank, this relates to the service nature of the organisation and the shift to become more market driven. For instance, of direct strategic importance is the importance of people in 'marketing' the bank. Since bank products are not significantly different, image is all important and staff make a major contribution towards this.

As Irons points out,

*“For instance, although between 80% and 100% of a service company's staff have a direct impact on customers through contact of some kind, for the most part they were recruited not for their customer contact skills, but for their technical or administrative ability - for example, as a mechanic in a car-hire office or a clerk in a travel agency. It is from these contacts that customers gain their impression of an organisation and its offerings; marketing or sales specialists in service industries, paradoxically, often have less direct contact with customers than the great majority of staff.*

*Here, then, resides the critical consideration for service management - marketing is not simply the bridge to the customer which conventional*

*management theory implies, but is a key part of a total staff's activity. Their interaction with the customer is a crucial element in the 'product' or 'service package' which the company is offering."*

(1984, p.90)

Hence, the development of human resources was worthy of a higher priority. This was reflected in the development of manpower planning, and a greater emphasis on management development and training in a systematic and integrated manner. The Bank looked to become more pro-active in this area rather than merely respond to problems. However, much depended on a settled business strategy for the Bank and each division, so as to identify staffing requirements. Hence a manpower plan took time to develop given the state of flux in the Bank. One area which needed examining was recruitment policy. Although officially the policy was for 4 'O' levels, in practice the Bank recruited largely 'A' level people. This caused difficulties in terms of satisfying career aspirations and even the union agreed that there was a need to have a tiered recruitment policy, and since it was the experienced staff who were leaving, greater pressure was thus put onto junior staff and the branch was in difficulty. Compounding these problems was the policy of recruitment only for vacancies; the Bank was thus always reacting to manpower difficulties rather than anticipating them.

The exception to the so-called 'A' level syndrome was recruitment for the clearing centre and the Customer Services Bureau which were factory type environments where one manager went so far as to say that 'bright people' were regarded as a 'nuisance' and 2 CSEs was the normal requirement.

A third area to be looked at was that of the qualities and personalities of the staff recruited. There was a move to look firstly to older, non mobile married women as 'workhorses' and secondly to look more for customer relations skills and sales ability. For instance it was said by Personnel managers that the Diploma of Salesmanship was of more relevance than the I.O.B. exams to many staff.

These changes were reflected in the training function and management development programmes. There was a trend in the former towards programmes stressing social skills and customer service training and sales and marketing training, all designed to educate staff in the new sales culture. Previously, the training emphasis had been on technical training and supervisory skills for clerical appointed and junior management staff; the training also reflected a trend in banking to train for greater productivity rather than preparation for future jobs (Mosson 1986). The Training Manager acknowledged that more was being done on the technical side to satisfy managers and hence enable the training department to sell others programmes; but there was 'grudging acceptance' of the changing world: *"5 years ago personal skills programmes would have been undreamt of. We have come a long way."* There was also concern that staff career profiles would change as the Bank's structure evolved. There would be an end to the all purpose banker and specialisation for corporate or personal sides of the business would increase.

The aim was, however, to keep the Training Department in the role of consultants, with responsibility for the training and development of staff resting with line managers (and indeed individual members of staff for self-development). However, problems did arise in the attempt to devolve responsibility. In the management development programme, the Training Department came up with individually tailored plans and gave them to the line managers. It was thought more in line with the philosophy to get the line managers themselves to come up with the plan, and also to get ideas passed down by the line via the regional operating managers, but this was rejected by the director concerned as not being within his responsibility. Hence the problem of getting senior management committed in practice as well as in principle returns again.

Nevertheless, there was evidence of a more strategic approach. The Training Manager became the Development and Resourcing manager with responsibility for recruitment, management development and training. The previous position with a narrower role for 'training' had led to Personnel moving staff without the knowledge of the training function.

**(e) Communications Strategy**

We have seen in this chapter how the Bank was attempting to achieve goals both in cutting labour costs and developing it as a resource. We also saw in Chapter 6 that the Bank had realised that with so many different initiatives, and change and uncertainty being the order of the day, something had to be done to address this need for information so as to obviate fear. We examine the implementation of a new communications strategy to achieve this goal.

Morris, describing the increase in competition in the banking sector, argues that:

*"...there has been a more explicit effort to manage communications with staff. This reflects a paradox in that, as the business environment becomes more competitive the need for staff co-operation and commitment increases, yet uncertainty is more likely as the old assumptions about job security and career progression are eroded. Communicating the need for change thus becomes more important. It has involved new methods of direct communication and the better co-ordination of existing mechanisms such as bank newspapers and circulars. Management thus now give more thought to the purpose and content of their communications mechanisms and have devoted extra resources to this."*

(1986, p.59)

This was particularly relevant given the huge scale of change, both in organisation and in employment practices. A paper by the Human Resources Manager emphasised that some of the measures outlined may be 'unpalatable' (particularly head-count reduction and relocation) and hence there needed to be a much more pro-active communications strategy. It was important that this was in place before the 1988 pay round and before many new initiatives were undertaken. The Human Resources Manager made this clear. If the Bank was to achieve their Human Resource Strategy goals,

*"It is essential that we communicate directly with our staff to ensure they are made aware by the Bank of our position and intentions, and not by any other source. This is a major employee relations objective for achievement by the*

*Bank to enable management to communicate directly the rationale for change, thus ensuring that it is pro-active in managing the business.*

*We must develop mechanisms which ensure that communications are simple, consistent and effective. The Bank must communicate to staff on a regular basis, stating both good and bad news. Inconsistent or sporadic communications are more harmful than no communications and must be avoided at all costs. The Bank must not leave communications to BIFU. The Union's role is to negotiate with the Bank on behalf of its members, not to act as the channel for communication." (Employee Relations Strategy, October 1987)*

The old system was largely based on a number of newsletters, Personnel newslines, marketing news etc. and an internal Bank magazine. It was largely left to the discretion of managers, some of whom explained the contents of the newsletters, others merely leaving staff to read it on the noticeboard. There were also managers meetings but information disseminated here was not necessarily trickled down.

Under the new system Divisional directors would continue to hold management meetings and publications would continue as well; in addition the Chief Executive would hold an annual review of business performance and the future direction of the Bank for senior managers and all branch managers.

The centre-piece of the new strategy was the introduction of team briefing, described by the Industrial Society as:

*"A system of communication operated by line management. Its objective is to ensure that all employees know and understand what they and others in the company are doing and why. It is a management information system. It is based on the leader and his/her team getting together in a group for half an hour on a regular basis to talk about things that are relevant to their work."*

It has been used by a number of major firms, including British Airways, W.H. Smith and Plessey. The Industrial Society stresses the advantages of increasing the sense of belonging,

common purpose, better morale and greater understanding.

The briefing groups operated in the Bank by cascading information down the organisation from the Chief Executive to Divisional Heads and then through the network. The Bank was concerned to stress the necessity of a consistent message being passed across the organisation so as to avoid confusion and rumour; secondly the personal face element was also important as was the reinforcement effect on the position of line managers.

The Employee Relations Strategy paper stated that:

*“Apart from the introduction of briefing groups, the Bank is not recommending any real change to our current structures, merely that it uses its current network to enhance communication so that it can be seen that management is actually communicating corporate objectives from the very top of the organisation whilst allowing the opportunity for input and feedback from all levels of the organisation.”*

To some extent the emphasis on communications reflected management views on mutuality: the need to trust people and make them feel part of the organisation and to increase employee involvement (in the broadest sense), all of which have significant business implications. The 'Excellence Studies' tell us (e.g. Goldsmith and Clutterbuck 1984) to create a more open and visible style of management (Peters 1988).

As Glueck and Januch argue, *“most people perform better if they know what is expected of them and where the enterprise is going”* (1984, p.13).

However, a key thrust of the proposals were aimed at providing an alternative to the union to getting messages to staff. As Morris notes, one of the main reasons for emphasis on communication is:

*“the intention to maintain direct contact with staff rather than allow the unions to monopolise the flow of information, as is perceived to have happened in manufacturing industry and contributed to lower levels of trust.”*

(1986, p.70)

One senior manager was concerned that there was no method of communicating with staff prior to pay ballots and hence the union made the running. Team briefings were to achieve this:

*“opportunity should be taken by managers at the communication briefings to ensure that staff had full information prior to any forthcoming ballots and try to point them in the right direction when voting.”*

(Communications Strategy paper, February 1988)

However, there were a number of problems in implementation. Branch managers showed some cynicism as to the alleged benefits of team briefing and many regarded it as yet another flavour of the month dreamed up by Personnel. Some failed to see briefing in terms of ensuring that the union would not be the main vehicle of communication, or would even take the view that ‘he who communicates leads’. Thus the Personnel Department felt it important that the benefits accruing to staff (including those negotiated with the union) should be announced by managers. However, in a number of cases managers were content to let the office representative handle it, perhaps in itself a reflection of branch managers’ unitary perception of employment and/or lack of awareness of personnel considerations. Secondly, there were practical problems relating to how briefings were to be transmitted from head office to branches; thirdly, the mechanism for feedback was regarded as being inadequate and hence team briefings were seen as merely representing the ‘party line’.

Overall, the strategies adopted are consistent with the aims of those in other sectors, e.g. manufacturing (Edwards 1987). Management are trying to increase the ‘involvement’ of employees in the aims of the enterprise by persuading staff to accept the benefits of change which are explained in terms of market logic. Hence it is endorsement of management policies which are sought, not co-determination.

The Personnel Department claimed that such schemes were part of the “*move away from the autocracy of Bullock style of employee involvement*” to a more individual basis, but it is difficult to see in the light of what we have discussed the scheme being a two way process, and

indeed team briefing has been criticised for this. The clear aim of the scheme was to convince staff of the justification of Bank action: thus it was stressed that the early establishment of the scheme was important:

*"Thereby ensuring staff become used to the process before we undertake some of the major human resource initiatives in mid 1988, e.g. remuneration review, profit share, head-count reduction when all relate to the achievement of the corporate plan."*

Morris (1986) suggested that this increase in more direct communication did not lead to a reduction in union consultation but was a parallel development. However, in the case of the Bank, it would be true to say that while there was no reduction in issues over which the union consulted the manner and meaning of such consultation did change over time.

In the next chapter we examine a new proposal which was not part of the original Employee Relations Strategy but nevertheless became an issue over the summer of 1988: the introduction of a no strike deal, which raises questions over the role of the Chief Executive in Human Resource Management.

#### **(f) Human Resource Management, the Chief Executive and a no strike deal**

The discussion over the introduction of a no strike deal into the Bank (or new style agreement in the ACAS terminology) is revealing in two areas of recent academic debate. Firstly it sheds light on the recent debate over the significance of no strike deals. Roberts (1988) has suggested they offer something of a way forward for industrial relations in the future. However, MacInnes (1987) argues that the management of industrial relations is strewn with equally impressive false dawns and dismisses them as a side issue. Secondly, it illustrates the role of the C.E. in the management of human resources and H.R.M. in particular.

The whole issue of no strike deals has been the subject of great attention in the media and in academic circles. They are generally regarded as beginning with the Toshiba agreement in 1981, and consisting of a package of six elements (Bassett 1986):

- 1 Single union agreement
- 2 Single status
- 3 Job flexibility
- 4 Consultation, usually in the form of an Advisory Council
- 5 A no-strike clause
- 6 Pendulum arbitration.

Such agreements have mostly been signed on greenfield sites, typically with Japanese companies in electronics or high tech areas, but have been spreading into other sectors, for instance the car industry (Nissan) and the steel industry. While the number of agreements are few and the number of workers covered remains small, there is evidence of greater significance that this (Gregory 1986). They are of course highly controversial within the union movement, associated with new realism and criticised as at best a gimmick and at worst a sell-out.

What is interesting about the case of the Bank is that all the interest in the agreement stemmed not from the Personnel Department but from the incoming Chief Executive. His strong promotion of a no strike deal originated less from a belief in its particular contribution to the industrial relations environment of the Bank than a concern that the Bank ought to be at the forefront of the industry not only in innovative ideas in banking but employee relations as well.

As one manager said, rather dryly:

*"We were the first bank with free banking, now we will be the first with a no strike deal."*

It was largely as a response to Chief Executive pressure that the Personnel Department produced a paper to clarify the issues and identify the advantages and disadvantages of such agreements (Table 7.2).

The main attraction was identified as being pendulum arbitration. This device by forcing the arbitrator to choose between the last offer of the employer and the last claim of the union is alleged to prevent the practice of 'splitting the difference' and hence avoid unrealistic collective bargaining positions as the parties become polarised because of their expectation of the

arbitrator's behaviour - the so called "*chilling effect*" (Wood 1985). This either-or alternative has been hailed as innovative, but in fact takes place in 25% of the cases handled by ACAS, especially in rights disputes where there can be no difference splitting.

**Table 7.2: Advantages and Disadvantages of New Style Agreements**

	Advantages	Disadvantages
To Employer	<ul style="list-style-type: none"> <li>- No industrial disputes</li> <li>- More moderate claims</li> <li>- Single union body for negotiations</li> <li>- Job flexibility</li> <li>- Better employee relations climate</li> </ul>	<ul style="list-style-type: none"> <li>- Third party ultimate decisions</li> <li>- Full involvement on business issues may not be welcome</li> <li>- May be forced to higher level settlements</li> </ul>
To Trade Union	<ul style="list-style-type: none"> <li>- Full consultation/ involvement</li> <li>- Single status terms and conditions</li> <li>- May force higher level settlements</li> <li>- Greater flexibility improves training.</li> </ul>	<ul style="list-style-type: none"> <li>- No recourse to industrial action</li> <li>- Changing traditional values</li> <li>- Communications to members</li> </ul>

**(Paper on New Style Agreements, May 1988)**

In many of these agreements, pendulum arbitration is linked to a no strike clause. Here too, there are many misconceptions. Virtually all collective agreements contain peace obligations - in a sense a no strike clause, in that no constitutional industrial action can take place while the grievance is in procedure. What distinguishes the so called no strike deal is that the procedure is inexhaustible, hence constitutional action cannot take place.

However, many agreements which contain pendulum arbitration clauses are not strict no strike deals, in that reference to pendulum arbitration can take place by joint agreement only, for instance Nissan. Secondly, the deals are by no means homogeneous, some having provision for conciliation or mediation. Thirdly, however tight the agreement, unofficial action cannot be prevented. Fourthly, even agreements with explicit no strike clauses are not legally enforceable unless expressly drafted.

We now seek to put such agreements in the context of banking in general and the Bank in particular.

It was recognised that the key factor in these agreements was for the employer, the no strike element and for the union, the single representation clause (other factors being secondary). However, the Personnel Department pointed out that there had been no major stoppage in the Bank since 1973 and since the Bank operated a union membership agreement, the main attraction to the union was absent. The national union had not made a definitive statement on the subject although the General Secretary, Leif Mills, supported the principle of binding arbitration in view of the significant improvement it had brought about: the 35 hour week in 1969 was achieved as a result of a unilateral reference to binding arbitration (and against fierce clearing bank opposition). In fact, the main clearing banks had initially opposed unilateral reference to binding arbitration and it was only after a strike in the TSB in 1963 and a strike in the clearing banks in 1967 that it was included in the procedural agreement.

However, the arguments in favour of this largely centred around the priority banks placed on the avoidance of disputes (both for business reasons and to maintain a good relationship with staff) especially in the context of widespread industrial action elsewhere in the economy. By the 1980s priorities had changed and the banks withdrew from the agreement with regard to unilateral reference to binding arbitration in 1982, ostensibly because of 'abuse' of the system by the union.

There was a strong argument that with technical change and capital intensification the potential for disruption to the clearing banking system had increased and that the process had great value. However, this was outweighed by the bank's systematic attempt to reduce labour costs and increase productivity. Furthermore, the union and staff associations were using the procedure to overturn agreements reached by the banks and its rival. Thus, the risks of voluntary settlement were considered worth bearing so as to regain the ability to argue over every issue again and hence to free matters trapped by arbitration (Morris 1985, 1986).

Nevertheless, returning to the case of the Bank, such agreements concerning unilateral reference to arbitration were quite different from the proposed no strike deal in that in the former

the union would retain the right of action if employers broke the procedural agreement or there was a dispute on matters not covered by the list of negotiable items. The right for unilateral reference to arbitration could be termed a no strike deal in the sense that disputes on negotiable items could be referred to arbitration and that the result was binding.

Furthermore, the Bank's owners, the CWS, had to be considered. The CWS were opposed to any such new style agreements. Partly this was because of protection of the 1938 Agreement, and also because the CWS had a multitude of unions to deal with who would find such initiatives politically unacceptable. Thus, the Personnel Department told the Chief Executive that while in principle the approach embodied in a new style agreement should lend itself to a co-operative management style, it was far too early to think that the move to a more open style and better consultation had achieved the type of industrial relations environment which was appropriate for these agreements.

Moreover, given a number of current concerns of the Bank, namely restructuring, the pressure to increase profits and the need to reduce overheads, the Personnel Department feared that the Bank was in danger of abrogating the right to manage because such an agreement would facilitate the union bringing in a third party which could delay or obstruct change. Given that the Bank's terms and conditions remained behind the major clearers, despite recent improvements there was concern at leaving what the Bank would have to use as an ability to pay argument in the hands of a third party. In addition, Personnel were worried as to whether they could limit the remit of pendulum arbitration to pay and conditions. For instance could they exclude organisational issues or would this, in the Department's own phrase, "*be seen as demeaning to the union*" and lead to mistrust of the whole procedure.

As they saw it, the attractions were outweighed:

*"The Bank would obviously gain from the no strike provision of the agreement but is this worth 'neutering' itself in all areas, particularly as there has been major disruption in the Bank for so long"*

(Paper on New Style Agreements, May 1988)

For the union, two of the main attractions (apart from access to arbitration) single union recognition and single status elements, already existed. The emphasis of the Personnel Department was not to endanger other objectives by the introduction of such an agreement, especially in the context of furious debate within the T.U.C. about the validity of such agreements and given the Bank's relationship with the Trade Union Bank, Unity Trust. It might well be a bad business decision as well as an inappropriate employee relations initiative, it was cautioned.

We have looked at this issue in some detail because of its relevance to a number of issues. In particular it illustrates the dangers of Chief Executive over involvement with personnel matters. While Chief Executive backing may be essential for major human resource initiatives the question which this section raises is how far is it appropriate for involvement in policy areas. Furthermore, the whole area of no strike deals is illuminated by this section, which suggests that there can be a dangerous failure to contextualise such agreements which can perhaps too often be seen as a quick-fix panacea.

#### **(g) Changing Role of the Personnel Function**

In Chapter 6 we noted the distinction made by Brewster et al (1981) between instigators, implementors and facilitators. To a large extent the Chief Executive can be regarded as the chief instigator in so far as he identified the need for a new approach in the area of human resources. However, he did not contribute a great deal to the content of the new policy. Formulation was largely left in the hands of the new Human Resource Manager and also the Head of Group Development who as we saw in the previous chapter had originally been given special responsibility for this area early on in the tenure of the Chief Executive.

Such distinctions as those drawn by Brewster et al can be misleading. While the Head of Human Resources and the Head of Group Development were clearly instigators of particular policies they would be implementors in a number of corporate personnel concerns, for instance profit sharing and job evaluation, and were also facilitators in areas where line management had been encouraged to take greater responsibility with the support of the Personnel Department. To

a large extent these two individuals also fit the role of “*divergent innovators*” (Legge 1977) in that they were attempting to make changes which required the alteration of senior management values. Hence the support of the Chief Executive was vital.

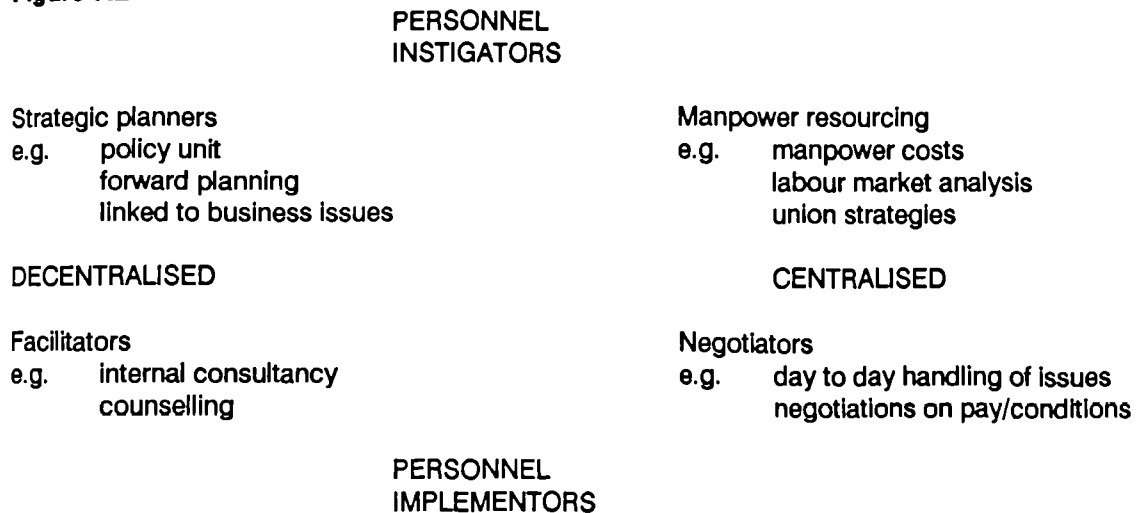
We saw in the previous chapter that part of the new policy was to change the personnel role from administration and ‘policing’ of personnel practices to one which regarded itself as contributing to business performance.

