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## New Workplace Practices and Firm Performance: a Comparative Study of Italy and Britain

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# **New Workplace Practices and Firm Performance: a Comparative Study of Italy and Britain.**

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## **Abstract**

Using data from the 2004 Workplace Employee Relations Survey on British establishments and two surveys on manufacturing firms located in the North of Italy, we look at the diffusion of new workplace practices in the two countries and at their impact on the firm's value added. We find that the adoption of innovation practices has spread substantially more across the British manufacturing firms than across the Italian ones; however our results also indicate that the practices' association with the firms' VA is much lower in Britain than in Italy. The counterfactual analysis shows that had the Italian workplaces the same characteristics of the British ones, in terms of diffusion of practices, capital intensity and skills, their average predicted value added would triplicate. On the other hand, were the Italian establishments to move and operate in the British context, their performance would improve very modestly. For the British establishments, we also investigate whether management practices improve job satisfaction.

**JEL Classification:** C33, J41, J53, L20.

**Keywords:** Workplace practices, Financial Performance, Italy, UK.

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## 1. Introduction

Since the late eighties a growing number of studies has investigated the economic impact of workplace practices. Stepping from the early case studies found in the management literature, the economic empirical research has addressed this issue both within- and across-industry, exploiting, where available, firm or plant level nationally representative surveys. The balance of the results is usually in favour of workplace practices centred on the concepts of employees' involvement, empowerment and autonomy. Practices like information sharing, formal or informal arrangements to discuss production problems, rewarded suggestions, autonomous team-working, incentive schemes and financial participation appear to exert a positive impact on the firms' productivity, and for this reasons they are also referred to as high performance workplace practices.

Although the list and the broad definition of these practices is now commonly accepted, their measurement is still in great part survey-specific and this has limited somewhat cross-country comparison exercises<sup>3</sup>.

Consequently, whereas the evidence largely agrees that innovative workplace practices contribute to explain within country firm performance (Greenan (1996), Cappelli and Neumark (2001), Godard (2001), Black and Lynch (2004), Thomas (2004)), their relevance in explaining between country firm performance remains largely unexplored.

Meanwhile, the topical debate on the productivity gaps across countries has largely relied on comparable data of country institutional contexts (OECD, 1997) on the basis of which numerous studies have investigated the role of the firm's external environment, mainly in terms of markets competition, red tape and state intervention (Nicoletti and Scarpetta (2003), Griffith and Harrison (2004)). Indeed, the question whether the institutional context is the ultimate factor which also explains the adoption of specific practices has not yet a precise answer. However, some recent related work clearly points in this direction; using a large multicountry survey on management practices, Bloom and Van Reenen (2007) find that the presence of firms in the left tails of the distribution, where bad managed firms are located, is for a half explained by the country degree of product market competition and *primo geniture* and that these same factors also explain a large fraction of the differences across countries. On the issue of what makes firms perform well, Nickell et al. (1997),

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<sup>3</sup> An exception is Caroli and van Reenen (2001).

using a sample of UK companies, confirm the disciplining role of the market but also find that a good performance can equally be induced through different mechanisms, like financial pressure and shareholder control and that these mechanisms can even substitute for the market pressure.

Similarly, we ask whether employees' involvement practices, which aim precisely at enhancing effort and hence productivity by motivating the employees through a better and more satisfying job, show a different efficacy depending on the institutional context in which the firms operates and more generally, if there is a relationship between the diffusion of innovative workplace practices and the institutional context.

We explore these issues by using two distinct samples of manufacturing firms, one representative of Britain and the other one representative of two Northern Italian provinces; both samples of firms have been surveyed in the same year (2003) using largely identical questionnaires (the Italian questionnaires being designed on the British WERS) which allow us to compare workplace practices using exactly the same definitions. Beyond this practical reason, a comparison exercise between British and Italian workplaces is interesting on its own grounds. In the manufacturing sector labour productivity in Italy has flattened since the beginning of the decade and now lags behind the average Euro area; on the contrary, in the same period and up at least to 2004, the level of labour productivity in The UK follows an upward trend, diverging from Italy and the Euro average (see Figure 1). In the same sector, from 2000 to 2003, labour productivity shows virtually zero growth in Italy (0.1%) while it grows at 3.4% on average per year in The UK (OECD Statistical database, 2007 ). So, does the extent of adoption of innovative work- place practices help explaining the worse Italian performance or is the poor growth essentially a matter of