Hence it was agreed that Personnel would only advise: line managers would be the prime movers in any staff related action, although this would be

*“taken in conjunction with the Personnel Department to ensure equitability and consistency and not create adverse precedents”*

(Personnel Paper, August 1988)

The attempt to devolve more responsibility to the line was surrounded by precedent, guidelines and rules, shows a clear link with business strategy. As line managers are being given greater responsibility (and being held accountable) the requirements are for a more rapid response to the market as the organisation becomes driven by the market, rather than its own organisational structure. The ability to control the labour resource is part and parcel of this and the Bank supports the hypothesis of Purcell (1985) that as concern focuses on productivity, performance and communication attempts will be made to return personnel management to the line (cf. Hunt 1984). In the Bank, personnel policies had been dealt with outside the line; grievances and disciplinary matters would not be passed through the line from branch manager all the way up to the responsible director, but would be dealt with sideways by Personnel.

**Figure 7.2**

The personnel role in industrial relations

**Source: Brewster and Connock, 1985**

Brewster and Connock (1985) argue that the personnel role is moving away from the highly centralised implementing function concerned with day to day considerations to a more decentralised strategic role (see Figure 7.2). Hence there is a move from the bottom right hand corner to the top left hand corner. This does seem to be borne out by the experience of the Bank. However, one must be careful not to exaggerate this. Banks still remain highly centralised, and the likelihood of pay negotiations for instance being devolved seems minimal.

There were a number of methods by which the Personnel Department attempted to devolve responsibility. We have already noted that team briefings were thought to reinforce the line role as the chief disseminator of information. Secondly, the new disciplinary code put authority and accountability in the hands of the line (although initially Personnel would take a slightly more active advisory role until the system was 'bedded in'). Thirdly, managers were given accountability within their budget to replace staff. This was to encourage managers to develop their own staff so as to be able to replace staff who left rather than leaving it to the Personnel Department to provide the skilled replacements. As evidence of a more integrated human resource approach such policies were reinforced by a new performance appraisal system which took greater account of human resources. Previously financial targets were paramount and in the

words of the training manager,

*“If they met financial targets managers weren’t criticised even if the staff were close to mutiny.”*

A series of programmes on human resource management were designed to reinforce this priority.

However, many of the initiatives met up with apathy, cynicism or obstruction. Changes in the disciplinary code were regarded as cosmetic: as one manager said, *“Personnel can’t bring itself to let hold of the reins”*.

On the other hand, the union expressed concern that this would be seen as a green light to ‘trigger happy’ management and there was a large increase in the number of disciplinary incidents after the introduction of the new code.

There was also doubt as to the ability of managers to take this responsibility. It was rather unfortunate, for instance, that the branch administrator had responsibility as part of his job for training when it was generally acknowledged that with branch administrator being a common post for newly ‘appointed’ staff, the people holding the job were young, inexperienced and lacking in the personal skills required for the job. Furthermore with the corporate/personal organisational split and with a shortage of experienced corporate specialists, many managers were appointed on technical grounds alone. There was also thought to be a cultural problem; the Bank was regarded as having over the years ‘carried’ people. The old style co-operative manager (or ‘bacon slicer’ as they were called in the Bank) were particularly notorious for not dealing with problems that arose. The newer banking people were regarded as more positive; hence a split personality existed among the managers.

Finally, senior managers were something of a constraint, in that many were uninterested in personnel matters. Many courses which the Personnel Department would have liked to start with top management involvement had to start with middle management. When asked if a problem in implementing personnel policies was the quick fix approach of top senior managers, the resourcing managers said despairingly *“If only senior management did have a quick fix*

*approach!"*

In so far as staff reflect the values of top management, this was a major cause for concern (Brewster et al, 1981). One of the key complaints to come out of the courses being run was the absence of top management. More direct difficulties also became apparent. One of the themes in the Human Resource Management programmes was reflective of the new management style. This was designed to discuss the relationship of staff with their managers, and in particular the need for staff to question their boss in an informal and constructive manner. The course was aptly entitled "*How to Manage your Boss*". However, it became apparent that it was unfortunate that managers had not taken a course on how to be receptive to constructive criticism!

Storey, commenting on the difficulties in introducing Human Resource Management, is undoubtedly right when he says that

*"The ambivalence and opposition of the existing line management gives some clear indication of one source of difficulty in actually implementing an H.R.M. policy. In part, line managers don't believe it's for real. Others don't believe it will last even if it currently is for real. Many don't believe it will work and some simply don't want it to."* (1987, p.17)

#### **(h) Human Resource Management and the Union**

During the process of our discussion of the Bank's Human Resource strategy in practice, we have dealt only incidentally with the role of the union. In this section we look more broadly at the union role in the process of change in the Bank.

We have noted both in the literature review and at the beginning of the previous chapter the association of Human Resources Management with non unionism. This comes clearly out of the text by Beer et al (1983). Furthermore, Armstrong's 1988 handbook on H.R.M. does not contain a chapter specifically on trade unions. However, the chapter entitled 'handling people collectively' does contain a section on 'keeping unions out'. Where unions do exist the process of H.R.M. is considered more difficult. Thus Storey (1987) has drawn attention to the dangers of

'dualism' whereby industrial relations practices and procedures exist side by side with H.R.M. practices and procedures.

On one level of analysis the Bank would appear in great danger of dualism. A 'traditional' industrial relations structure with a closed shop, several procedural agreements with the union to provide joint regulation and a heritage rooted in the labour movement alongside a banking culture stressing paternalism and unitarism - being moved along to a more market driven culture with H.R.M. However, such an analysis can make too much of the cultural clashes. Thus in the Bank, the closed shop is the product of history not strong collective feeling, and links with the heritage have been increasingly loose, and more rhetorical than real. Hence, the obstruction to making radical changes was more limited than one might think.

Nevertheless, while radical change could be achieved this is not to say that the union could simply be steamrollered. Partly this related to the C.W.S. who while not being involved in Bank personnel policy on day to day business, did exert pressure to ensure that agreements which linked the Bank to the rest of the movement were not broken as in the case of the closed shop. Perhaps even more importantly, the scope and degree of change which the Bank was attempting to achieve was deemed to require union co-operation rather than sullen acquiescence of confrontation. In a world of second best, the attempt to reform the role of the union would sour relationships and threaten other objectives.

However, the events described do show how the relationship was being re-shaped, albeit in an incremental fashion. Top managers no longer had to belong to the union; other managers had a separate bargaining unit; the process of job evaluation confined the union largely to discussing clerical workers. By devolving responsibility to the line, issues were removed from the union head office function to the shopfloor where the unions were very weak. Team briefings were partially designed to cut out the union monopoly on information. Furthermore, management prerogative was being re-asserted, and on issues like job security the union interpretation over agreements was challenged. There was more information available, as in line with the more open management style, and thus the union received outline copies of the Corporate Plan and

information relating to business plans.

The Head of Personnel admitted that 3/4 of the communication was concerned with passing information, rather than consultation, but maintained paradoxically that there was the "*full involvement of the union*". Of course the paradox could be explained by the view of the Bank on the legitimate role of the union. The Head of Personnel said that by-passing took place on a daily basis. It is not of course a new discovery that unions have little detailed information as to long term strategy, and limited influence in strategic decision making. The re-shaping of the union was also facilitated by the collapse of national bargaining which was conducive to enterprise unionism, to which the banks are by nature of their closed culture quite susceptible.

### **Conclusions**

This chapter has been concerned with examining the attempt by the Bank to move away from the old personnel management style to an approach closer to H.R.M. We have looked at the various policy initiatives and the problems involved. Furthermore, we have attempted to unravel the practice of this new approach as opposed to the official policies examined in the previous chapter.

Of course the definition of what H.R.M. involves is itself a matter of debate. As Guest rightly points out it is a term "*now widely used but very loosely defined*" (1987, p.503). In the conclusion, we suggest that H.R.M. is best defined as an approach which embodies both strategic integration and an emphasis on labour as a resource.

In the Bank we have seen much more than a re-titling of roles which Guest suggests characterises much of the alleged H.R.M. adoption. We saw in Chapter 6 that many of the policies officially embraced showed many of the characteristics of H.R.M., but were cautious in our assessment, since the gap between policy and practice is often a large one. In this chapter we have seen that a great deal of the new policy was in fact implemented over a relatively short period.

Of course one interpretation could take the following line: that the Bank had such a poor

record in personnel that much of what was being attempted was merely adopting better personnel practices, and the disparity between the two was so large that it could appear that the move was a much more radical H.R.M. approach. However, while it is true that some of what had taken place did contain 'catching up' elements the scale of change, and even more importantly the qualitative difference suggest that such a interpretation is to misunderstand the nature of the changes.

Pettigrew has said that

*"Personnel seems to have little role in the shaping of revolutions. Rather it just drifts with the human driftwood that appears out of revolutions."*

(Reported in Financial Times 31.10.84)

This is contradicted by this case study. We have seen that the Chief Executive worked closely with the human resources manager to achieve major change. We have also seen clear links with business strategy in terms of creating a market driven performance oriented culture and, for instance, in terms of the devolvement of responsibility to line managers. Of course it is too early to evaluate the success of introducing H.R.M. Skinner (1986) talks of needing a 7 - 10 year horizon for changes in the Human Resource area.

However, we can make an assessment of the problems in the short term which had to be faced. What is striking about this chapter is the enormous amount of change taken place: some agreements were modified with the union; managerial prerogative was re-established; there was some success in cutting labour costs without causing disruption; a new pay strategy was implemented; the new communications strategy was also bedded in and devolvement to line management was also undertaken.

One of the themes of the previous chapter was the extent to which stated intent (espoused policy) was reflected in practice (operational policy), for as Brewster et al (1981, p.6) found,

*"The espoused policies are themselves inconsistent ... may be no more than pious aims or statements, breached with impunity and unrewarded where followed."*

While we saw both greater attention being accorded to the management of staff and a wholesale review of employment policies, one of the concerns was the extent to which this retained priority over time, for long term commitment is essential to the development of human resources, for as Rothwell pointed out,

*"People cannot be acquired, shed or developed as quickly or as easily as other assets." (1984, p.31)*

Hence senior management must be responsible for driving change forward rather than merely recognising the need for change. Official recognition and practical neglect is an all too common experience with regard to management attitudes to human resources. We saw, for instance, that senior management tended to regard developments in this area as a 'job for personnel' and failed to relate it to their own actions. Furthermore, this partly related to a misunderstanding of the human resource variable in issues not explicitly personnel. As Legge points out,

*"...the personnel management considerations involved in production, marketing and finance decisions were not so much overruled as went by default. In other words, non- specialists, while formally recognising the importance of effectively utilising human resources, lacking as they did the expertise to develop a systematic view, what this entailed in terms of personnel strategies and action, in practice tended to underestimate the importance of the human resource variables in decision-making on issues that were not explicitly 'personnel management'. While in theory they recognised that the effective use of manpower was of vital importance to their organisation, in practice the very pervasiveness of manpower management meant that, being taken for granted, it was neglected as a dimension to most problems under discussion and emerged as an issue worthy of concentration only if a specifically 'manpower' crisis threatened. Hence, although theoretically strategic to the organisation, personnel management, even in its broadest sense, often was not perceived or treated as*

*such."*

(Legge 1977, p.37)

The union did not turn out to be a major obstacle to change. On some issues they proved difficult to persuade, for instance the closed shop and job security agreements, but neither of these were major obstacles to the new Human Resource policies. We saw in the previous chapter, of concern regarding the cost-resource dichotomy, the attempt to achieve major change on both sides of the equation. In practice these difficulties did not prove insurmountable. The communications strategy seemed to do the trick of persuading staff of the logic and inevitability of management action. Furthermore there was little evidence of the fear factor which characterises declining industries. The Bank was in an industry which had high profits, growth and relatively good pay. Only on issues such as job security as arose briefly with the Manchester branch, was there strong enough feeling for the union to bring to bear on management. Undoubtedly also there was a degree of *"attitudinal structuring"* (Walton and McKersie 1965) in the use of the union.

More problematic was the attitude of line managers. The paradox of H.R.M. is that it raises the status of personnel but gives away responsibility (Guest 1988) and hence much depends on the attitude of line managers:

*"Although the personnel department may be responsible for the design of various 'personnel' programmes or systems (e.g. job evaluation, management appraisal, wage and salary structure), their implementation must not only take place within other management systems, but largely involve the managers of those systems. Hence, the success or failure of a personnel programme, even within its own terms, is often removed from the direct control of the personnel specialists themselves."* (Legge 1978, p.65)

Furthermore the link between top management and line management is a vital one. As Brewster and Richbell put it,

*"The realisation of personnel policies demands an understanding of how*

*policies are implemented within an organisation. It should not be assumed that simply having a policy accepted at the formal level is the end of the exercise. There is a need to see 'policy' from the point of view of the implementors - frequently line and general managers - and to develop a deeper awareness of the many pressures and demands that make the implementation of espoused personnel policies difficult for them. Line managers do not decide to accept or reject policies arbitrarily; rather, they are, most of the time, trying to conform with the values and priorities of senior executives."*

thus

*"on an intuitive basis they establish an ordering of priorities for the various policy demands which is based on their interpretation of top management values."*

(Brewster and Richbell 1984, p.35)

Hence it was necessary for policies to be consistently reinforced; if the Bank targeted managers on financial objectives and performance appraisal reflects this and has nothing on achievement of human resource objectives, managers would realise that the official policy was in practice given far less priority. The Bank did attempt to tackle such difficulties with revised appraisal systems incorporating a broader range of objectives.

In the long term the key question would be the extent to which the management of human resources retained its priority. To a large extent human resources was seen as a problem to be 'fixed'. It is open to question whether it would continue to receive the same attention and resources over a longer period of time.

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## CHAPTER EIGHT: CONCLUSIONS

This Chapter seeks to discuss the findings and implications of the thesis within the broader context of the debate about management strategy and industrial relations, and in particular about Human Resource Management (H.R.M.), drawing upon what Yin (1984) terms the process of analytical generalisation.

Kochan et al. have examined the nature of 'strategic choice' and provide an example whereby changes in the competitive environment lead to business decisions which *"reverberate through the organisation and its industrial relations system"* (1983, p.13). Whilst such an industrial relations response is clearly connected with business changes, Miller (1987) is undoubtedly right to question whether strategy in such circumstances is an appropriate term. The strategic management of human resources must be more than a mere knock-on effect: most business decisions will have some effects on the management of labour, but such effects are not necessarily strategic decisions. Thus Miller argues:

*"if management manage their employees in ways which recognise their role in strategy implementation it is behaving strategically."* (1987, p.356).

For Miller operational linkages between the business strategy and the policy towards employees are the key, or in his words, the *"fit of H.R.M. with the strategic thrust of the organisation"*. This is clearly an important point but Miller's definition of 'strategic H.R.M.' (which for our discussion we shall term H.R.M. because we argue that H.R.M. itself embodies a strategic approach) encompassing:

*"those decisions and actions which concern the management of employees at all levels in the business and which are directed towards creating and sustaining competitive advantage"* (p352)

while important in demanding that human resources be a corporate level concern has a significant weakness because of its concentration on linkages and neglect of content.

If we return to the work of Porter (1985), from which Miller borrows, we find that competitive advantage can be achieved either through cost leadership or differentiation (the so-called niche approach). Thus Miller's definition of H.R.M. would cover firms adopting either of these two approaches, as long as there was a 'fit' of H.R.M. with the business policy followed. Yet these two approaches are likely to embody very different strategies for the management of employees, one being based on seeing employees as a commodity, 'a numbers approach' with the emphasis on cost control while the other may emphasise differentiation by quality, with employees as a resource to be developed and staff quality equated with product quality.

Thus we would argue that Miller's focus on operational linkages is an inadequate conceptualisation of H.R.M. His concern is largely with linkages: the relationship of the management of employees to the business strategy of the organisation; but this is not sufficient as a definition of H.R.M. A more useful approach perhaps would be to characterise H.R.M. as entailing strategic integration (on which Miller and Guest (1987) both agree) and a 'positive' approach to the management of employees with an emphasis on staff as a resource rather than a cost. Thus strategic integration is a necessary but not sufficient component of H.R.M. The emphasis on staff as a resource would be likely to embody policies designed to achieve the goals Guest has identified as being important, namely flexibility, quality and commitment, although Guest himself appears to regard strategic integration as an outcome rather than a process. However, an emphasis on staff as a resource without strategic integration is not H.R.M. either. For instance, the many customer care programmes now running owe much to the fact that other companies are doing them rather than relating to the business strategy of the organisation concerned: in circumstances whereby such programmes become ends in themselves it is hard to credit them with following H.R.M. In contrast, an accounting concept of labour may well be strategic in that it may be related to competitive advantage through cost leadership and as such strategically integrated but this is not what H.R.M. is supposed to be about. Hence the latter approach sees the importance of staff in a 'negative' sense of not hindering existing business strategy as opposed to actively contributing towards it. Of course many companies would fit

neither category in that the management of staff may not be considered a strategic issue at all, and not integrated into the strategic planning process which is the conclusion of recent research, e.g. Marginson et al. (1988), nor considered as a resource.

Miller is also dismissive of companies whose decisions on labour matters are forced by competitive pressures, arguing that this is not what H.R.M. is about. However, it is commonplace in business literature that major changes in strategy are brought about by a re-assessment of the company position as a result of external shocks, and indeed we would argue that this is true with the case of the Bank; what matters is whether the policy towards employees is strategically integrated and the type of policies adopted. In banking in general, the end to the cartel and the disillusionment with international lending has led to a refocus on the U.K. retail market where most staff are employed. With fierce competition in the market, banks have shifted their emphasis away from merely providing money transmission services to a broader focus on selling financial services. This has required a change in organisational structure to reflect market needs, and wholesale cultural change with staff being trained to deal with customers and to increase business rather than merely process paper, hence a cost to resource shift. Such product market changes has led to the collapse of national bargaining which has facilitated greater enterprise control of labour matters.

The positive/negative approach to labour matters is an important distinction although one of the themes we observed was a clash of priorities in the case of the Bank. However, this can be explained in terms of a longer term shift towards H.R.M. at the same time as a clash in the short-run with a concern with an imbalanced cost structure. In reality of course, companies will face both cost and resource concerns but what we are concerned with is the overall emphasis, with a resource strategy based on commitment, training etc., differing from one emphasising cost control.

While much of the industrial relations literature argues for strategic integration and more account to be taken of industrial relations variables, the manner in which integration is achieved is rarely specified. For instance is it necessary for Board level consideration, and if so exactly how

much attention should be paid: should the Board merely take account of such factors or actually formulate labour strategy? The problem with much of the writing on this subject is it assumes that business strategy, if not written on tablets of stone, is at least clear and coherent so that industrial relations strategy can lock into this. However, if it is accepted that strategy is in fact *“more typically formed through a set of decisions being taken which might be considered more operational in nature but which over time, in a piecemeal fashion, build up to form the strategy of an organisation”* (Johnson and Scholes 1984, p.25) the implications for the management of staff are by no means certain. This case study has illustrated the uncertainties about future strategic direction within the Bank, something which the Corporate Plan did very little to settle, doing no more than advance the notion that it should find itself a niche and not compete across all fronts; but this general strategy was not translated at least in the early stages into specific objectives. This is not to say that operational linkages and strategic integration are unnecessary, unimportant or impractical, but merely to call into question the exact nature of such factors and how policy on labour matters can reasonably be expected to be made. We have noted in this case study, that in the period under discussion the management of labour did not figure prominently in the Corporate Plan. Yet we also noted that the C.E. had identified the area of human resources as one which required special attention. This stemmed from an appreciation of the hitherto inadequate personnel management in the Bank which needed to be ‘got up to scratch’. There was no point producing corporate plans unless the staff were committed, and hence there was a strategic link. Yet despite this, it was not regarded as a topic suitable for detailed consideration during the formulation of the Corporate Plan. Nevertheless, senior managers did agree with the C.E. and acknowledge its importance, although they regarded it as the job of the yet to be appointed human resources manager to formulate strategy in this area. Thus they did no more than point the way forward in a number of general comments in terms of changing culture etc.

One interpretation of such an approach was provided by an official of the Federation of the London Clearing Bank Employers who said that unless there was a crisis:

*“Senior Bank management only look at staff related issues if the business is going swimmingly and there is nothing else for them to do”.*

This is of course a fairly common view: personnel issues as a ‘nice to do activity’. However this does not appear to fit with our case study. It was not just a matter of avoidance or disinterest as in the Winkler (1974) analysis. It was regarded as an important issue and accepted that management had to take an active approach to managing labour, and indeed it was agreed that resources would be put up to address these concerns, a significant sign of senior managers’ commitment given the context of cost cutting, belt-tightening and an uncertain competitive position. Such a commitment came under strain as the cost-resource problem came to the fore but the developments on the human resource side continued and no initiatives were halted as a result of such pressures.

Thus one of the themes of the thesis has been a combination of a greater priority to labour matters, at the same time as being a downstream consideration, in so far that human resources were not given much attention by the Board during the formulation of the Corporate Plan and by top management, apart from the C.E. who was very active in backing the Human Resources manager. The question which arises is does it matter that human resources are treated in this manner? A commonly expressed view is that since businesses are in business to produce profit, not good industrial relations, and to the extent that employee relations is essentially facilitative and not a ‘stand alone’ activity but must flow from corporate strategy, it is inevitable that they are indeed second order. However, the discussion on much of this debate has been rather unhelpful because of the assumption that it is only first order strategies that are ‘strategic’, and other concerns relate essentially to operational considerations and are non-strategic. This is misleading as it assumes strategies are of one kind (partly stemming from the view that strategy relates to product market issues) and matters are either strategic or non-strategic whereas in fact it would be better to think of degrees of strategy. Overall, there is a lack of clarity in this area and a confusion of terminology and concepts. It is clear for instance that industrial relations is downstream from the overall corporate mission, be it a return on assets or profits through

business decisions. The common argument posed above is undoubtedly correct: businesses are not formed to create good industrial relations. However, this is rather unhelpful in examining the relationship with labour issues. The well documented case of the car industry provides an example of the importance of such issues in explaining commercial failure. What is being called for is that such matters should be considered within the overall business strategy of the organisation rather than separate from it. In other words, industrial relations should not merely be affected in a knock-on manner, but be located much further up in the business strategy process. Again clarification is required here, because it is often left like that. What appears to be demanded is integration at two levels: firstly at the level of implementation; at this level it is argued that since much of the success of policy implementation depends on the effective management of human resources, attention should be paid to this area. Secondly, it is argued that this is not adequate, that human resources should actually be considered further up the planning process, so that rather than just flowing from the business strategy, it should be a part of it, in that the human resource dimension may constrain the type of business strategy adopted or provide opportunities. Either or both of these approaches would be consistent with H.R.M. In other words, the first approach suggests that the human resource strategy should be consistent with business strategy and implementation should take account of human resource factors. The second approach demands rather more: that human resource factors be considered not just in the implementation of policy but actually influence which business strategy is adopted something which Purcell and Ahlstrand (1989) suggest is doubtful in most firms.

Our case study would appear to meet the requirements of the first rather than the second approach. Nevertheless, there appeared to have been a number of reasons why such an approach seems to have been a sensible one in retrospect. Given the competitive pressure and uncertainty over the direction the Bank was to be taking, much of the debate over the Corporate Plan and indeed after the Plan was focussed on the positioning of the Bank, a debate complicated by a degree of 'politicking' among various senior managers. Hence, a lack of time and a lack of expertise led to the formulation of the Human Resources Strategy being dealt with elsewhere. By

keeping such issues to the Human Resources Manager (with the crucial backing of the C.E.) this gave him a relatively clear run in drawing up a future strategy and kept it out of the 'arena of conflict' at Board level thus enabling a greater coherence than might have otherwise been the case. Moreover, while commentators are undoubtedly right to argue that when business decisions like acquisitions, plant relocation and investment are made, there is a need to examine the human resource dimension, in this case there were few of these sorts of issues. As Thurley & Wood point out "*many aspects of personnel policy and industrial relations policy may be neutral in relation to the precise business strategy followed*" (1983, p.221). Thus many of the initiatives on the human resource side related to as it were updating policies and practices to better and more efficient methods and would be relevant whatever business strategy was adopted although this should not be exaggerated.

Thus it should be reiterated that some of the initiatives had been on the agenda for some time. A second dimension to the developing human resource policies had been pointed to in the Corporate Plan: a qualitative shift to treating staff more as a resource with greater attention to training, communication, reward structures and staff quality as a whole. A third dimension linked to this developed as the business strategy came on-stream. As marketing strategies began to focus on ideas of the Bank as an 'ethical bank' with 'customers who care' clearly this image had to be projected by the staff who had contact with the customer, hence a greater focus on customer contact skills and identification with the Bank. Moreover, if staff were expected to 'look after' customers, management had to 'look after' staff.

One of the values of case study research is that it is able to illustrate how key actors are crucial to change processes. The crucial role of the C.E. has been acknowledged (Guest, 1987) and this case study bears that out, both in terms of the key actor who initiated change and also the person who provided the necessary support to the man in charge of such changes, the Human Resources Manager. But also highly significant was the relationship between the Human Resources Manager and the Head of Personnel. Undoubtedly the good relationship was facilitated by the fact the latter was due for retirement and did not therefore see the new man as a

threat. Furthermore, the appointment of someone from outside the department was also vital in that such a person began with credibility, being seen as an expert and in many ways performed the role of an internal consultant. For several reasons it was unlikely that an insider could have performed the role. Firstly, the Personnel Department lacked strategic power partly because the role of general managers in the Bank had inhibited specialist functions; linked to this was the fact that 'labour' had not been seen as a problem so it had never attained a high priority; thirdly the department, albeit partly as a result of the above two factors and partly because of perceived inadequacies in what it did do, was a Cinderella department of little status. Hence it would be unlikely even with C.E. backing that the department without a champion would have the clout to make the necessary changes. So key changes in personnel were clearly important in facilitating change.

While emphasising the importance of key actors it should also be emphasised that prospective changes in role of the Personnel Department were also crucial. Under the new Human Resources Manager, the department was to become more integrated with strategic policy and his role was to improve organisational efficiency rather than mediate between employees and managers. This change reflected the philosophy of H.R.M. with it being very much a managerial activity (Torrington and Hall, 1987). Clearly such an approach would appeal to senior management especially when packaged effectively. Thus things were not just going to be done better, but differently and H.R.M. offered more than a pumped up personnel management style which had negative connotations.

In other words, H.R.M. could be utilised to 'sell' changed personnel policies in a way the old function would be unlikely to be able to do. Although there has been a good deal of scepticism about H.R.M. portrayed by academics who have been inclined to treat it as a fad, the point should be made that management as a whole are susceptible to swallowing many 'flavour of the month' from quality circles to 'excellence' to customer care programmes. Some fade as quickly as they had gained prominence, others remain. We noted in the thesis how quickly the appeal of the industrial relations audit had taken hold and then been discarded although admitted-

ly this was the brainchild of one manager and a Personnel manager (albeit a generalist) at that.

Nevertheless, even if H.R.M. is little more than a re-packaged personnel management it may be used as a vehicle for personnel management to gain the corridors of power or at least the ear of the C.E. Once inside it at least provides personnel managers with an opportunity to make such a transition a permanent one.

This brings us back to the nature of H.R.M. and the case of the Bank. The thesis has taken the approach that while the theoretical debate continues, a useful way of analysing H.R.M. is by examining companies which claim to be moving in that direction. For the Bank, embracing concepts of H.R.M. signified a fundamental change in approach to the management of staff and stemmed from a number of sources which we have noted. Such an approach we have argued is in line with the approach of H.R.M. which we defined earlier in this chapter.

However, H.R.M. is said to comprise a number of themes including strategic integration, a long term time span, a focus much broader than traditional industrial relations, an emphasis on individualism, a unitarist philosophy, a return to line management and a reduced role for unions (Guest 1987, Storey 1988). We have observed something of all these themes in our case study although the extent to which they meet the criteria is more debatable and depends on definitions. Much change is relative to the sector and a matter of degree. Thus, while there was talk of returning issues to line management these largely involved issues of grievance and discipline and most issues remained centralised. There was certainly no likelihood of devolved pay bargaining, and with Bank manuals setting out in detail, rights, responsibilities and procedures there are relatively few important 'industrial relations issues' at branch level. It is also important to note that on their own these characteristics do not form H.R.M. For instance, the fact that line management take more responsibility for personnel matters may be part of a shift towards general management and be where the personnel function becomes concerned with a broader range of issues, providing frameworks rather than getting involved in particular cases but it need not necessarily do so. Moreover, this does not necessarily imply the treatment of employees as a resource. Thus, many of these themes may be associated with H.R.M. rather than fundamental to it.

Nevertheless, there does appear to be some reluctance to acknowledge the impact of the H.R.M. approach in companies in the U.K. Partly this may stem from the application of rigorous criteria. However, it is relatively easy to point to cases where adjustments to industrial relations strategies have taken place because of short-term financial pressures, or initiatives appear less than fully integrated into strategic planning but this is also true of other concerns, for instance, marketing which may suffer in the same way. Perhaps an examination of other business disciplines and functions will enable researchers to locate the position of Personnel and how distinctive its status is. In other words by saying that with H.R.M. *"the management of people becomes a key, if not the key element in the strategic planning of the business"* (Sisson, 1989 p.31) are the standards rather too high? It is important to note that H.R.M. is used far more loosely in the U.S.A. [see for instance Kochan et al. (1986)] and would not meet these stringent criteria.

Another problem with some of the scepticism of writers on H.R.M. is that because traditional industrial relations research is focussed on manufacturing the analysis is based in terms of a transformation of that sector. Thus for instance, Storey poses the question: can industrial relations be transformed from an adversarial, rule-based institution into a co-operative, commitment-inducing process? (1987, p.9). Such an approach makes one more likely to dismiss the relevance of H.R.M. However looking at a different sector, in our case banking, would not entail such a dramatic transformation.

Moreover, H.R.M. reflects the changing concerns of management. In the 1970s, following Donovan, management concentrated on formalisation of relations with unions and national issues like incomes policies which put Personnel into a position of entrenchment. In the 1980s, with the changing balance of power, concerns had turned to efficiency and productivity which many felt were best dealt with at line management level. With 'macho' management, the personnel function has declined. However, H.R.M. represents an opportunity for personnel to integrate disparate functions and link organisational needs to personnel policies. It also may offer the opportunity for the consideration of the significance of employee relations issues not just in the negative sense of obstructing strategic change but for a positive contribution towards it. However, whilst it is

generally recognised that external shock may be crucial in triggering off a reconsideration of existing strategy this itself presents a paradox in that firms in competitive difficulty may not have time, resources or goodwill to effect a change in relationship between management and employees (Beer et al., 1985) yet companies with profits and the resources may not appreciate the need to move to H.R.M. Hence one of the key concerns in the Bank in the managing of change was the balancing of conflicting priorities of cost control and the development of employee commitment. The attempt to cut labour costs certainly seemed to endanger the opportunity to create high trust industrial relations with fear of redundancy and relocation, working against the Bank's attempt to create greater employee commitment and identification. Yet trust is itself seen to be a pre-condition for successful change although trust is generally accepted as being a very fragile concept (Purcell, 1981). In our case, the competitive pressure put pressure on costs and hence clashed with the longer term H.R.M. emphasis. One school of thought would regard crisis as a catalyst for a refashioned relationship, but it seems highly likely that in such conditions there will be unilateral management action and although unions may co-operate in the interests of survival, and change for instance in working practices may well be achieved, it seems questionable whether attitudes will also change. In other words when smoother waters are reached the relationship may return to its previous plane. It is interesting to note that Metcalf (1989) in discussing industrial relations in manufacturing since 1979 suggests that the crises there, although leading to considerable improvements in productivity, was achieved through fear and compliance rather than active co-operation.

This cost-resource issue may be regarded as a particular problem for organisations which are following an H.R.M. approach, but whose labour costs are a high proportion of total costs, thus for instance banking. However, such organisations are not alone in facing these dichotomies: labour costs may well be a low proportion of total costs in some organisations, but in the short term they may well be most accessible to cost reduction, hence this balancing act is crucial. Certainly the cost-resource issue may limit the realisation of the alleged benefits of H.R.M. in terms of increased commitment. However, one must be careful not to exaggerate such

tendencies in our case study. Firstly, the context of such changes was one in which management, the union and staff enjoyed a good relationship with a high degree of trust compared with other sectors. Secondly, although the pressures on costs were such that the Bank was prepared to consider what they perceived were relatively 'unpalatable' measures, matters never actually came to that stage, and thus compulsory redundancy did not take place. One possibility in the future is to divide the staff so as to apply a resource approach to one group of staff and a cost approach to another group although this is likely to be more complex than previous male/female divisions.

One of the values of the Kochan et al. (1986) analysis is its explicit recognition of the importance of management as the initiator of change as the spectre of union power fades, and indeed the movement towards H.R.M. with its predominantly unitarist philosophy does call into question the role of unions. Furthermore, it is general management rather than personnel management who are regarded as the initiators of change, the latter being regarded as too closely tied to established relationships with the unions.

In the case of the Bank we have observed the very dominant role of management and a reflection of that is how little the union figures in this story. It is however interesting to note that it was the new Human Resources manager who was less sympathetic to the union and wanted changes while at senior management level, values and culture made them less willing to countenance change. This led to the official role of the union never effectively being made clear. Nevertheless, in practice developments clearly did have an impact despite all the agreements with the union on union membership, new technology, job security and mobility.

While there was consultation on some of the H.R.M. initiatives, the unions had no major say. Overall, there seemed to be the view that the Bank had to maintain flexibility and the right to manage in the face of growing competition and uncertainty and could not therefore be enmeshed in detailed negotiations over policy, although in terms of implementation, as in the case of job evaluation there was extensive union input. The union role was affected both directly and indirectly by new management initiatives over human resources. Thus, the reduction in control clerks and the questioning of the union membership were examples of the former while devolved

responsibility to line management and the emphasis on performance related pay of the latter. Nevertheless many of the initiatives were not made with the express purpose of avoiding or controlling unions but was a by-product of a new emphasis on individualism, decentralisation, and greater identification with corporate objectives. Indeed, in many respects the changes in regard to the role of the union were the least important element of the new strategy.

The question arises in the context of such managerial initiatives as to the union role and reaction to such developments. Clearly there appeared to have been a number of initiatives with negative consequences for the union. However, one must be careful not to telescope change. While the above is certainly true, the union was not aware of these policies as a coherent strategy until they were implemented, and they were implemented in an incremental, piecemeal fashion, with each initiative being presented in terms of commonsense, or a fact of life, so the union had to respond to each individual initiative rather than challenge a formal strategy. Secondly some policies were welcomed, e.g. profit sharing and in others, for instance, team briefing, the union saw opportunities arising in terms of making staff more aware and more questioning of management. Yet other changes were no more than official recognition of *de facto* limitations to the union: for instance on representation for senior management within the Bank. Finally, the high membership of the union was more illusory as a reflection of union strength was more illusory than real, and there was general apathy in relation to the union, which made any mobilisation of members difficult. This was true particularly at branch level; especially when developments were not seen as detrimental to staff as a whole and such developments appeared even more incremental at this level. It is perhaps wise to draw a distinction between employees (or union members) and the trade union. Furthermore, it is important to note that the union were careful not to openly confront management, and when the union did challenge what they saw as misinterpretation of the job security agreement, their first port of call was the Bank's owners, the C.W.S.

However, one must be careful not to interpret developments in this sector in the light of those in, for instance, manufacturing and make too much of the exertion of the right to manage

and unilateral managerial action: to a great extent banking had always been like this and what we are seeing is a further move along a continuum rather than a fundamental change away from joint regulation. The future of the union in the Bank appears to be one where it is undeniably legitimate, but limited in its role and the range of issues it is involved in, and more concerned with individual rather than collective issues.

The move towards H.R.M. has been seen as a move from control to commitment: the attainment of active co-operation rather than mere compliance from employees; as greater identification with corporate objectives is achieved. However, such a picture is far too simple and not borne out by our case study. There is no doubt that one of the aims of H.R.M. is to release employee commitment. However equally pertinent is the extent to which:

*“human resource management is genuinely concerned with creating a new equal partnership between employer and employed, or are they really offering a covert form of employee manipulation dressed up as mutuality” (Fowler, 1987, p.3).*

Hence it is significant that H.R.M. was, particularly in the U.S.A., associated with non-union companies.

Thus, the dichotomy between control and commitment is misleading since commitment may in fact be a form of control. Management may well attempt to persuade workers of the benefits of change and the force of market logic and encourage identification with the company, as we saw in the case of the Bank, but this is on management terms and is certainly no form of co-determination. Hence more information is provided so as to facilitate acceptance of management decisions. A more co-operative relationship may enable management to increase its control. Where much literature is wrong, is in its assumption that an increase in managerial rights must necessarily involve an attack on union rights or workers. Management need both to control their employees and to gain their active co-operation. The two are not alternatives. Hence what H.R.M. seeks to do is to introduce a system where active co-operation can be achieved for instance through team briefing and where identification with the company is manifested through

profit-sharing and other such schemes. However, all this is designed to be achieved within the context of increased management prerogative and control. However, one must not confuse intent and outcome and we noted for instance that the union felt briefing could raise issues about management decisions.

What of the future? As Guest describes the H.R.M. ideal:

*“there is a general proposition that if human resources can be integrated into strategic plans, if human resources policies cohere, if line managers have internalised the importance of human resources and this is reflected in their behaviour and if employees identify with the company, then the company’s strategic plans are likely to be more successfully implemented. There will be a greater willingness to accept change and fewer delays and barriers caused by conflicting understandings and priorities” (1987, p.512).*

Such is the aim but how is the Bank matching up to this? The simple answer is that it is too early to say. In the long run one would have to examine not just the impact of business strategy on the management of labour but the converse too and of course the evaluation of success is problematic.

Implementation was of course mediated by a number of factors. One mentioned above was the union, although as we have seen this did not prove to be a major obstruction. Other factors were the scepticism of line managers as to the permanency of changes, and the belief of many senior managers that human resources were the remit of the Personnel Department. This explained the involvement of the C.E. to give impetus and weight to the Human Resource Manager’s policy initiatives. This is contrary to one of the themes of H.R.M. which is a general manager’s perspective, but reflects the reality of organisational life. Furthermore, the dangers of over-involvement became apparent with the new C.E. and his embracing pendulum arbitration. For Personnel to ‘give away’ the function to line management may be fraught with difficulties.

Nevertheless, in the long run senior management do hold the key. We have noted that they did not spend time on detailed consideration of the subject but did acknowledge its

importance and were prepared to commit resources. However, one danger may be that it will be seen as a problem to be fixed and thus eventually downgraded. Secondly if management take a position that such factors are important but not for them Personnel initiatives will be fragile. In time it may turn to official recognition and practical neglect and this will permeate the organisation. Thirdly, it is necessary that the human resource factors are internalised, that every manager becomes a personnel manager. Thus appraisal systems and policies must reflect this: if managers are judged purely on financial criteria and staff on technical skills rather than the creation of satisfied customers it will tend to negate official policy. There are grounds for optimism though: a new C.E. gave an even higher priority to human resources, called for more money to be devoted to training and took an interest in ideas of Total Quality Management which implied a continuing strategic role for Personnel.

In terms of future research, a number of key areas emerge which need to be developed. Firstly, there is a need to raise and broaden the focus of traditional industrial relations beyond the Gospel and Littler definition of industrial relations:

*“defined as covering management-union relations and the institution of collective bargaining”* (1983, p.17).

or Flanders *“institutions of job regulation”* (1975, p.86).

as such an approach almost totally excludes strategic issues and corporate strategy making. This of course is not a new call but remains a relevant one. In our case study, adopting such an approach would have led to neglecting a good proportion of the changes taking place in the management of staff. With trends in the 1980s including falling unionisation, declining trade union power and an emphasis on employees as individuals, this change of focus is even more crucial. Whilst there is recognition of the importance of changing business strategy for the management of labour, more research needs to examine what this means in practice, and in particular the nature of strategic integration. Key issues arising from this study are top management attitudes to labour and the extent to which they translate espoused policy to practice.

Kochan et al. (1986) have called for research at both the levels above and below collective bargaining. Moreover, it is important to examine not just industrial relations at different levels but managerial behaviour more generally and the ideas of H.R.M. may be helpful in this regard because of its emphasis on a general managers perspective. As Timperley has argued:

*“Many of the major decisions to be made in industrial relations and instanced above, are themselves contingent on other higher levels, and context creating decisions, which do not necessarily appear as industrial relations decisions at all. ... Basically, there appear to be a number of major decisions areas in organisations which are not, of themselves, concerned with industrial relations, but which in outcome do quite clearly create a context within which industrial relations decisions of a strategic nature are then made.”* (1980, p.14).

Such an approach is likely to throw light on the labour process view of control of labour being the central theme of strategy.

In our research we have found significant change taking place in terms of Bank strategies concerning the management of staff yet the management-trade union structures have remained largely intact: the closed shop remains, the various agreements on job security, mobility and new technology have also survived the review. But even this apparent continuity disguises the debate conducted within the Bank on the utility of such arrangements. Furthermore, there was change both in the form of new institutions e.g. team briefing and profit sharing, and crucially in outcomes. This raises the question of interpreting change through institutions. Put simply, are we putting too much emphasis on continuity in industrial relations because of a concentration on institutions? As Bassett suggests on joint consultation:

*“with weakened unions, and alternative methods of consulting or communicating with their work-forces, together with a tougher managerial and negotiating stance generally, managers clearly feel they can take consultative committees, or leave them alone: where they are there, fine; where they are not - that's fine too”.* (1987, p.285).

Far more important is the context of behaviour in industrial relations and the outcome of the processes. This may lead us to believe that some of the perceived difficulties with H.R.M., for instance that of dualism, may be more apparent than real. As this study has illustrated, a focus on processes rather than institutions or techniques is far more illuminating in exploring change.

This leads us on to a second point about future research. There is a need for H.R.M. developments to be contextualised. Much of the H.R.M. literature is heavily prescriptive and assumes such an approach is non-problematic; for instance it is said that Personnel issues should be devolved to line managers. Yet we noted that some branch managers appeared unaware of the industrial relations implications of their activities, much of the industrial relations literature is unable to address the dynamics of change because of its basis on surveys, and there remains an over concentration on manufacturing which limits the validity of generalisations relevant to other sectors. Thus, many of the dichotomies posed would not be seen in the same clear-cut way in financial services characterised by unitarist ideas and weak unions.

The key issues to be explored are, why are H.R.M. initiatives being undertaken, what is the specific context of such initiatives, who are the key movers and what are the problems encountered? This also has implications for methodology. As Timperley has observed:

*“traditionally, the approach within organisations has been to look at industrial relations questions from the ‘bottom up’, perhaps a ‘top down’ approach using a longer time-dimension to study the process of decision-making, and following through those decisions over time, observing both their effects, and the feedback into subsequent decisions would be more than beneficial”.* (1980, p.14)

Our case study has shed light on some of these issues but more cases are needed to aid generalisation. Thus in the case of the Bank we saw that although managers developed the Corporate Plan without detailed consideration of human resources this was not damaging. However, other organisations following a similar approach but with changes in strategy concerning plant relocation or significant expansion may well suffer deleterious consequences

because of its failure to take account of human resource variables, more research needs to explore the conditions under which such considerations are crucial. Furthermore, although our research has taken a longitudinal approach, there is a need for a much longer time span, so that one can assess the impact of H.R.M. on the organisation, its perceived contribution to business performance, the changing role of the union, how far it maintains a high priority in the organisation, and the attitude of staff to these changes. Certainly a key issue is the extent to which these changes, which we have argued do form a coherent H.R.M. approach, impact on the shop-floor and line managers there, and how they perceive and react to these changes.

Thirdly, the area of financial services remains relatively unexplored, yet may have much to offer in terms of explaining continuity and change in industrial relations and in terms of H.R.M. developments. As an industry which historically has been relatively successful with a stable product market, steady growth and high profits, and with employee relations dominated by a paternalistic system which has facilitated change, and yet is now under fierce competitive pressure it offers an opportunity to examine the process by which environmental shock is translated into business strategy change and to changes in industrial relations. Furthermore, while it has been argued that the management of staff was important because it enabled change to take place, staff were not seen as a means to increase business. However, in the 1980s as banks become more like retailing organisations and in the jargon market-driven there is far greater concern with regarding staff as a resource and developments may be in the direction of H.R.M.

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## **APPENDICES**

- A1 Extract Corporate Plan 1986-1990**
- A2 Extract Corporate Plan 1986-1990 - Strategic Support Issues**
- A3 Extract Strategic Plan 1989-1991**
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**APPENDIX 1**

**EXTRACT CORPORATE PLAN 1986-1990**

**CO-OPERATIVE BANK PLC -  
CORPORATE PLAN 1986/1990**

## 1. INTRODUCTION

### 1.1.0. Summary of the Plan

1.1.1. The Plan has the primary objective of achieving a rapid growth in the Bank's customer base, which is seen as essential to its long-term survival and the full and profitable exploitation of its resources and infrastructure.

1.1.2. Following a detailed study by the profit divisions of their prospective markets and competitive strengths and weaknesses, it is proposed to focus the Bank's efforts on developing the following market sectors:-

- a "core" personal customer aged 20/45, 60% female, 40% male, in middle-range employment, in socio- economic groups B, C1 and C2, and socially aware;
- a limited group of non-personal customers, namely the Co-operative Movement, Local Authorities, small to medium- sized businesses, large corporate customers (transmission business only), and new Co-operatives and employee-owned, and possibly mutual, concerns.

1.1.3. Our attack on these markets will be characterised by a convenient and customer friendly network of outlets and services, and in particular by:-

- a network of Regional Branches, (largely now in place) around which will be clustered:-
- In-Store Banking points derived from the existing agency network, but with a significantly enhanced bank involvement in the larger stores;
- a new network of small High Street Shopping Centre outlets;
- ATMs, VISA and other shared electronic networks, including EFTPOS terminals, with back-office work being increasingly moved away from the customer access points.
- point of sale credit services, with accelerated acceptance/rejection procedures, direct from the Retailer's point of sale;
- a "direct" transmission service for larger corporate customers which by-passes the branch network.

1.1.4. On the above basis - and on the assumptions set out in the Plan - the intention is to grow the Bank during the planning period so as to achieve the following results. (see further in Section 5):-

	1985	1988	1990
	Actual £M	Objective £M	Target £M
Net Interest Income	74	100	128
Commission Receivable	39	61	86
	<hr/>	<hr/>	<hr/>
	113	161	214
Bad Debts	15*	16	22
	<hr/>	<hr/>	<hr/>
	98	145	192
Overheads	85	122	155
	<hr/>	<hr/>	<hr/>
Net Profit	13	23	38
	=====	=====	=====
Total Footings	1,250	1,630	2,210
Shareholders Funds	66	90	120
	=====	=====	=====

\* Includes exceptional bad debts of 3.25M.

The achievement of these results by 1990 would involve growth rates (over 1985 levels) of 192% in profits, 77% in assets and 82% in shareholders funds.

- 1.1.5. Attainment of these profit objectives in the envisaged competitive environment will be a major achievement, but the Bank will nonetheless continue to remain small and potentially vulnerable in the market.

Accordingly, either accelerated growth or a substantial acquisition or merger must be seriously considered. The criteria which any acquisition or merger must meet and the question of size and other related issues is considered more fully in the Appendix.

Additionally, minor acquisitions may be put forward from time to time to strengthen perceived weaknesses in the operating management, or the Group's ability to service its chosen focus areas.

- 1.1.6. The Plan assumes that the Bank will grow upon its existing resource base, and without any injection of capital. Given however, its performance - both in real and comparative terms - since 1982, the possible breaching of our Bank of England guidelines on prudential ratios in later years (see Section 5 - Financial Objectives) and that the targets now set are seen as realistic and achievable, the case for additional investment in the Bank is considered to be strong, and is developed in the Appendix.

In this context the Bank is currently earning 19% on its existing capital base, and a return of the order of 25% to 30% would be expected from any substantial new investment.

### 1.2.0. Key Issues

In no particular order of priority these are seen as follows:-

- the future relationship with Retail Societies;
- the need to establish effective means of cross- selling products and services, both within the Bank and throughout the Co-operative Movement.
- the general consequences of a change in the culture of the Bank towards a sales/performance orientation, with particular reference to the likely need to provide salary, etc, incentives and possibly profit participation based on results, and the effects elsewhere in the Movement;
- the future performance of the units now constituting Direct Financial Services;
- the relationship with Unity Trust;
- the ability of the Bank to adapt to and take advantage of the "plastic revolution" now in train;
- the size of the Bank and the need for an acquisition/merger;
- the need for additional capital to support any agreed acquisition/merger, and the manner in which and from whom it is obtained;
- the possible need to adopt a more positive attitude towards the support of new co-operatives and other small businesses and mutually and/or employee owned organisations.

These issues are likely to remain important throughout the planning period, and certain of them may well dictate changes to our present plans.

In addition of course, further changes will be necessary to reflect moves in the market place, and the current thinking on it and the banking environment.

### 1.3.0. Immediate Issues

- 1.3.1. Work on the Plan to date has stressed the need to move quickly in terms of the distribution network. Acceptance of the strategies, particularly the network proposals, will call for additional capital expenditure of 1M and revenue of 0.5M in 1986, over and above budget. Accordingly, an expenditure request justifying these additional requirements will be submitted following approval in principle to the Plan. Accelerated development would of course require additional capital expenditure at an early date, and probably extra capital to support it.

- 1.3.2. In the light of the business strategies to be followed, it will be necessary to review the organisational structure of the Bank Group to ensure the effective achievement of its financial and market objectives. In this respect recommendations will be submitted later in the year.

## 2. THE BASIC BUSINESS STRATEGY

- 2.1.1. The basic business strategy of the Bank must take into account:-

- its broad purpose, as set out in the Purpose Statement in Section 3;
- the business environment in which it operates, discussed in Section 4; and
- the fact that, as a U.K. Clearing Bank it must provide a wide range of banking services, a broadly based and relatively risk free loan portfolio and an effective infrastructure.

It must also take into account the size of the resources available to it, both in absolute terms and vis-a-vis its competitors.

The Bank's strategies assume the ongoing and enthusiastic support of the Movement; if there should be any significant change in this regard, it has major implications for the future.

- 2.1.2 A number of alternative strategies were considered and it was decided that, given the required spread of markets and customers and the need for flexibility in our approach to them, it would not be appropriate to adopt a single approach to all markets and all sections of the business. Accordingly, we have decided to adopt a strategy which will enable the Bank to secure a sustainable competitive advantage through:-

- focusing on the needs of a number of target market segments; and
- providing differentiated (i.e. distinctive) approaches to these target markets.

The distinctive characteristic of our approach to the target markets is seen principally in the means of distribution, rather than in the products offered, although these will of course be updated and refined from time to time.

The reason for this is that the Bank's existing means of distribution are already distinctive and well advanced technically, whilst new products for the financial market can and are being copied with increasing ease and frequency.

- 2.1.3. It does of course follow from this strategy that substantial sectors of the market will be ignored, and indeed this is essential for success in the chosen sectors; on this basis we have decided not to become deeply involved in a number of important areas such as:-

- investment banking, including significant participation in the securities market;
- international banking, other than to the extent required to support and encourage domestic and corporate customers or to secure the Bank's funding base;
- those aspects of personal banking (sometimes called "private banking") that cover asset management and the provision of personalised services to individual customers;
- factoring;
- the provision of corporate financial advice.

For the time being we have avoided becoming directly involved in estate agency, legal conveyancing or travel, although these are certainly areas of possible diversification.

These excluded activities will however be reviewed from time to time.

### **3. The Purpose Statement**

The purpose of the Bank Group is:-

To support the objectives of the Co-operative Movement by providing value-for-money banking and related services to personal and business customers at a profit.

To fulfil this purpose the Group needs to:-

- make sufficient profits to maintain an effective infrastructure provide for growth and pay an adequate return on capital;
- project a distinct and appealing identity to existing and potential customers and provide a high standard of customer service;
- be receptive in its approach to technology and maintain efficient operating systems;
- act as a caring and understanding employer, and ensure an active dialogue between staff at all levels;
- operate within all relevant legislative and regulatory requirements;
- adopt responsible and socially conscious attitudes which are fully consistent with those of the Co-operative Movements as a whole.

## **APPENDIX 2**

### **EXTRACT CORPORATE PLAN 1986-1990**

#### **STRATEGIC SUPPORT ISSUES**

## **11. Strategic Support Issues**

### **11.1.0. Introduction**

The operational implications of the Business Plans of the Profit Divisions have been identified and included in the overhead costs. It is not appropriate to detail, in the Corporate Plan, tactical issues and the short and medium-term operational plans necessary to ensure that Business Plan objectives are achieved. It is, however, necessary to outline the major, long-term changes emerging in the two main support areas namely:-

- Personnel;
- Management Services.

### **11.2.0. Personnel**

Over the next five years the Bank will need to change its approach to Personnel Management both for a variety of the reasons which were touched on in the Banking Environment Section, and also as a consequence of the Divisional Business Plans.

It will be strategically important over the planning period to ensure the Bank:-

- is correctly structured to meet the demands placed on staff;
- can operate with maximum flexibility whilst ensuring the requisite standards are not relaxed, or agreed structures compromised;
- operates with maximum efficiency on optimum members of staff.

This will involve the following:-

#### **11.2.1. Changing Culture**

As indicated earlier, the needs of the personal and non-personal customer markets are beginning to diverge from each other, and also from the requirements of the technical and operational support areas. As a consequence, the staffing needs of each section of the business will also come to differ, with increasing emphasis being placed on performance and - in some areas but not others - selling rather than technical skills.

In common with others in the industry, the Bank has traditionally recruited and trained for a single career structure, with a strong technical (or professional) bias. However, in the changed circumstances not only the recruitment and training, but the whole "culture" of the Bank will have to change radically.

In this context it should be clearly appreciated that "quality of service" is judged largely by the efficient performance of their respective tasks by the staff of the Bank and accordingly we must ensure that the staff are properly trained and that their jobs are seen by them as worthwhile and thus worth doing.

The changes will take years to complete, but will be initiated in 1986 by important moves in the following areas:-

- longer opening hours in branches;
- increasing use of part-time staff and roster systems;
- improved staff communication (upward and downward);
- revised training techniques and management development;
- revised pension provision.

Thereafter, we can expect significant changes in payment patterns (incentive bonuses, profit participation), working conditions and career expectations.

#### 11.2.2. Technology and Working Practices

The Bank's continued investment in technology and the requirement for weekend working and extended opening hours, will also have a major impact on working practices. Although staff have adapted successfully to the considerable changes in working practices over the past five years, the next five years are likely to see an accelerated level of change, and management and staff flexibility will be a key requirement.

At present, changes in reward practice, technology, staff levels, and working practices, are governed by a variety of Union Agreements, the most significant of which are the:-

- i) Negotiating Agreement;
- ii) Job Security Agreement;
- iii) Mobility Agreement;
- iv) New Technology Agreement.

The above give the Union total involvement in all areas affecting staff, and the Bank is required to discuss shortly after the concept stage, its future strategic and operational plans. The current Agreements are onerous, but they seek nothing a responsible employer would not wish to discuss with the staff concerned, and thereby obtain the necessary commitment.

### 11.2.3. Manpower Planning and Recruitment

In the seventies and early eighties the Bank grew at a rapid rate and this placed considerable strain on staff resources, and the available number of trained Personnel at first appointed level. For example from 1972 to 1976 an increase in staff of 736 was seen and from 1977 to 1981 a rise of 938 was required.

The Divisions have estimated that in order to staff the proposed new outlets and provide the necessary support, coupled with generally over the next five years, we will need to increase the present 3,718 Full-Time Equivalent staff (F.T.E.'s) to 4,740 by 1988, with a projection of 5,050 by 1990. However, planned further automation and improvements to working practices are estimated to provide staff savings of 460 over the period to 1990.

Obviously, we will seek to achieve productivity improvements etc., to obtain higher savings, but the present figures are the best currently available for planning purposes, and on this basis we shall require an average of 4,300 F.T.E. staff by 1988 and 4,600 F.T.E.s in 1990, increases as against 1985 F.T.E.s of 16% and 25% respectively.

The greatest challenge however, will not be the increase in staff numbers, which will have to be justified by increased profits from the new outlets and investment, but to manage the shift in emphasis to a sales and service culture, with tiered recruitment and career development, and a much heavier investment in training.

### 11.2.4. Reward/Performance Structure

This will need to alter, and although Hay/MSL is ideal for the mixed staffing and performance skills we need, the current system has not changed substantially for 10 years. Accordingly the system is under review in conjunction with Hay/MSL and the results will be known late this year.

### 11.3.0. Management Services

11.3.1 During the planning period, financial institutions (those existing and new ones e.g. retailers) will:-

- gather more information about customers and offer a greater variety of products and services to existing and potential customers;
- market more heavily by means of direct mail, make available the information which they hold to the support staff in the company for customer service and sales;
- make directly available services and information, at times and places convenient to the customer.

11.4.0. The overall impact of the above on Management Services may be considered under the following headings:-

11.4.1. Access to Systems

The trend of the last few years to on-line systems will continue, and the services and information thereby provided will be required by customers and staff, with easy, secure access. The peak demands made on the systems will profile the working patterns of staff, and the service demands of customers. The volumes of data being processed will utilise the off-peak capacity.

## **APPENDIX 3**

### **EXTRACT STRATEGIC PLAN 1989/91**

## 1. Introduction: The Planning Process

- 1.1. The revision of the original Corporate Plan and related research underlined the fact that the Banking Group is, and will continue to operate in a dynamic and fiercely competitive environment. In these circumstances there can never be a realistic and viable total 'Corporate Plan' available for discussion at any one moment in time which has embraced every aspect of the Group's existing and potential business, all potential competitor strategies, line management experience, staff attitudes and shareholder expectations. If it was ever theoretically possible the "plan" would be out of date before it was circulated.
- 1.2. This view of the planning process is now generally accepted in the more dynamic, entrepreneurial companies and by the academic business world with the result that the fashionable corporate planners of the 60's and 70's have given way to the process of 'strategic management' which embraces all management. This change in emphasis from the theoretical end product i.e. the Corporate Plan, to the process of continually thinking strategically at all levels of management has also resolved the question as to whether planning is, or should be, a top-down or bottom-up exercise. It is of course both, with the Board and senior executive expressing with clarity and consistency the strategic objectives and assumptions as to resources available and timescales within which to achieve those objectives, supplemented by experienced and successful line management feeding upwards the commercial realities within which they are operating on a day-to-day basis. It is in the inter-play between these two forces that strategic options can be identified and resolved within the framework of the ultimate objective as determined by the Board.
- 1.3. This paper "Strategic Planning 1989/91" is only therefore the first of many such papers, albeit crucial to the future since it sets out the process by which the Board will be invited at frequent intervals to study in depth one or other part of the business of the banking group. This process will allow for a deeper and wider consideration of each strategic issue and provide a monitoring process to ensure that strategic decisions once made are revisited at frequent intervals to reconsider whether the original decision and the assumptions upon which it was made remain appropriate and generate a satisfactory return. This approach is the antithesis of a culture which develops 'tablets of stone' or 'sacred cows' and recognises that a successful business must continually evolve, adapt and amend in relation to the economy and society within which it desires to continue to profitably exist.

By the same token a series of papers which tease out the strategic issues related to one or other part of the business provides an opportunity for lay directors to participate, to become pro-active rather than simply re-active to conclusions tabled by the executive. The world of banking from the Central Bank down to the smallest Bank has evolved and continues to evolve a sophisticated supervisory regime. In addition to centrally inspired controls and ratios we also now have Audit Committees and compliance officers. This understandable and appropriate concern with control and supervision, how-

ever, runs the risk of overlooking that this is only one half of the function of, in particular the lay directors, and ignores the function related to actively participating in strategic decisions related to generating profitable growth and the capture of market share.

With the finance sector at last coming to terms with the fact that they too are retailers and need to address themselves to retailing issues the Co-operative Bank is particularly well placed with lay directors who are predominantly retailers, provided of course the Board is used as a forum where these skills can be deployed and used to advantage.

- 1.4. The remainder of this paper starts the process of strategic management.

## 2. Background Information

- 2.1. A brief summary of the probable environmental, economic and competitive conditions over the planning period 1989/91 is attached (Appendices I, II and III).
- 2.2. Extracts from a N.O.P. research project as to the Co-operative Bank's image in the marketplace is also covered in Appendix I.
- 2.3. What is undoubtedly clear is that the Bank's image varies considerable by region and by type of business activity. A strong regional retail co-operative presence is obviously supportive to the development of the Bank with the contrary being equally true in areas like the South East.
- 2.4. In addition the Bank has clearly become indistinguishable from the major and ubiquitous high street banks in terms of its market position whilst placed at a competitive disadvantage because of the high awareness those banks enjoy through their very size, weight of advertising expenditure and high street presence.
- 2.5. Finally, the financial services sector is experiencing the most dynamic competitive environment ever experienced in the U.K. However, it is equally clear that the intensity of competition will not only increase but become all embracing due to :-
  - (a) new competitors entering the market e.g. building societies and retailers
  - (b) stronger competitor arising from merger, acquisition and privatisation e.g. sale of Clydesdale, privatisation of National Giro and the anticipated consequences of the 1992 de-regulation within the E.E.C.
  - (c) increased competition throughout the marketing mix; new financial service products, different pricing strategies and distribution systems, distinct market positioning and supporting promotion and finally,

(d) different and more effective delivery systems direct to customers avoiding traditional infrastructure costs.

2.6. As a consequence whereas the Banking Group enjoyed significant increases in market penetration in the 70's and early 80's, with the sole exception of the small business sector, there has been no increase and some decline in the Bank's share of the different markets over the past two years, particularly in the personal sector.

2.7. It is obvious that this position must be reversed. However, it is equally evident that to do so will require a fundamental re-appraisal of the Bank's strategy, its position in the marketplace and in particular the human resources required to effect this change.

### 3. Executive Conclusions from the Internal and External Research Programme

3.1. Appendices I, II and III only highlight some of the major issues that face the Co-operative Bank Group. Extensive extracts from the internal and external research were circulated to all the executive directors. A series of interviews with individual executive directors were organised in the first quarter of 1988. Notes were taken at each meeting and every director provided with the opportunity to confirm that their individual observations had been faithfully recorded.

Thirteen different conclusions were drawn from this exercise and a report with those conclusions was discussed at a two-day meeting in April 1988 by the executive team plus support from specialist representatives from Group Development, Human Resources, Marketing, Information Technology and Finance.

It was concluded that these were the issues which most concerned the combined team in terms of developing a group strategy which would prove viable and attainable.

3.2. These conclusions were as follows:-

- i) We urgently require a Management Information System (MIS) implementation programme. The size and complexity of which, together with the urgency clearly indicates we need external assistance.
- ii) In addition to the quantitative requirements of the business we need a qualitative aspiration which will allow the Bank to project a relevant, attractive and sustainable image.

The current research programme related to both the roots of co-operation and the type of people who traditionally have used our services needs to be pursued to a definite conclusion.

- iii) We need to develop regional strategies to build on existing strengths and avoid spreading resources too thinly.
- iv) There appears to be significant opportunities in the Corporate banking sector that need to be clearly identified and pursued.
- v) We need to identify and agree the segments within each sector that we wish to pursue and thereby also identify those segments we will not pursue or indeed to withdraw from as soon as practical.
- vi) We need to agree the most appropriate distribution system for each segment of our customer base and develop and appropriate premises strategy which will also embrace the cost efficiencies of deployment by region and bring locations up to the best retailing standards.
- vii) Similarly, we need to agree the most appropriate money transmission strategy for each sector of our activity.
- viii) To complement these various strategies we need a comprehensive human resources strategy from recruitment through training to deployment. As a matter of urgency we need to tackle the issues surrounding the quality of customer service.
- ix) We need to evolve the Bank's structure to best support the strategic business decisions. In particular the need to separate out business development, servicing existing customers and control of the business.
- x) Given the broad brush of our strategic decisions we need to develop an I.T. strategy which provides the most elegant, cost-effective and appropriate design which is most likely to satisfy customer needs at a profit.
- xi) It appears appropriate to develop a top down financial strategy based on agreed assumptions particularly regarding capital, shareholders expectations, the Bank of England and the marketplace. Divisional revenue and capital plans developed from the bottom up must fit into this top down approach.
- xii) This approach to Strategic Management has left for separate considerations issues like acquisition, flotation, merger and further injections of capital beyond that assumed.
- xiii) Finally, we need to discuss and agree reasonable shareholder expectations which should be formally signed off by the Board to ensure there is no crisis as to expectations. These expectations will in the main be quantitative but should also be qualitative regarding our role within the Co-operative Movement and both need to be related to reasonable timescales.

## **APPENDIX 4**

### **EXTRACT STRATEGIC PLAN 1989-91**

### **7.3. A Human Resources Strategy**

It is clear that a radical change in culture is required throughout the Banking Group to move the orientation towards performance and the needs of the customer. To an outside observer the Banking Group generally, and particularly concentrations of people like the Manchester complex, display an ingrained civil service and unionised approach to their daily activities. This prevailing attitude, equally prevalent in management at all levels, will not change without a completely new approach to compensation, promotion, training, re-deployment and recruitment within the Banking Group. A start has been made to recapture management and communications from the union but a more radical approach and continued programme is required to produce the desired results.

A separate paper will be prepared for the Chairman to consider and discuss with his lay director colleagues later in the year.

The orientation must move towards 'performance management' with appropriate rewards for performance and equitable penalties for those who fail or refuse to perform at the required level. Many will willingly accept the challenge and feel relief from being restricted in their progress and compensation by the process whereby everyone is equally rewarded irrespective of performance. But there will be others at all levels who will resist this change in culture. The Board should be both equitable and determined in its support for this policy since it is useless to wish the ends and not support the means.

### **7.4. Image and Regional Strategies**

The regional differences of the image the Banking Group experiences has already been mentioned. The N.O.P. survey is perhaps the most damning since if the Group is perceived as only a smaller version of the larger banks, then there is no differentiation and probably no long-term survival. The need to continually recruit from other banks partly due to the past inadequate investment in training, has contributed to this malaise since many employees would wish to see themselves as clones of the bigger banks or in their terms, real bankers. The qualitative objectives described earlier and related to the need to re-visit our inheritance as part of the Co-operative Movement will help, since image is partly how the Group behaves and partly how it is therefore perceived.

For the past nearly twenty years the Banking Group has tried to portray itself as a national bank without considering its relevant strengths and weaknesses by region. A return to the traditional regional strengths, a range of qualitative objectives supportive of the image we wish to foster, supported by a new promotional strategy and adequate resources are essential ingredients to the objective of creating an attractive, appropriate and sustainable image.

This, coupled with continued research into the probable customer reaction to becoming members, providing capital and enjoying a dividend generated by activity will all contribute to making the statement "The Co-operative Bank" a meaningful and competitive differentiation.

**APPENDIX 5**

**CO-OPERATIVE BANK P.L.C.**

**EMPLOYEE RELATIONS STRATEGY**

## EMPLOYEE RELATIONS STRATEGY

### SUMMARY

Improved quality and service requires positive employee attitudes

- relates to employee relations environment
- relates to understanding of business and contribution

Review of organisation and headcount reduction

- improve direct to indirect staff ratio
- work within, or amend, agreements to facilitate change

Good trade union relationships to be maintained

- in line with "Co-operative principles"
- reinforcing local management/representative relationships
- review relevance and legality of agreements

Salary bargaining to be related to performance and affordability

- not solely follow the market
- bargaining plans to be prepared and actioned by line and personnel management as part of an overall remuneration policy
- review working practices as quid pro quos in bargaining

Effective communication is essential

- part of an overall communications policy
- message "cascading" from the top of the organisation
- simple, consistent and effective with actions from staff feedback

An open management style is necessary to support the above

- authority and accountability to be held by "line" managers
- staff functions to provide support
- revise agreements and practices to reinforce "line" management role

- effective communication is essential to explain the Bank's plans to all staff

Prepare contingencies for industrial action arising from changes

Adopt a "positive" ethnic and equal opportunities policy

## **CO-OPERATIVE BANK EMPLOYEE RELATIONS STRATEGY**

### **SUMMARY**

- 1. INTRODUCTION**
- 2. ORGANISATION AND HEADCOUNT**
- 3. MANAGEMENT AUTHORITY/ACCOUNTABILITY**
- 4. TRADE UNION RELATIONSHIPS**
- 5. TRADE UNION AGREEMENTS**
- 6. SALARY BARGAINING**
- 7. WORKING PRACTICES**
- 8. EMPLOYMENT LEGISLATION**
- 9. EFFECTIVE COMMUNICATIONS**
- 10. MANAGEMENT STYLE**
- 11. POSITIVE ACTIONS AND CONTINGENCIES**
- 12. CONCLUSION**

#### **APPENDICES:**

- 1. Grievance Procedure**
- 2. Management Actions/Timetable**

## CO-OPERATIVE BANK EMPLOYEE RELATIONS STRATEGY

### 1. INTRODUCTION

The Bank has set out its objectives of business and profit growth in the Corporate Plan. These objectives can only be achieved by:-

- improved performance in all areas, particularly improved sales and customer service,
- effective cost control particularly headcount and salary costs.

The Personnel function is developing strategies to help achieve these objectives within the key area of human resources. Effective utilisation of these resources will contribute significantly to the achievement of these objectives. The Bank must train and develop employees in this area. Success can only be achieved, however, if staff feel they are being treated correctly by the Bank and fully understand the Bank's objectives and rationale for their achievement. It is essential, therefore, that we develop an employee relations climate which facilitates these attitudes without reducing management's ability to manage the business. The key human resources objectives are therefore:-

- a motivated and well trained staff geared to performance,
- control and authority of staff by line managers with Personnel support.

This paper outlines a strategy to achieve this end with particular reference to:

- Organisation and cost controls
- Effective communication structures
- Line management authority and accountability for staff including effective use of:-
  - Trade Union agreements
  - Grievance Procedure
  - Disciplinary Code of Practice
  - Specialist Agreements
- Headcount and staff cost controls to meet business needs
- Good union relationships, particularly at local level
- An effective remuneration policy which relates total pay to performance
- Realistic pay bargaining based on affordability

## 2. ORGANISATION AND HEADCOUNT

The Bank is reviewing its organisation structure to improve performance with greater emphasis on direct sales and services as opposed to indirect administrative operations. It is proposing headcount reductions in the branch network and DSF utilising benefit from improved technology. Further reductions must be achieved in Head Office and service functions. This was the subject of an earlier paper which has been agreed by Policy Committee.

The Bank must question the "raison d'être" for jobs and even whole functions, e.g. CSB, back office functions. It should identify and probably adopt a policy of retaining "core" operations whilst curtailing or contracting out service or ancillary functions. This process has already been initiated and must be achieved if we are to meet corporate profit objectives. Reductions in staff must be balanced, however, against the need to recruit key staff in profit generating and other areas - if and where contribution to overall objectives is clearly identifiable.

The reductions must be achieved to ensure achievement of profitability next year in line with the Corporate Plan. The Bank must achieve the savings through natural wastage and non-replacement of staff wherever possible and must fully utilise existing agreements, e.g. job security, mobility of labour, to meet these requirements. If this fails we shall, by force of circumstance, need to amend these agreements.

In actioning these changes it is essential that we have an effective communications system in operation to ensure that the Bank's rationale for the change is effectively communicated by management, not by BIFU or "the grapevine"!

## 3. MANAGEMENT AUTHORITY/ACCOUNTABILITY

Management authority and accountability for staff must be held by line divisions. Staff functions such as Personnel and Inspection must be seen as advisory functions to line management, albeit very powerful functions, with effective sanction if necessary.

The role of personnel will be as a facilitator for line management providing them with effective and consistent advice but not undertaking their role, as is the current situation in many areas, e.g. discipline. There are areas where the recommended practice is already undertaken, either in whole or part, e.g. Information Technology and, more recently, City. This should be encouraged and extended to other areas.

Whilst line management should be given authority to ensure the effective resourcing and utilisation of staff, they must also be held accountable for their performance, thus rewards and sanctions must reflect this culture accordingly.

The first mechanism by which this change can be initiated throughout the Bank is the introduction of the revised Disciplinary Code, which clearly places the authority and responsibility for undertaking disciplinary action with line management, who will have strong staff support from Inspection and Personnel Departments as appropriate. Their role will be to ensure that the Bank's interests are protected and there is consistent and equitable use of the procedure by both the Bank and BIFU.

The Disciplinary Code has been approved by the Policy Committee and discussions on its introduction have commenced with BIFU. The Grievance Procedure has been redrafted to complement the Disciplinary Code and is currently the subject of discussion with BIFU.

Major negotiations, particularly on pay, are currently undertaken by the Personnel function with no active line management involvement. Senior line managers must be involved in the preparation of the Bank's negotiating stance and in setting the guidelines for Pay negotiations with BIFU, thus reinforcing accountability for their staff salary budget.

The "ownership" of the negotiating policy will pass, therefore, immediately to the Human Resources Committee which will present its recommendation to the Policy Committee, thus ensuring "line" and "staff" commitment to it as a key part of the Bank's overall human resources strategy. The Bank will be acting, therefore, as one body on this matter and not seen as divisionalised. Negotiations in line with the policy will be undertaken by Personnel acting as agents of line management.

Non-negotiable items will be actioned through the Staff Review Committee which will continue the current practice of informing BIFU of developments through line management.

#### **4. TRADE UNION RELATIONS**

Bearing in mind the Co-operative Bank's philosophies, objectives and position in the Co-operative and Labour Movement, it is essential that we maintain good relationships with BIFU. Maintenance of this relationship does not mean, however, that we have to meet all of BIFU's demands or requirements, or use the Union as an excuse for ineffective management.

The proposals outlined earlier in this paper, if implemented, would give line management direct involvement with their union representatives, e.g. disciplinary and grievance procedures. They must build up sound local relationships and not allow employee relations issues to be solely the province of Personnel Department. To facilitate this, we must:-

- reduce the number of full-time "control clerks" to one. This has now been agreed with BIFU and will take effect from June 1988 following a training period for the incoming representative during the busy first half of 1988,

- encourage regular local discussions between managers and representatives as part of the consultative process,
- amend the status of the Negotiating Committee so that it only deals with major items such as pay negotiations. Minor matters should be actioned through the Grievance Procedure,
- ensure that other matters are dealt with quickly and effectively by line management (with employee relations support) within the grievance procedure, or through consultative machinery.
- ensure that line managers are involved in all employee relations issues affecting their department and are not by-passed by representatives involving Control Clerks and the Personnel Department without their knowledge or authority. Essentially this means a disciplined approach to these matters in Personnel to ensure adherence to procedures.

## 5. TRADE UNION AGREEMENTS

The Bank's agreements with BIFU must be questioned due to their age, relevance to the current business and employee relations environment and as they make the Bank and BIFU vulnerable at industrial tribunal, particularly in the case of unfair dismissal (this could also be said of the C.W.S. in general). To this end we should review the agreements as follows:

- 5.1 The 1938 Conciliation Board Agreement - we should query this agreement in view of the relevance and status of the Bank as a Public Limited Company. Furthermore clauses 1 and 6 make the Bank vulnerable if it is taken to an industrial tribunal. The total agreement is useful in that it gives the Bank an avenue for arbitration which has proved successful in the past. It is considered that cancellation of the agreement is not possible, but a practical view of it and its operation can be achieved with BIFU, particularly as regards the above clauses.
- 5.2 The Bank should review the grievance and disciplinary procedures to give line management more authority for employee relations issues. A revised Disciplinary Code and Grievance Procedure has been agreed and presented to BIFU for comment.
- 5.3 The Job Security Agreement can be viewed as a hindrance to the Bank's activities in that it limits the Bank's actions in redeploying or reducing staff. The Bank should, however, be able to manage the proposed organisational changes and staff reductions within its confines, though it may have to consider introduction of compulsory redundancy at some stage if targets are not achieved. This move would be resisted by BIFU, though quid pro quos for its introduction could be:-
  - increased profit sharing

- flexibility of labour, thus broadening jobs
- improved redundancy terms (funded from headcount savings or possibly as an extraordinary item in next year's accounts).

The redundancy/early retirement terms will need to be reviewed in any event due to the new Pension Scheme (they are currently based on 65 retirement for men) and this may provide an opportunity to review the agreement.

#### 5.4 The Union Membership Agreement should be reviewed as:-

- the Bank and BIFU are vulnerable under the Employment Acts 1980 and 1982 to an action for unfair dismissal from an employee dismissed for non-union membership,
- we wish to take out the top segment of management from the pay-bargaining procedure to introduce a new contract for performance related remuneration.

The Bank can remove the above-mentioned management group from the agreement by invoking para. 3 of Part 1 of the Union Membership Agreement 1976 (Appendix 1) of the Negotiating and Consultations Procedure. This is not likely to be a major issue with BIFU particularly if the Bank is moving to a performance orientated culture. Further erosion of the bargaining group would probably cause response if it is seen by BIFU as an attack on its membership, particularly at NEC level - accordingly continued Union membership of all staff should be actively encouraged, even where the Union does not have pay bargaining rights.

Thus the Bank should give notice of removal of this senior management group from the pay-bargaining sphere as part of the current remuneration review exercise, but continued BIFU membership should be encouraged.

The legality of the U.M.A poses a more complex question. The choices available are:-

- to undertake a ballot of staff in line with legislation,
- cancel the U.M.A and agree sole bargaining rights for BIFU, thus avoiding poaching and inter-union disputes (e.g. ASTMS membership),
- do nothing and hope that no member of staff resigns, thus forcing the issue at tribunal.

We recommend discussing the matter with BIFU and proposing a ballot of members. BIFU would probably refuse, in which event we would press for an agreement granting sole bargaining rights only, and for the removal of Section 10 from the Contract of Employment as this makes the Bank liable with BIFU in contracting staff to forgo their rights under the aforementioned

Acts. Raising the issue could also be used as mitigation, however, in any tribunal hearing.

- 5.5 The Bank will use the New Technology and Mobility of Labour Agreements in implementing changes to the organisation. It must ensure that they do not inhibit our business performance, e.g. employees refusing to move, non-reduction of staff where technology is introduced. Where this is found to be the case they should be amended through negotiation with BIFU.

## 6. SALARY BARGAINING

The Bank has agreed a total remuneration review relating pay to performance which was the subject of an earlier paper. The Bank must review its procedure for salary bargaining within the context of an overall Remuneration Policy. This policy must be developed for approval in early 1988. In future remuneration must be related to:

- affordability
- performance
- national trends
- market rate.

The Bank must not merely follow other banks' settlements. The breaking up of the Federation of Clearing Banks provides us with the opportunity to do this. Furthermore, movement of the review date to June enables the Bank to review salaries against the above criteria. An annual bargaining strategy must be prepared and agreed not later than March 1988, which takes into account all the above factors and includes contingencies in case of action by staff in support of uneconomic claims.

Line management must be active in support of the negotiating team, as stated in Section 3, thus reinforcing their budget accountability. Communication of the bargaining proceedings must be from the Bank against the background of the above and not by BIFU.

## 7. WORKING PRACTICES

Line managers must review working practices and organisation now, and prepare a "shopping list" which can be presented as quid pro quos in negotiations on implementation of the remuneration review. This exercise should be undertaken over the next four months by line managers in conjunction with Employee Relations Department and O & M, and a package prepared for negotiation with the Union. It should be initiated and controlled by the Human Resources Committee.

This process should be repeated at each salary review so that funding is available to offset increases wherever possible.

## **8. EMPLOYMENT LEGISLATION**

As a caring institution the Bank must ensure that it is in advance of legislative requirements in respect of sex and racial discrimination and disabled workers. It should monitor its recruitment policies, particularly in areas of high levels of ethnic population, to ensure that it is not out with legislation and, even worse, losing business opportunities by its perceived attitudes. Where this practice is discovered we should take positive actions to redress the balance of employment.

This is a vital part of our marketing and personnel policy and a positive view of our cultural change. Particular reference must be paid to positive actions such as:-

- relationships with local ethnic communities,
- representation on local groups,
- community care programmes,
- recruiting female managers at senior positions.

Work is ongoing in various areas of the Bank on this subject and this policy should be developed in conjunction with these developments.

The Bank must also continue to generate high standards of health and safety in line with the Health and Safety at Work Act 1974, involving all parties in ensuring that all locations exceed required standards under the Act.

## **9. EFFECTIVE COMMUNICATIONS**

Many of the developments outlined in this paper will be unpalatable to elements of the staff and BIFU, but if we are to achieve them it is essential that we communicate directly and effectively with our staff to ensure they are made aware by the Bank of our position and intentions, and not by any other source. This is a major employee relations objective for achievement by the Bank to enable management to communicate directly the rationale for change, thus ensuring that it is pro-active in managing the business.

We must develop mechanisms which ensure that communications are simple, consistent and effective. The Bank must communicate to staff on a regular basis, stating both good and bad news. Inconsistent or sporadic communications are more harmful than no communications, and must be avoided at all costs. The Bank must not leave communications to BIFU. The Union's role is to negotiate with the Bank on behalf of its members, not to act as the channel for communication.

The pivoted change will be to set up a simple mechanism of Briefing Groups whereby communications "cascade" down the organisation from the Chief Executive on a regular period basis. The branch network provides an ideal vehicle for communication to their staff, whilst similar forums should be set up in Head Office and Service Departments.

Managers must communicate to all staff to disseminate the corporate message, together with any divisional or local messages which may be required. Similar forums must be held in Head Office and Service Departments.

By this method staff will receive a consistent message from their line manager. The duty should not be delegated to more junior staff, but always be undertaken by the branch/departmental manager, thus reinforcing his authority whilst allowing constructive feedback from staff. It is essential, however, that any feedback is actioned, particularly if it leads to improved customer service.

The Bank should introduce this mechanism immediately, training managers in communication skills and briefing groups. Training can be undertaken by Personnel Department. It can be done at various regional centres throughout the country thus avoiding major conflict with business requirements. We must begin training immediately and have our mechanisms in place in early 1988, thereby ensuring staff become used to the process before we undertake some of the major human resource initiatives we are to undertake in mid-1988, e.g. the remuneration review, profit sharing, headcount reduction, which all relate to achievement of the Corporate Plan.

Briefing Groups should form an integral part of the Bank's overall communications structure and be utilised in conjunction with existing methods such as Newslines, newspapers, etc. An overall communications policy will be developed to include these procedures.

A more sophisticated approach to employee involvement could be adopted in the future, e.g. quality circles. This is a long way off, however, at this time it is more important that we develop a basic mechanism before moving to this more sophisticated level of involvement.

## **10. MANAGEMENT STYLE**

Effective communications and cultural change can be achieved if the Bank operates an open management style. Such an approach would in no way diminish management's ability to operate. It merely reinforces management's authority in a different manner.

The impetus must come from the Bank's Executive Directors and senior management who must involve their managers in setting realistic objectives and agreeing their accountabilities. This system can be built into the organisation with divisional and individual objectives being defined within the context of the Corporate Plan. Performance can be jointly measured. Staff

can thus be involved in the process and given meaningful information on business and individual performance including their own contribution to the Bank. Examples of methods which can be utilised are:-

- Management Conferences and projects contributing to determination of Corporate policy and plan,
- Senior management involvement in and support of training and development,
- "Open Door" policies to encourage staff participation,
- Effective Suggestion Schemes
- Managers "walking the job",
- Briefing and feedback,
- Open learning systems.

These issues must be seen as part of the Bank's management culture and encourage staff to view their Manager as the natural leader to whom they should turn for information. The "Co-operative" culture should enable the Bank to foster such an approach, but it does require full commitment and example from the top of the organisation to ensure its effectiveness together with constructive action arising from staff involvement, particularly if it aids business development.

## **11. POSITIVE ACTIONS AND CONTINGENCIES**

A proposed timetable for action on these issues is attached (Appendix 2). They are all necessary to improve profit performance or the employee relations climate. A number of issues which improve the former may affect the latter and lead to action by BIFU and staff. The Bank must decide, therefore, on key issues which it must implement and prepare contingencies, e.g. alternative sources of data preparation or clearing, in the case of industrial action on these issues. These key issues are likely to be:-

- salary settlement based on the elements stated in Section 8 above. The Bank must not merely follow the settlements of other institutions and must resist action to do so from staff and BIFU,
- headcount reduction to reduce costs, including possible enforced redundancies,
- changes to working practices leading to greater flexibility, particularly in areas of high labour intensity,
- removal of managers, apart from the senior group, from BIFU membership.

It is essential that we ensure that all practices undertaken contribute to the Bank's objectives and that we do not pay beyond our means to achieve these objectives. We must identify bargaining strategies for each of these issues which include our absolute fallback position and contingencies for continued operation in the case of industrial action in the branch network or, as may be more likely, in the large centres of operation, e.g. an alternative source for Information Technology transactions. These strategies must be clearly identified and have the full support of the Policy Committee.

As the Bank cannot withstand major disruption for a significant period it must ensure that staff do not undertake such action, by initiating the actions described in this paper, such as effective communications, open management management style, to ensure staff are aware of the reasons for the change or decision and are not pressed into action due to ignorance of the facts. The Bank must be pro-active in its employee relations policy and not re-active to BIFU's requirements.

## 12. CONCLUSION

If the Bank is to achieve requisite profit levels, it will have to improve performance, grow its business and curtail costs, particularly staff costs. These savings have been identified and, though painful, must be achieved. It is essential, therefore, that we develop a positive employee relations climate in the manner described above to facilitate a realistic approach to cost control. Staff must be fully aware of the rationale for the exercise, i.e. survival and development in the face of fierce external competition. This can only be achieved through:-

- giving line managers authority and accountability for their actions,
- effective and consistent communication of issues to staff from line managers,
- a positive relationship with BIFU in which the Bank plans its actions and executes them in line with those plans.

We must develop these points immediately as outlined in this paper if we are to achieve our business objectives in 1988 and beyond. It is also important that C.W.S senior management are aware of and support our actions, particularly where they may affect the Society, e.g. the 1938 Agreement.

Other major long-term strategic issues will have to be addressed in the future if the Bank is to continue its development into the 1990s. These can only be achieved in a positive employee relations environment where staff are aware of the reasons and values of the Bank's actions for the future prosperity of the business.

## **APPENDIX 6**

### **AGREEMENTS WITH UNION**

## **APPENDIX 6.1**

# **NEGOTIATION AND CONSULTATIVE PROCEDURE**

AGREEMENT

Made 12 June 1978

Between the Co-operative Bank Limited and the National Union of Bank Employees

Relating to

NEGOTIATING AND CONSULTATIVE PROCEDURE

Arrangement of Sections

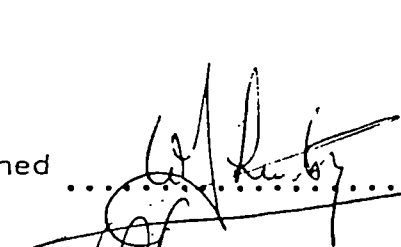
- I Definitions and Statements
- II Employee Representation
- III Collective Bargaining
- IV Claims and Disputes Procedure

Appendix I Union Membership Agreement, 2 August 1976

Appendix II National Conciliation Board for C.W.S.

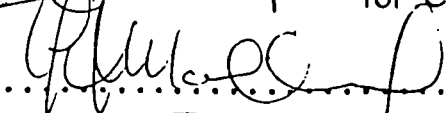
Appendix III Disciplinary and Grievance Procedure

Signed

 .....

for CO-OPERATIVE BANK LIMITED

Signed

 .....

for NATIONAL UNION OF BANK EMPLOYEES

## SECTION I

### Definitions and Statements

#### 1. THE PARTIES

This agreement is entered into by the Co-operative Bank (referred to as the "Bank" throughout this document) and by the National Union of Bank Employees (referred to throughout as the "Union").

#### 2. PREVIOUS AGREEMENTS

No clause or clauses of this agreement shall revoke, alter or amend any previous agreement or undertaking made between the parties unless specifically stated in this agreement.

#### 3. PURPOSE AND INTENT

The purpose of this agreement is to promote and maintain the best possible collective relations between the Bank and its staff and to provide an agreed means of regulating the conduct of relationship between the Bank and the Union.

#### 4. RECOGNITION

The Bank accords to the Union sole rights of representation and negotiation in respect of staff of the Bank who are, pursuant to the Union Membership Agreement 2nd August 1976, members of the Union (see Appendix I). In addition, the Union may represent and negotiate in respect of all other staff of the Bank, who, by virtue of the terms of the Union Membership Agreement, are or may be excluded from the requirement to be members of the Union.

#### 5. ENTITLEMENTS AND DUTIES

- (a) The Bank, within the terms of agreements in force at any one time, is entitled to remunerate individuals in a manner commensurate with the duties, responsibilities and performance of its staff.
- (b) The Bank is entitled to plan, organise and manage its banking activities to maintain optimum efficiency.
- (c) Bank Employees have a duty to carry out the reasonable instructions of the Bank and, in turn, while these instructions are carried out, the Bank will not impose any change in Contract of Employment, Conditions of Employment, etc. directly affecting staff, without prior consultation.
- (d) The Union is entitled to raise, on behalf of individual members of staff, questions as to Bank practice with regard to Terms and Conditions of Employment, etc.
- (e) The Bank undertakes to advise new entrants of its collective bargaining policy and to advise the Union of all new entrants.

6. EXISTING DISPUTES PROCEDURE

The existing Disputes Procedure (included as the third part of Section P11B10 of the Personnel Manual - April 1977) shall, as a consequence of this agreement, cease to apply.

## SECTION II

### EMPLOYEE REPRESENTATION

#### 1. NUBE OFFICE REPRESENTATION

A Union Office Representative is an elected/nominated full time member of staff. He/she is responsible for providing:

- (a) immediate representation for Union members at the first levels of the procedures for dealing with individual grievances, job evaluation appeals and the disciplinary procedure.
- (b) an additional means of discussing the nature of change in the organisation.
- (c) a means of involvement in the affairs of the Bank by the staff on a collective basis.
- (d) an effective and continuing feedback of staff views and opinions.

An Office Representative shall be nominated and elected by the office staff within each Branch/Department of the Bank and shall undertake such duties and responsibilities as outlined above in addition to his/her normal Bank duties and responsibilities. The Office Representative shall be permitted reasonable time off during normal working hours without loss of pay or other benefits in order to represent or advise employees, provided that he/she first obtains permission from his/her Branch Manager/Head of Department.

#### 2. TRADE UNION MEETINGS

The Bank will give all reasonable assistance to the Trade Union in releasing personnel and providing accommodation for Union meetings. Where agreement has been reached between the Union and the Bank, Branch Committee meetings may be held during working hours, provided that the number of such meetings does not exceed 8 during any 12 month period and providing each meeting does not exceed more than 2 hours within normal working time.

### SECTION III

#### COLLECTIVE BARGAINING

There shall be Collective Bargaining machinery within which the Bank, on all occasions, will give full facilities for negotiations to the Union on all matters affecting employees of the Bank or any particular class of such employees.

SECTION IVCLAIMS AND DISPUTES PROCEDURE

1. This section relates to the settlement of claims affecting more than one employee. With respect to matters affecting an individual employee, reference shall be made under the procedure established for Disciplinary and Grievance matters - Appendix III.

2. Registration of Claims

The Union will notify the Bank, or the Bank the Union, in writing or register the substance of the claim at an agreed meeting, when it will be embodied in the Minutes of that Meeting. This requirement does not preclude consultation and discussion between the parties prior to the matter being raised as a formal item of negotiation. An Agenda for each Negotiating Meeting will be circulated by the Bank ten working days before the meeting. Late items will be included as Any Other Business.

3. If at any meeting the Bank and the Union are unable to reach agreement upon any negotiable matter, a first failure to agree shall be recorded and the matter will be held over for consideration at a further meeting which will be convened by the Bank and held on such a date not later than twenty working days from the date of the last meeting at such a time and place as may be mutually agreed by both parties.
4. If at the further meeting the Bank and the Union are unable to reach agreement upon the outstanding matter, a second failure to agree shall be recorded and at the request of either side the matter will be referred for consideration at a further meeting between a Joint General Manager and an Assistant Secretary of the Union. This meeting will be convened within fifteen working days of the second failure to agree at such a time and place as may be mutually agreed by both parties.
5. If at the meeting between a Joint General Manager and an Assistant Secretary of the Union a satisfactory agreement is not reached, a third failure to agree shall be recorded. Thereafter the dispute will be referred to be dealt with by the National Conciliation Board for C.W.S. employment under the rules of that body.

Alternatively, if both sides agree, the assistance of the Advisory, Conciliation and Arbitration Service may be sought. If the assistance of ACAS does not resolve the dispute by means of a conciliated settlement then providing both parties agree, an arbitrator selected by the Service shall make an award which shall be conclusive and binding on both sides.

6. Full details of the constitution and procedure of the National Conciliation Board for the C.W.S. are included as Appendix II.

## PREAMBLE

The Co-operative Bank Limited and the National Union of Bank Employees agree to operate this Union Membership Agreement made in accordance with the provisions of the Trade Union and Labour Relations Act, 1974.

## P A R T I

1. This Agreement applies to all current and new employees of the Co-operative Bank Limited, who are engaged in occupations as hereinafter defined coming within the scope of this Agreement.
2. Subject to Part 1, paragraph 3 of this Agreement it shall be a condition of employment of all employees covered by this Agreement that they become and remain paid up members of the National Union of Bank Employees.
3. Personnel with the following designations shall have the option whether or not they become members of the National Union of Bank Employees.
  - Chief General Manager
  - Joint General Manager Administration
  - Joint General Manager Domestic Banking
  - Joint General Manager Financial Control
  - Joint General Manager City and International
  - Personnel Manager
4. Any employee coming within the scope of this Agreement, who is already in the employment of the Co-operative Bank Limited on the date of operation of this Agreement and is not a member of the National Union of Bank Employees shall be required to comply with the provisions of Clause 2 above within three months of the date of operation of this Agreement.
5. Any employee coming within the scope of this Agreement who enters the employment of the Co-operative Bank Limited after the date of operation of this Agreement shall be required to comply with the provisions of Clause 2 above within one month of the date of commencement of employment.
6. Where an employee on the expiry of three months under Clause 4 above or one month under Clause 5 above fails or refuses to comply with the provisions of Clause 2 above, such employee shall in accordance with the provisions of Schedule 1, Part II, Section 6, Clause 5, of the Trade Union and Labour Relations Act, 1974, be subject to dismissal by the Co-operative Bank Limited. The National Union of Bank Employees shall have the right to bring such cases to the notice of the Co-operative Bank Limited for action

7. By virtue of paragraph 52 (2)(a) of Schedule I to the Trade Union and Labour Relations Act, 1974, the Statement of Terms and Conditions of all employees covered by this Agreement shall include a term stating that if they are dismissed in accordance with the provisions of this Agreement they will not bring a claim before an Industrial Tribunal under paragraph 6 of Schedule I to the Trade Union and Labour Relations Act, 1974, alleging unfair dismissal on such grounds.

P A R T II

Any dispute under this Agreement shall be resolved under the agreed Disputes, Grievance and Disciplinary Procedures.

P A R T III

This Agreement may be terminated by either party submitting three months' notice of termination in writing to the other party.

P A R T IV

This Agreement shall be operative on and from July 12th 1976.

P A R T V

"EMPLOYEE" means a worker currently employed, and all new employees of the Co-operative Bank Limited who are normally employed for sixteen hours or more per week.

"OCCUPATIONS COMING WITH THE SCOPE" means any occupation coming within the scope of the following designations

- Non-Clerical Staff
- Clerical Staff
- Appointed Staff
- Managerial Staff

Signed on behalf of the:-

CO-OPERATIVE BANK LIMITED ..... *A. Luby* .....

NATIONAL UNION OF BANK EMPLOYEES ..... *Chitman* .....

Date ..... *2/5/1976* .....

# NATIONAL CONCILIATION BOARD FOR C·W·S EMPLOYMENT

## Agreement

between the Co-operative  
Wholesale Society Limited  
and Trade Unions having  
Members in the Employ of  
the Society

1938

### Memorandum of Agreement

*made this 29th day of April, 1938, between the Co-operative Wholesale Society Limited (hereinafter called "the Society") of the one part and the signatory Trade Unions listed in the Second Schedule appended hereto and any other signatory Trade Unions which may be listed subsequently (hereinafter called "the Trade Unions") of the other part.*

#### PREAMBLE

The principle is accepted that the relationship between the Trade Unions and the Society differs fundamentally from the relationship between the Trade Unions and private enterprise. Therefore it is understood and herein provided:—

#### CLAUSE 1

That the Society shall and will employ in its service *only* members of Trade Unions affiliated to or approved by the Trades Union Congress.

#### CLAUSE 2

That the Trade Unions will give the Society immunity from stoppages of work arising from inter-Union disputes respecting the Trade Union membership of its

employees. For this purpose the Trade Unions undertake that before any inter-Union disputes respecting membership reach the stage of labour withdrawal, every effort will be made by the Unions directly concerned themselves to reach a settlement in urgent cases, and otherwise the cases shall be submitted to the Disputes Committee of the Trades Union Congress. The Society undertakes to facilitate cases being dealt with along these lines and, along with the Trade Unions, to accept the resulting decisions.

#### CLAUSE 3

That the Society will, as employer, on all occasions give full facilities for negotiations to the representatives of any of the Trade Unions on all matters affecting any member or members thereof.

#### CLAUSE 4

That in the event of no settlement being reached by negotiations, the matters at issue between the Society and any of the Trade Unions in disputes limited solely to the Society's establishment (as distinct from general trade disputes—local or other) shall be referred to be dealt with by the Conciliation Board, the constitution and procedure

competing with the Society who are paying less wages for the same type of labour, and giving worse conditions of employment than those of the Society.

#### CLAUSE 7

That it is agreed that nothing herein contained shall supersede or prejudice the parties concerned from utilising the recognised machinery and methods of negotiations (other than Trade Board machinery and proceedings) which may exist in any trade or industry in which the Society is engaged, for the settlement of wages, hours, and/or conditions of employment, or interfere with the right of the Society to give effect to agreements mutually entered into through such machinery, or prevent the Society, in trades where it has been the Society's practice to do so, from following variations in wages, hours, and/or conditions of employment which take place as a result of negotiations between the employers and Trade Unions.

In the event of this clause being found by the Trade Unions, in actual practice, to operate to their detriment, then the Society will be prepared to consider with the Trade

of which are set out in the First Schedule appended hereto. Unless and until the said reference has been made to and dealt with by the Conciliation Board no strike or lockout shall take place.

#### CLAUSE 5

(a) That where the Society indirectly employs labour under a form of contract with outside employers it shall stipulate in the contract for the employment of labour on recognised Trade Union rates and conditions. The contractors shall not assign or underlet their contracts nor any part thereof, nor sub-contract, except under the same conditions as the Society stipulated in the original contract.

(b) That as far as may seem practicable the Society will co-operate with the Trade Unions to secure employment of Trade Union labour by contractors undertaking work for the Society.

#### CLAUSE 6

That it shall be the definite policy of the Trade Unions to assist the Society against unfair trade competition by doing everything possible to raise the wages and conditions of employment in respect of those firms

Union representatives a revision of the terms of the clause.

#### CONCLUDING CLAUSE

This agreement shall remain in force until it shall be mutually agreed that the same be determined or until the Society shall give to the Unions three months' notice, in writing, to terminate the Agreement, or until the Unions give to the Society similar notice of termination. It shall be competent, however, for any Union to withdraw from the Agreement by giving similar notice.

## FIRST SCHEDULE

*Constitution of the National Conciliation Board for the Co-operative Wholesale Society's Service and Procedure for the Settlement of Disputes.*

### CLAUSE 1

The Conciliation Board shall consist of 13 representatives, namely, six persons representing the Society, appointed by the Society, six persons representing the Trade Union or Unions concerned, appointed by the said Trade Union or Unions, and an independent chairman.

At least two of the persons so appointed by the Society, and at least two of the persons so appointed by the Trade Union or Unions, shall not be directly concerned in the matter which has been referred to the Conciliation Board.

The independent chairman shall be selected jointly by the Society and the Trade Union or Unions concerned in the reference to the Board, from a panel framed by mutual arrangement between the Society and all the Trade Union parties to the Agreement under which the Conciliation Board is established.

An independent chairman once appointed to the Board to deal with any specific case or cases referred shall preside over the Board until such time as the particular case be disposed of.

### CLAUSE 2

Subject to the provisions of the Agreement under which the Conciliation Board is established, the Board shall meet to deal with any matter referred to it within 21 days from the date of the reference, unless both parties agree to the meeting being held at a later date.

### CLAUSE 3

The independent chairman shall be responsible for seeing that the rules of procedure in connection with the hearing of any case by the Conciliation Board, which are hereinafter contained, are observed, and may, if he so wishes, offer suggestions or advice to the other members of the Conciliation Board, but shall not vote on any question which may arise except in the circumstances specified in Clause 4 (c) hereof, when he shall act as arbitrator.

### CLAUSE 4

In dealing with any question referred to

the Conciliation Board the Board shall endeavour to secure a settlement on one or other of the following lines:—

- (a) By the unanimous vote of all the members of the Board, other than the independent chairman. If a decision is so reached, such decision shall be final and binding on both parties to the reference.
- (b) If a unanimous vote as aforesaid cannot be obtained, but both a majority of the Society's representatives on the Board and a majority of the Trade Union's or Unions' representatives on the Board are in favour of terms of settlement, the parties to the reference shall be asked if they will agree to accept a majority decision. If each party replies in the affirmative (but not otherwise) such majority decision shall be given and shall be final and binding on both parties
- (c) If a settlement cannot be secured by the means specified in paragraph (a) or (b) of this clause, the parties to the reference shall be asked if they will agree to allow the independent chair-

man to act as arbitrator. If each party replies in the affirmative (but not otherwise) the independent chairman shall act as arbitrator and give his award, which shall be conclusive and binding on both parties.

### CLAUSE 5

There shall be two secretaries to the Conciliation Board, one to be appointed by the Society and the other to be appointed by the Trade Unions collectively. The secretaries shall be entitled to take part in the discussions, but shall not be allowed to vote.

### CLAUSE 6

Each party to any case referred to the Conciliation Board shall pay the expenses of its representatives on the Board and of its secretary and of any witnesses whom it may call on its behalf before the Board.

The expenses of the independent chairman and of convening and holding meetings of the Board shall be borne in equal proportions by the Society and the Trade Union or Unions parties to the matter referred to the Board.

## SECOND SCHEDULE

### *List of Signatory Trade Unions*

Transport and General Workers' Union.

United Road Transport Union.

Electrical, Electronic and  
Telecommunication Union/Plumbing  
Trades Union.

Amalgamated Union of Engineering  
Workers.

National Union of Vehicle Builders.

Amalgamated Society of Woodcutting  
Machinists.

Amalgamated Society of Woodworkers.

Society of Lithographic Artists, Designers,  
Engravers and Process Workers.

Society of Graphical and Allied Trades.

National Graphical Association.

Amalgamated Weavers' Association.

National Union of Dyers, Bleachers  
and Textile Workers.

National Union of Tailors and Garment  
Workers.

National Union of Boot and Shoe  
Operatives.

Amalgamated Society of Leather  
Workers and Kindred Trades.

National Union of Leather Workers  
and Allied Trades.

Tobacco Workers' Union.

National Union of Co-operative  
Officials.

Union of Shop, Distributive and Allied  
Workers.

National Union of Agricultural and  
Allied Workers.

Clerical and Administrative Workers'  
Union.

General and Municipal Workers' Union.

National Union of Bank Employees.

National Union of Furniture Trade  
Operatives.

Association of Patternmakers and Allied  
Craftsmen.

National Union of Hosiery and  
Knitwear Workers.

Disciplinary and Grievance Procedure

Disciplinary Procedure

1. Failure by a member of staff to achieve or maintain the required standards of performance and conduct or to observe the terms of the service agreement will result in disciplinary action being taken by the Bank.
2. The normal action in the first instance of a failure to meet the required standards is an informal warning. This will usually be given by the Manager but may be given by a Head Office official.
3. A repetition or a similar failure to meet the standards or a failure of a more serious nature will justify a formal warning. This will be given by either a Head Office official or the Manager on the authority of Head Office. The member of staff may state his/her case at the interview when the formal warning is given. The nature of the incident and the action to which the member of staff will be liable for any subsequent failure will be recorded and advised in writing to the person concerned.
4. A member of staff may appeal against disciplinary action. The appeal will be heard by a senior Head Office official. A member of staff wishing to appeal should notify the Personnel Manager, Head Office, within ten clear working days of being informed of the disciplinary action.
5. A member of staff appealing against disciplinary action may be accompanied, if he/she so elects, by another staff member of his/her choosing or an official of the National Union of Bank Employees.
6. Generally, dismissal will be preceded by at least three warnings, confirmed in writing, within a period of twelve months or less, so that the individual has the chance of improving in the specific aspects which are unsatisfactory. However, whilst this procedure will be appropriate for the majority of the Bank's employees, the period of twelve months may be extended for more senior employees at the Bank's discretion.
7. A member of staff may be dismissed from the Bank without notice only for gross misconduct. In such cases, the Bank has no liability to pay him/her beyond the day of his/her dismissal.
8. All warnings, including informal warnings, given under this procedure must be clearly marked as being a warning under the Disciplinary Procedure.

## Grievance Procedure

1. Should any member of the staff have a complaint, it should be first made to his/her Manager either informally or at a formal interview. If he/she so wishes, another staff member or an official of the Union may be present at a formal interview.
2. If the Manager fails to resolve the issue within five clear working days after the formal interview, he will refer the matter by memorandum to the Personnel Manager. The employee will countersign the memorandum to acknowledge that he/she has read it.
3. The Personnel Manager will arrange a meeting between the employee and, if desired, his/her representative and appropriate members of management. If a satisfactory solution has not been reached within a reasonable period, e.g. ten clear working days of the arrival in Personnel Department of the memorandum, the member of staff may proceed as in Clause 4.
4. If the issue is not resolved at this level, a meeting may be arranged between the national representative of the employee and Bank management who will make a further attempt to resolve the issue.

## **APPENDIX 6.2**

### **NEW TECHNOLOGY**

Agreement Between the  
Co-operative Bank p.l.c. and BIFU  
on the Introduction of  
New Technology

Co-operative Bank p.l.c. Copy

November 1982

Agreement between the Co-operative Bank p.l.c.  
and the Banking, Insurance and Finance Union  
on the Introduction of New Technology

Preamble

1. This agreement is entered into by the Co-operative Bank p.l.c. (referred to as the "Bank" throughout this document) and by the Banking, Insurance and Finance Union (referred to throughout as the "Union").
2. The parties to this agreement recognise the mutual benefit to be derived from an increasingly efficient and profitable business. The Union confirms and the Bank acknowledges the Union's continued co-operation with the improvement of organisation, methods, systems and equipment. This agreement is based upon, and in no way is intended to subvert, existing and prior agreements as they relate to the Bank's entitlement to manage its banking activities to maintain optimum efficiency and the Union's entitlement to facilities for negotiations on all matters affecting employees of the Bank or any particular class of such employees. It is recognised that, within the Banking Industry, it is the Union's aim to obtain a shorter working week, longer holidays and early retirement as methods of maintaining overall employment levels in the framework of a prosperous and efficient industry.
3. "New Technology" is defined in this context as computer based organisation, methods, systems and equipment, including visual display units, micro processors, word processors, micro computers, electronic mail, remote terminals and associated electronic systems using integrated circuits.
4. In accordance with the existing collective bargaining machinery there will be full involvement of employees and their trade union representatives in the introduction of new technology and its techniques. In addition, the Bank will on all occasions give full facilities to the Union for negotiation regarding the proposed introduction of new technology insofar as the introduction of such new technology may be regarded as affecting staff, with a view to reaching agreement on the planned implementation of such measures.

## Application of Agreement

1. This agreement applies to all current and new employees of the Bank who come within the scope of the Union Membership Agreement.
2. The Bank and the Union agree that working conditions may reflect the general trend in respect of matters such as working hours, holiday entitlement, etc., but that such terms and conditions will remain subject to specific negotiations from time to time in accordance with established agreements.
3. No deskilling or downgrading of jobs resulting in loss of status for, or otherwise affecting, existing employees will take place as a result of the introduction of new technology without agreement, and any geographical relocation of staff will be on a voluntary basis. Reviews of pay structures and gradings as required consequent upon the introduction of new technology may take place within the Joint Committee on Staff Information, subject to existing machinery and procedures at the request of either party to those procedures and any changes resulting from such review shall not be delayed beyond the effective date of the introduction of relevant new technology.
4. All personnel expected to use the new technological systems or equipment will be given full training in its use. Employees and trade union representatives who are indirectly associated with the new equipment will be given an appreciation of the New Technology.
5. New jobs arising out of the introduction of new systems or equipment shall wherever practicable be offered to existing employees.
6. There will be no extension, introduction or removal outside of existing agreed parameters of shift working or non standard hours without agreement. Payment in respect of shift working and non standard hours shall be undertaken within the existing agreement in respect of shift premia and non standard hours.
7. Subject to the precepts contained in the preamble as contained above and to facilitate effective consultation and negotiation on the introduction of New Technology, the Bank agrees to provide employees and their representatives with information in an understandable form as listed below:-

- 7.1 Specific proposals by the Bank for the introduction of new technology
- 7.2 Aspects of change in job content/job design, labour force dimensions (including the employment of agency staff or sub-contracting staff) as may be inherent within the introduction of new technology
- 7.3 Aspects of change in Bank operations or organisation which might be reasonably expected to result in the introduction of New Technology and which may be cogently, authoritatively and in an understandable form relayed to the Union.

The Bank and the Union will consult on matters relevant to the introduction of new technology by way of the Joint Committee on Staff Information and will negotiate as relevant on the introduction of new technology by way of the Joint Negotiating Council or other machinery constituted for the resolution of disputes and matters arising between the Bank and the Union, in accordance with any practice that may exist from time to time. Records shall be made of such consultation and negotiation in accordance with existing arrangements.

8. The parties recognise their obligations under the Health and Safety at Work Act 1974. Technical information relating to the aspects of Health and Safety will be taken into account before the introduction of such equipment. Codes of Practice as may be appropriate from time to time for the use of New Technology will be agreed and when agreed will be regarded as appendices to this agreement.
9. The signatories to this agreement are committed to take all possible steps to avoid an enforced reduction in the workforce as a direct result of the introduction of New Technology. Any supernumerary situation will be dealt with in a variety of ways including redeployment, retraining, the non-replacement of labour leaving through natural wastage, etc., insofar as these are applicable. These are not given in any particular order of preference, nor is this an exhaustive list of alternatives. It is recognised that the ability of the Bank to maintain this policy has been and will be due, in no small part, to the readiness of staff to co-operate fully in the introduction of new technology and readily to accept redeployment. The Bank will seek to continue this policy although this document does not constitute a permanent agreement to do so if, for example,

business circumstances change. The Union undertakes accordingly to encourage its members to maintain full co-operation with reasonable technological change and to accept reasonable voluntary redeployment and retraining where appropriate.

The Bank and the Union agree that full co-operation and proper observance of the terms of this agreement will not be withdrawn in pursuance of any claim or dispute involving or affecting the Bank and/or the Union which does not arise directly from the introduction and application of New Technology within this Bank.

Termination of Agreement

1. This agreement may be terminated by either party submitting three months' notice of termination in writing to the other party. Amendments to the agreement may be made at any time by mutual consent.

Signed on behalf of the:-

Co-operative Bank p.l.c. ....

Banking, Insurance & Finance Union

Date

12th NOVEMBER 1982



## **APPENDIX 6.3**

### **JOB SECURITY**

An Agreement for Security of Employment  
Between the Co-operative Bank plc  
and the  
Banking, Insurance and Finance Union

## SECTION 1

### Definitions and Statements

#### 1. The Parties

This Agreement is entered into by the Co-operative Bank plc (referred to hereinafter as the "Bank") and the Banking, Insurance and Finance Union (referred to hereinafter as the "Union").

#### 2. Previous Agreements

This Agreement is not intended to subvert existing and prior agreements made between the parties as they relate to the Bank's entitlement to manage its banking activities to maintain optimum efficiency and the Union's entitlement to facilities for negotiations on all matters affecting employees of the Bank or any particular class of such employees unless specifically stated in this agreement.

#### 3. General Principles

3.1 It is the policy of the Bank to provide security of employment for every member of its staff having due regard to the need for an increasingly efficient and profitable business. Such security of employment is best provided by careful planning in the adoption and development of new or revised business practices and/or procedures. In accordance with this principle and Section 1 of this Agreement, the Parties agree that they share a common aim of maintaining the efficiency and

profitability of the Bank and in continuing to further the best possible relationships in order to safeguard the current or future employment of the staff of the Bank.

3.2 In accordance with sub-clause 3.1 above, the Bank and the Union shall therefore strive to cope with future fluctuations in staffing requirements by the provision of sufficient time and effort to finding alternative employment for surplus staff.

3.3 However, from time to time the conduct of business in organisations is adversely affected by economic and social factors both of an internal and external nature and it is therefore recognised that it is not possible for the Bank to guarantee security of employment in perpetuity. To maintain financial stability and the longer term security of the majority of staff, it may be necessary as a last resort to reduce the numbers employed. In such circumstances the Bank and the Union accept that Section 2 of this Agreement shall apply.

#### 4. Purpose and Scope

4.1 The purpose of this Agreement is to set out the procedural arrangements prior to and during any operation as described under sub-clause 3.3 above.

4.2 Details of substantive matters, including severance terms and the process of consultation with the Union, are determined by this Agreement.

4.3 This Agreement applies to all staff employed by the Bank.

4.4 The Bank recognises the Union as being entitled to represent the interests of their members who are within the scope of this Agreement and its provisions.

5. Definitions

In this Agreement;-

- 5.1 "Employees" means staff of the Bank who are within the scope of this Agreement under sub-clause 4.3 above.
- 5.2 "Suitable Alternative Employment" means employment at least at the same grade and salary. The factors to be taken into account are set out at Sub-Clause 10.2.
- 5.3 "Other Alternative Employment" means employment at a higher or lower grade than existing grade with or without significant retraining. The factors to be taken in account are set out at Sub-Clause 10.4.
- 5.4 "Procedural Agreement" means the Agreement dated 22nd June, 1978, between the Bank and BIFU and relating to "Negotiating and Consultative Procedure".
- 5.5 "Redundancy" means dismissal attributable to the circumstances defined in Section 81(2) and (3) of the Employment Protection (Consolidation) Act 1978 or any amendment thereof, namely:
- "81 (2) For the purposes of this Act an employee who is dismissed shall be taken

to be dismissed by reason of redundancy if the dismissal is attributable wholly or mainly to -

a) the fact that his employer has ceased, or intends to cease, to carry on the business for the purposes of which the employee was employed by him, or has ceased, or intends to cease, to carry on that business in the place where the employee was so employed,

or

b) the fact that the requirements of that business for employees to carry out work of a particular kind, or for employees to carry out work of a particular kind in the place where he was so employed, have ceased or diminished or are expected to cease or diminish.

For the purposes of this subsection, the business of the employer together with the business or businesses of his associated employers shall be treated as one unless either of the conditions specified in this subsection would be satisfied without so treating those businesses.

(3) In subsection (2), "cease" means cease either permanently or temporarily and from whatsoever cause, and "diminish" has a corresponding meaning. "

6. Objectives

The objectives of this Agreement are:-

- 6.1 To set up arrangements and to formulate the joint review of staffing requirements and the consideration of any surplus of employees which may arise.
- 6.2 To introduce procedures for reducing to a minimum the number of employees who might become surplus to the needs of the Bank.
- 6.3 To protect those who do become surplus to requirements by the introduction of measures designed to maintain continuity of employment.
- 6.4 To provide a scale of severance payments and early retirement terms in the event that current or future employment of employees cannot be maintained.

7. Staffing Review Committee

The parties agree that regular consultation shall take place between the Bank and the Union on the implications for employees which may arise from the adoption or development of new or revised business practices and/or procedures and changed trading or economic circumstances. In order to provide an appropriate forum for consultation and discussion of these matters the Parties agree to the establishment of a Staffing Review Committee (SRC).

- 7.1 The functions of the SRC shall be:-

- 7.1.1 To review regularly the staffing implications referred to in Clause 7 above.
  - 7.1.2 To consider as a consequence of such a review any appropriate means including the provisions of this Agreement for reducing to a minimum the number of employees who become surplus to the overall needs of the Bank.
- 7.2 The representatives on the Committee shall be senior officials of the Bank and the Union. The number of representatives shall be decided by agreement between the Parties and by prior agreement between the Parties individuals who are in a position to provide specialist advice or assistance may also be invited to meetings of the Committee.
- 7.2.1 The SRC shall meet at least four times a year or at such other frequency as may be agreed between the Parties.
  - 7.2.2 When appropriate the SRC may establish Sub-Committees to consider particular problems.
- 7.3 Through the SRC the Bank agrees to inform the Union and to provide them with appropriate information at concept stage or as soon as reasonably practicable thereafter on planned reorganisations including, for example, the determination of manpower structures and requirements together with the effect, if any, of proposed changes in career progression and the impact of natural wastage. The SRC shall hereinafter encompass the operation of

the Joint Committee on Staff Information as constituted by agreement and minuted within the Joint Negotiating Committee of 7th May, 1980, together with the facilities and procedures for negotiation afforded to the Union under the terms of the New Technology Agreement, dated 12th November, 1982.

7.4 Within the SRC, the Parties agree to conduct discussions and use their best endeavours to resolve any question of safeguarding the current or future employment of employees.

7.4.1 The Bank seeks by this Agreement to operate job security arrangements which ensure that staffing reductions which are required are achieved by the successive stages of the job security procedure, as detailed in Section 2 of the Agreement.

7.4.2 Both parties agree to endeavour to ensure that the resolution of matters relating to job security is achieved within the Staffing Review Committee constituted for that purpose.

7.4.3 Each of the Parties agree that while any difference or dispute is being considered under this Agreement or under any separate procedures agreed between the Parties, the status quo shall be maintained until such procedures have been exhausted.

7.4.4 Any difference or dispute concerning individual interests as described under Sub-Clause 3.3 regarding measures to reduce the numbers of staff employed or

individual appeals resulting from such measures as outlined in Section 2, shall be referred for resolution to a panel under the Individual Appeal Procedure - see Appendix 4.

- 7.4.5 Nothing contained within this Agreement shall restrict the Bank's right to plan, organise and manage its activities with a view to achieving optimum efficiency and a satisfactory level of profitability or the Union's entitlement to discharge its policy of safeguarding absolutely the interests of its members, in terms of job security and/or benefits and to lodge claims on matters from time to time in accordance with the Procedural Agreement.
- 7.4.6 However, should a matter concerning general pay and conditions of service or any other matter, fail to be negotiated between the Parties or a difference or dispute exists in the SRC as to whether selective redundancy is unavoidable, then reference may be made by either party for resolution under the Procedural Agreement, notwithstanding that Appendix I and Appendix 3 as contained within this Agreement, shall apply.

## SECTION 2

### 8. Staffing Surpluses

- 8.1 By the use of the means in Section 1 of this Agreement the Parties hope to avoid surpluses of employees but should these measures fail then in accordance with sub-clause 3.3 above the Parties agree that as a last resort the following shall apply:-
- 8.1.1 A procedure for dealing with such circumstances as outlined under Clauses 8.3 to 11.7.
- 8.1.2 Arrangements for severance payments in respect of male and female employees - Appendix 1.
- 8.2 Clauses 8.3 to 11.7 and Appendix 1 shall apply to all full time employees and part-time employees on a pro-rata basis.
- 8.3 The Bank will advise the Union of a redundancy situation in accordance with the provisions of the Staffing Review Committee, subject to the provisions of Section 99 of the Employment Protection Act 1975. The Bank shall advise the Union in writing at the earliest possible opportunity of any branch, department, etc., where a redundancy situation has emerged and of other information as is required by legislation.
- 8.4 In situations under sub-clause 8.1 above, the Bank shall, undertake the following stages of action. The order of listing should not be

taken to imply chronological order or mutual inclusion or exclusion of stages. The decision to apply each stage being determined as relevant and required by the Parties. The stages defined do not preclude an over staffing situation being permitted to continue for a limited period of time as agreed by the SRC to allow natural wastage to bring staffing numbers down to the correct level.

Stage 1 - Reduction of Temporary and Agency Staff

The employment of temporary contract and agency contract staff shall be reviewed and subject only to overriding exigencies, and having regard to such contractual obligations as may exist, such staff shall be released.

Stage 2 - Cessation of Recruitment

To allow natural wastage to have maximum effect external recruitment will be discontinued except for those posts which cannot be filled from existing staff.

Stage 3 - Reduction of Overtime

Subject to overriding requirements of operational exigency, overtime shall be eliminated in those occupations or areas of work affected.

Stage 4 - Over Retirement Age Employees

Subject to overriding requirements of operational exigency and contractual obligations as may exist, staff who have been permitted at the Bank's discretion to continue to be employed

after their normal retirement age shall have their contract of employment terminated.

Stage 5 - Voluntary Early Retirement  
See Clause 9 below.

Stage 6 - Redeployment and Retraining  
See Clause 10 below.

Stage 7 - Voluntary Redundancy  
See Clause 11 below.

9. Voluntary Early Retirement

9.1 In circumstances of redundancy or otherwise, the Bank shall invite applications for Voluntary Early Retirement, as agreed by the SRC. In considering applications due regard shall be paid to the criteria in Appendix 3 of the Agreement. Employees may appeal against their non-selection under the Individual Appeal Procedure - Appendix 4.

9.2 The terms of Voluntary Early Retirement whether in circumstances of redundancy or otherwise, shall be those under Appendix 1 of the Agreement.

10. Redeployment and Retraining

The Bank shall utilise as far as practicable the deployment and retraining of staff to/from the areas affected in order to minimise the overall and ultimate staffing surpluses that may occur. It is recognised that a professional career within the Co-operative

Bank requires a significant degree of job and geographical mobility. Therefore, in the context of any staffing surplus, employees must recognise that their career prospects will be diminished if they are unable to accept offers of redeployment requiring a move of residence. Offers of redeployment made under this provision will have full regard to the geographical mobility of employees as determined by the Mobility of Labour Agreement dated 22nd November, 1983.

- 10.1 All offers of redeployment under this Agreement, including any training when appropriately required, shall be made by the Bank in writing and acceptances by employees shall be in writing.
- 10.2 The Bank shall make all reasonable efforts to redeploy employees to Suitable Alternative Employment. This shall be with due consideration to performance in existing jobs, possession of particular knowledge or skill useful to the performance of another job, length of service and such other factors including personal circumstances. The short and longer term career development interests of the employee concerned and the need of the Bank to provide for future skill and management requirements will also be taken into account. Specific consideration shall be given to the potential for any further training or other training as required for such Suitable Alternative Employment. To this end, counselling shall be given by Personnel Department and be available to employees in connection with their jobs or careers.
- 10.3 Employees who decline an invitation of Suitable Alternative Employment, with or without a move of residence, shall be considered for further

redeployment to Suitable Alternative Employment elsewhere again having regard to the criteria specified in Clauses 10 and 10.1.

10.4 When the Bank cannot offer Suitable Alternative Employment under Sub-Clause 10.2, employees may be asked to consider Other Alternative Employment. This may consist of employment at the same or higher grade but which requires significant retraining or may consist of a job at a lower grade, with or without significant retraining. Such offers of redeployment shall be made by the Bank in writing and acceptances by employees shall be in writing.

10.5 When such an offer of employment is made, in accordance with Sub-Clause 10.4, in writing and accepted in writing by an employee, the arrangements for salary and other conditions of service in Appendix 2 shall apply.

10.6 Counselling shall be given by Personnel Department and be available to employees in connection with their jobs or careers.

10.7 When an employee accepts redeployment under Sub-Clauses 10.4 and 10.5 there shall be a trial period during which either the Bank or the employee may terminate the revised contract of employment. The trial period shall be for a minimum of three months and not more than twelve months and following discussions between the Parties such period shall be agreed with the employee and confirmed in writing before the trial period commences. Such a trial period shall be undertaken without prejudice to all entitlements and obligations subsisting by

reason of the contract of employment and provided for by this Agreement.

10.8 When employees consider that they have been offered Suitable Alternative Employment or Other Alternative Employment unreasonably or have been unreasonably denied offers or Suitable Alternative Employment or Other Alternative Employment under Sub-Clauses 10.4 and 10.5, they may appeal under the Individual Appeal Procedure.

## 11. Voluntary Redundancy

11.1 In circumstances of redundancy or otherwise the Bank shall invite applications for redundancy. In such circumstances employees shall retain their entitlement to terms under Appendix 1 when a date for termination of employment is mutually agreed between the Bank and the employee in writing.

Selection of employees in response to an invitation to apply for redundancy shall be made as under Appendix 3. Employees may appeal against their non-selection under the Individual Appeals Procedure - Appendix 4.

11.2 The minimum period of notice required in cases of redundancy will be in accordance with the contract of employment or such longer period as is required by legislation. Notice due to expire by the date of termination of employment will normally be worked. When this is not possible payment in lieu of notice, subject to Sub-Clause 11.3, shall be made.

- 11.3 Employees may apply to leave before their period of notice expires and hence waive part or all of their notice. Agreement to do so shall not be unreasonably withheld but shall be judged in the light of the individual employee's circumstances and the Bank's operational and financial requirements. Where such agreement has been given in writing, entitlement to the terms in Appendix 1 shall not be withheld except that there shall be no payment in lieu of notice beyond the revised date of termination of employment. However, employees who leave before their period of notice expires, without the agreement of the Bank in writing, may forfeit their entitlement to the terms in Appendix 1. Employees may appeal against a decision not to agree to early release under the Individual Appeal Procedure - Appendix 4.
- 11.4 Time off to seek new employment or make arrangements for training for future employment shall be subject to the approval of the Bank, such approval not to be unreasonably withheld, and in cases where approval is given it will be time off with pay.
- 11.5 The Bank will give all reasonable assistance to employees in the securing of relevant state benefits, for example unemployment pay, supplementary benefit, etc., as may be reasonably requested by employees and the Bank will make any such representations as may be relevant or required on behalf of employees whose employment ceases by reason of redundancy to such relevant ministries and other statutory bodies as may be appropriate.

11.6 The Bank will supply such references as may be requested by prospective alternative employers in a timeous fashion with a view to furthering the best interests of employees in securing alternative employment insofar as this does not require the Bank to do other than present full and factual answers in respect of enquiries received from prospective employers.

11.7 The Bank shall make financial counselling available to all employees whose employment ceases by way of redundancy in accordance with this Agreement. Such financial counselling shall comprise of an interview with a representative of Holyoake Insurance Brokers Limited. Any verbal advice given at these interviews shall be free of charge and shall be given without liability on the part of the Company or its employees.

12. Amendment

This Agreement may be amended by either Party giving at least 28 days notice of a proposal to do so. A proposal to amend the Agreement shall be dealt with under the Procedural Agreement.

13. Termination of Agreement

This Agreement may be terminated by either the Bank or the Union by not less than six months notice in writing.

Signed for and on behalf of the Bank;

..... *D. E. Murray* ..... *L. Hillier* .....

Signed for and on behalf of the Union:

..... *G. Murray* ..... *C. Hutchinson* .....

Dated:

..... *22nd November 1983* .....

Payment Provisions in Respect of Employees  
Leaving the Bank's Service

1. Staff Aged 50 and Over with 5 or More Years  
Pensionable Service

- 1.1 The Bank will make provision for a pension payable immediately based on pensionable service and pensionable earnings to date of retirement.
- 1.2 A reduction in the final pension payable, of 4% per annum for each year of early retirement, will be made except in the case of employees aged 60 and over with 25 or more years pensionable service who retire at the request of the Bank when the Bank will make provision for no reduction to be made.
- 1.3 Employees may elect to commute up to  $\frac{1}{3}$  of pension entitlement for a tax-free cash sum subject to the proviso that the maximum tax free cash sum that may be taken is limited to the maximum amount permitted by the Commissioners of the Inland Revenue from time to time.
- 1.4 In addition to the above employees will be entitled to cash payments as described under Appendix 1, Clause 4.

2. Staff Aged 50 and Over with Less Than 5 Years  
Pensionable Service

- 2.1 No pension is payable; employees will be entitled to a refund of their contributions with interest thereon, less tax at 10%

or such other rate as may be determined by the Commissioners of the Inland Revenue from time to time.

2.2 Employees will be entitled to cash payments as described under Appendix 1, Clause 4.

3. Staff Aged Under 50

3.1 No immediate pensions are payable but pensions of staff aged between 26 and 49 inclusive, with five years service or more, shall be deferred and paid at normal retirement age. Deferred pensions shall be improved by a rate determined by the trustees from time to time but not exceeding 5% per annum compound. An employee entitled to a deferred pension may elect to receive an early retirement pension in lieu thereof at any time from age 50 subject to a reduction of 4% per annum for each year of early retirement. For employees with less than five years pensionable service, Sub-Clause 2.1 will apply.

3.2 Employees will be entitled to cash payments as described under Appendix 1, Clause 4.

4. Calculation of Severance Payments

4.1 If employees volunteer to accept Voluntary Redundancy under Clause 11, a severance payment will be made, calculated in accordance with the provisions of this Appendix.

- 4.2 The amount of entitlement will be a basic award of 8 weeks pay plus the further entitlements as determined by the following scale, with the proviso that no employee who has completed one years continuous service shall receive less than 12 weeks pay.
- 4.3 For each complete year of service, up to a maximum of 20, an employee is entitled to receive:
- 4.3.1 For each year of employment from age 18 and over but under 22 - half a weeks pay.
- 4.3.2 For each year of employment from age 22 and over but under 41 - one weeks pay.
- 4.3.3 For each year of employment from age 41 and over but under 65 (men), 60 (women) - one and a half weeks pay.

And, in addition:

- 4.4 Further entitlements to Sub-Clause 4.3 above as follows:

- 4.4.1 For those employees aged 54 or below

<u>Service (years)</u>	<u>Additional Entitlement</u>
At least 2 but less than 5	2 weeks
At least 5 but less than 10	4 weeks
At least 10 but less than 20	6 weeks
At least 20 but less than 25	9 weeks
Over 25 years	13 weeks

4.4.2 For those employees aged 55-59 (men)  
55-56 (women)

<u>Service (years)</u>	<u>Additional Entitlement</u>
At least 2 but less than 5	2 weeks
At least 5 but less than 10	4 weeks
At least 10 but less than 20	6 weeks
At least 20 but less than 25	9 weeks
At least 25 but less than 30	13 weeks
At least 30 but less than 33	18 weeks
At least 33 but less than 35	21 weeks
At least 35 but less than 40	26 weeks
Over 40 years	30 weeks

4.4.3 For those employees aged 60-64 (men)  
57-59 (women)

<u>Age (in years)</u>		<u>Additional Entitlement</u>
<u>Males</u>	<u>Females</u>	
60	57	140%
61	57½	110%
62	58	80%
63	58½	60%
64	59	50%

4.5 No employee is to receive more as a severance payment than he/she would have earned had he/she worked until normal retirement age (65 male and 60 female).

4.6 The definition of a weeks pay will be the same as described in the Employment Protection (Consolidation) Act 1978 excepting that the maximum earnings limit will be disregarded.

4.7 Severance payments will be made in a lump sum on the termination of employment at the agreed date irrespective of whether alternative employment has been secured.

4.8 These cash payments include an individual's statutory entitlement to redundancy payments.

5. Other Considerations

5.1 Where an employee whose employment has ceased by way of redundancy has outstanding preferential borrowings with the Bank in the form of either housing loans or personal loans, then such borrowings shall continue upon existing terms for a period not exceeding two years from date of dismissal or until such date as the employee obtains permanent alternative employment, whichever date is the earliest.

5.2 In the case of budget accounts, VISA cards, and other borrowings which are not necessarily at preferential rates of interest but where the borrowing authorised may have had regard to the specific status of an employee as an employee of the Bank, then such borrowing shall continue upon existing terms without amendment within the normal constraints and parameters of the customer relationship irrespective of circumstances of departure.

5.3 The Bank will undertake to maintain insurance for employees whose employment ceases by way of redundancy in respect of the death of the employee dismissed as redundant for a period of one year from the date of dismissal. Such insurance will be at the rate of one year's salary as earned in the twelve months prior to employment ceasing.

Employment in Accordance with Sub-Clause 10,5

1. Salary - All Grades

Present salary together with salary expectations within a personalised salary range will be maintained.

2. Annual Leave

Existing Annual Leave Entitlement will be maintained.

3. Other Terms

Other current terms of employment relating to the status of the employee (expenses provisions, loan limit entitlements, etc.) will be maintained. Other current benefits related to the nature of the job performed (Bank car, shift allowances, etc.) shall not be maintained although the Bank may exercise discretion in ensuring that the withdrawal of such benefits does not occasion unreasonable hardship or distress.

1. Selection for Voluntary Redundancy

1.1 Selection of employees for voluntary redundancy shall be made on the basis of the list of criteria as set out under Clause 2 below. These criteria are not listed in any order of preference.

1.2 The selection of employees will be made by the responsible line management together with the Head of Personnel of the Co-operative Bank Group or his nominee.

1.3 Whenever reasonably practicable, special consideration shall be given to registered disabled staff.

2. Selection Criteria

2.1 In circumstances when staff surpluses exist, consideration shall be given to the following;

Length of service to be on the basis of continuous service not cumulative service

Age

Capability and performance

Qualifications and experience

Conduct

Attendance record

## Time keeping

(Note: The above list is not exhaustive and other factors may be appropriate dependent on the circumstances.)

2.2 The Bank will have regard to cases of personal and financial hardship insofar as it is possible to have this regard.

### 3. Right to Retain Employees

The above order of criteria is subject to the right of the Bank to retain staff on the grounds of individual ability or specialist knowledge in order that the Bank is able to maintain the long term viability of its operating and business position insofar as this may be determined or affected by the assessed capability of the employees remaining within the organisation to affect that long term viability.

Individual Appeal Procedure

1. Functions of the Individual Appeal Procedure

The Individual Appeal Procedure shall cover appeals from employees under the following Clauses of Section 2 of this Agreement:

Sub-Clause 9.1

Employees who consider they have unreasonably been denied selection for Voluntary Early Retirement in response to an invitation to apply for Voluntary Early Retirement.

Sub-Clause 10.8

Employees who consider that they have been offered Suitable Alternative Employment or Other Alternative Employment unreasonably or have been unreasonably denied offers of Suitable Alternative Employment or Other Alternative Employment.

Sub-Clause 11.1

Employees who consider they have unreasonably been denied selection for redundancy in response to an invitation to apply for redundancy.

Sub-Clause 11.3

Employees who consider they have been unreasonably refused early release following receipt of notice of termination of employment.

2. Form of Appeal

An employee who wishes to lodge an appeal shall do so in writing to the Head of Personnel stating the following:

2.1 The Clause under Section 2 of this Agreement under which the Appeal is made.

2.2 The reason for making the appeal.

2.3 Any personal or other circumstances he/she wishes to bring to the attention of the panel as outlined below.

3. Time Limits on Appeals

To be agreed between the Parties.

4. Composition

The panel shall consist as follows:

General Manager (Administration) - Chairman  
General Manager of appellants own division  
(or their deputies)  
A full time paid official of the Union  
An official of the Union

In addition, the panel shall appoint an officer of the Bank to act as Secretary to deal with administration and to make a record of discussions. The panel shall have the power to invite attendance from representatives of the Bank as may be appropriate in specialist areas. In the event of an appeal not being satisfactorily determined by the Panel, then the Panel shall be entitled to request the attendance of an independent chairman, agreed by the Parties and appointed from outside the Bank, who shall be empowered to determine the appeal.

5. Appeals Procedure

Upon receipt of a written appeal the Head of Personnel shall instruct the Secretary to arrange a suitable date for the hearing. This date should, wherever possible, be not more than ten working days from receipt of the appeal by the Head of Personnel.

6. The Appeal Hearing

- 6.1 The appellant shall normally be expected to attend for an interview when the appeal is considered but if he or she so wishes the opportunity to attend may be waived.
- 6.2 At the hearing an employee making the appeal may, if he/she so wishes, be accompanied or represented by a paid Union official or other official. If preferred by the appellant, support may be provided by any employee of the Bank who is willing to attend the hearing in a personal capacity.
- 6.3 Following the hearing of the appeal and all relevant presentations thereto, the Panel hearing the appeal will either confirm the decision or allow the appeal. A decision in writing will be conveyed by the Secretary of the Panel to the employee as soon as possible, and a copy sent to the individual supporting the appellant or the paid Union official or other official as appropriate.
- 6.4 A note of the hearing shall also be taken. The Secretary shall supply copies of the note to the employee, and to the individual supporting

the appellant or paid Union official or other official as appropriate, within 10 days, where possible, after each hearing.

## **APPENDIX 6.4**

### **MOBILITY OF LABOUR**

An Agreement for Mobility of Labour  
Between the Co-operative Bank plc  
and the  
Banking, Insurance and Finance Union

## SECTION 1

### Definitions and Statements

#### 1. The Parties

This agreement is entered into by the Co-operative Bank plc (referred to hereinafter as the "Bank") and the Banking, Insurance and Finance Union (referred to hereinafter as the "Union").

#### 2. Previous Agreements

This Agreement is not intended to subvert existing and prior agreements made between the Parties as they relate to the Bank's entitlement to manage its banking activities to maintain optimum efficiency and the Union's entitlement to facilities for negotiations on all matters affecting employees of the Bank or any particular class of such employees unless specifically stated in this Agreement.

#### 3. General Principles

3.1 It would be unrealistic to do other than recognise that the staff of the Bank Group comprise both of staff who join for an extended career within the Bank and who wish to maximise their development to the limits of their personal potential, and of staff who join for a job with finite employment prospects. There are also staff that fall between these two extremes and staff whose respective positions and perceptions of their job/career ambition varies according to time, age, domestic circumstances, etc.

- 3.2 Where a member of staff is committed to a long term and upward career within the Bank, then it must be recognised that the Bank consists of some 3,500 staff in some hundred separate geographical locations and that a reasonable degree of job and geographical mobility will enhance the career prospects of a member of staff. If a member of staff wishes to be employed upon a career basis and to maintain expectations of salary and progression in line with that career, then subject to Sub-Clause 3.3 below it must be an intrinsic element of his employment that he is mobile.
- 3.3 It is recognised that particular consideration may be required to career development and mobility of labour as regards specialist careers and progressions. It is recognised also that progression is not excluded within certain limited locations where relevant work is available and having regard to particular personal/domestic circumstances that may change from time to time in determining the availability of employees for job and geographical mobility.
- 3.4 If a member of staff wishes to accept the limitations on his ultimate progression within the organisation that are inherently present, if he is not prepared to make an employment commitment to mobility, then there are sufficient opportunities for security of employment and limited career prospects for the majority of people in that category but that member of staff cannot ask the Bank to realise expectations they may have of salary and status progression in the same way that the more mobile employee could do so.

3.5 It is recognised that from time to time the particular perceptions and expectations of individual members of staff will change but in general the Bank would expect, in employment terms, and in order to fund its future need for management, to differentiate between staff according to these parameters.

#### 4. Objectives and Scope

4.1 The objective of this Agreement is to set up arrangements and introduce revised terms of service, specifically enhanced mobility requirements, to enable the Bank to improve the on-going utilisation of its manpower resource and the training and development of individual employees.

4.2 This Agreement applies to all staff employed by the Bank.

4.3 The Bank recognises the Union as being entitled to represent the interests of their members who are within the scope of this Agreement and its provisions.

5. The Bank shall, pursuant to this Agreement, amend Clause 1 of the Statement of Terms of Employment (form EMP 257) and included at Appendix 1 of this Agreement, to read as follows:

"1. EMPLOYMENT. Your employment with the Company is initially in the position of ..... and your initial place of work will be at our ..... branch/office.

You will be required to undertake, at the direction of the Company, any and all duties which reasonably fall within the scope of your capabilities.

The Company undertakes to offer to you opportunities as may exist for job and career development and seeks to provide for the long term needs of the Company in skill and management terms. Commensurately, you may be required at the direction of the Company to work at any of the Company's United Kingdom locations.

(\* delete if inapplicable) "

6. The Bank shall, at its discretion, reissue the Statement of Terms of Employment as amended at Clause 1 and undertakes to draw the attention of all members of staff to the amended clauses. Each member of staff shall be required within the contractual notice period due to him to acknowledge receipt of the amended Statement of Terms of Employment in accordance with the provisions of the Statement of Terms of Employment with the respective deletion in the amended Clause 1 made or not made.
7. Each member of staff of the Bank may, by submission to Personnel Department in writing, have his Terms of Employment as stated in the Statement of Terms of Employment changed at any time should there be a change in employment/professional/personal or domestic circumstances that may merit such change.
8. Staff who have not accepted the general mobility provisions as contained at Clause 5 above, may at

any time record a limited or specific availability for mobility within the facilities of the Bank's appraisal systems or by separate amendments in writing to Personnel Department to the latest recorded appraisal form.

9. Where an employee moves residence, the conditions set forth in the Personnel Manual, under P5F, pertaining to staff who move at the Bank's request, will apply.

10. Amendment

This Agreement may be amended by either Party giving at least 28 days notice of a proposal to do so. A proposal to amend the Agreement shall be dealt with under the Procedural Agreement.

11. Termination of Agreement

This Agreement may be terminated by either the Bank or the Union by not less than six months notice in writing.

Signed for and on behalf of the Bank:

*[Signature]* ..... *[Signature]* .....

Signed for and on behalf of the Union;

*[Signature]* ..... *[Signature]* .....

Dated:

*22nd November 1983* .....

# CO-OPERATIVE BANK GROUP

(Co-operative Bank p.l.c. — First Co-operative Finance Limited)

Statement of Terms of Employment, pursuant to the Employment Protection (Consolidation) Act 1978.

The following are particulars of the terms and conditions of employment on which the Co-operative Bank p.l.c./ First Co-operative Finance Limited of 1 BALLOON STREET, MANCHESTER, M60 4EP (the Company) employ:—

(Mr/Mrs/Miss/Ms) ..... (the Employee)

as at ..... 19.....(current date) your employment

having begun on .....19.....

The Company, therefore, regards previous employment with

.....  
which began on.....19..... as ranking as continuous with your current employment within the terms of the Employment Protection (Consolidation) Act 1978.

1 EMPLOYMENT. Your employment with the Company is initially in the position of.....

.....and your initial place of work will be at

our' ..... Branch/Office.

You will be required to undertake, at the direction of the Company, any and all duties which reasonably fall within the scope of your capabilities.

2 REMUNERATION. Your remuneration is at the following rate within the Grade stated, and is in accordance with collective agreements (\*) made between the Company and the Banking, Insurance and Finance Union (BIFU) as they exist at any one time:—

£ ..... per annum

..... Grade.

If Section 4(c) below applies you will receive, in addition to the remuneration stated above, a shift payment of % of basic salary per annum, which at present rates will be £

This payment will remain in operation for so long as you are assigned to the shift system stated.

Your remuneration will be paid four-weekly in arrears and credited to your current account.

3 OVERTIME. If worked, will be paid in accordance with the collective agreements (\*) reached between the Company and BIFU as they exist at any one time.

4 HOURS OF WORK

Normal hours of work:

(a) are in accordance with collective agreements (\*) made between the Company and BIFU as they exist at any one time and are currently ..... hours per week.

(b) are the normal daily hours of the department in which you are employed and any additional hours necessary for the proper discharge of your duties.

(c) You are required to work a shift system on the following basis .....

.....  
which constitutes an average of..... hours per week.

Hours of work, where specified, constitute the normal hours, but these may be adjusted as necessary, to meet the exigencies of the business.

5 HOLIDAYS. You are entitled to statutory and customary holidays as they exist at any one time. In addition, vacation leave will be granted and paid in accordance with the collective agreements (\*) reached between the Company and BIFU as they exist at any one time.

6 SICKNESS OR INJURY. In cases of absence through sickness or injury, you must advise your Branch/ Departmental Manager as early as possible on the first day of the reasons and likely duration of your absence. If the absence extends beyond 7 days you are required to produce a statement(s) authenticated by your Doctor as to the reasons for your continued absence. Any periods of absence up to 7 days will require the completion of a Form of Self Certification upon your return to work. The duration of sick leave and the amount of sick pay are as detailed in the Company's regulations (\*).

## **APPENDIX 7**

### **POLICY COMMITTEE**

## Agenda for meeting to be held on

**Tuesday, 1st December, 1987 at 11:30 a.m.**

### **1. Minutes of Meetings**

- 1.1. Minutes of previous meeting dated 27.10.87 (own papers)
- 1.2. Minutes of special meeting dated 18.11.87 (own papers)

### **2. Matters Arising**

### **3.**

- 3.1. Quick Results - own papers

Week No.45 ended 21st November, 1987 PL

- 3.2. Number of Accounts - week ended 20th November, 1987 RCS

- 3.3. Manager Accounts - Period 10 - own papers PL

### **4. Strategic Considerations**

- 4.1. Employee Relations Strategy - own papers RCS
- 4.2. Communications Strategy RCS
- 4.3. Relocation Policy RCS
- 4.4. EFTPOS UK LW
- 4.5. Budget Commentary - verbal CJBR

### **5. Operational Considerations**

- 5.1. Chief Executive's memoranda re Minutes of meetings of Product & Technology and Human Resources Committees - own papers
- 5.2. Product & Technology Committee - Minutes of Meeting dated 24th November 1987, for ratification - own papers TBA
- 5.3. Human Resources Committee - Minutes of Meeting dated 25th November, 1987, for ratification - own papers RCS

### **6. Draft Board Agenda - 8th December, 1987**

6.1. Leasehold Land & Buildings - Transactions LW

**7. Other Business**

7.1. Hull Branch - Fire Escape LW

7.2. Large Exposures - Report to the Bank of England, etc. CJBR

7.3. DP Costs Per Account CJBR

7.4. Any Other Business

**8. Date of Next Meeting**

Tuesday, 5th January, 1988, at 11:30 a.m.

## **APPENDIX 8**

### **HUMAN RESOURCES COMMITTEE**

## Agenda for meeting to be held on

**Wednesday, 25th November, 1987, at 10:30 a.m.**

**(in the office of Mr. R.J. Gorvin, 4th Floor)**

### **1. Minutes of Previous Meeting**

dated 21.8.87, own papers

### **2. Matters Arising not covered by this Agenda**

### **3. Strategic Considerations**

#### **3.1. Personnel**

3.1.1. Co-operative Bank Pension Scheme - verbal KMF

3.1.2. Organisation/Headcount - verbal RCS

3.1.3. Communications Strategy KJL

#### **3.2. Training**

No papers

#### **3.3. Employee Relations**

3.3.1. Staff Suggestion Scheme KJL

3.3.2. Staff Housing Loan Scheme KJL

3.3.3. Maternity Booklet KJL

3.3.4. Messengers' Uniforms KJL

### **4. Manpower Planning**

No papers

### **5. Operational Considerations**

5.1. Personnel Administration Operating Report KMF

5.2. Training Department Operating Report KMF

5.3. **Statistics 1983 - 1987**

RCS

**6. Other Business**

6.1. **Any Other Business**

**7. Date of Next Meeting**

Wednesday, 25th January, 1988 at 10:30 a.m.

## **APPENDIX 9**

# **PRODUCT & TECHNOLOGY COMMITTEE**

## Agenda for meeting to be held on

Tuesday, 16th August, 1988, at 10:30 a.m.

**at CO-OPERATIVE UNION, HOLYOAKE HOUSE,  
HANOVER STREET**

### 1. Minutes of Previous Meeting

dated 28.6.88 (own papers)

### 2. Matters Arising

not included in the Agenda

### 3. Strategic Considerations

#### 3.1. EFT-POS

3.1.1. EFT Steering Group Meetings, 20th June and 11th July - Short summary of minutes

3.1.2. EFTPOS

3.1.3. Co-op EFTPOS Pilot - EFTPOS Tariff Review PC

3.1.4. ATM Availability PJS

3.1.5. LINK Fees (6 monthly report) PC

3.1.6. Terminal Integration

#### 3.2. Products & Services

3.2.1. RSPB Visa Card - PPIA

3.2.2. Plastics Strategy - Card Issue Programme PJS

3.2.3. Debit Card PJS

#### 3.3. Technology

3.3.1. Information Services KB

### 4. Other Business

#### 4.1. Any Other Business

**5. Date of Next Meeting**

Tuesday, 13th September, 1988, at 10:30 a.m.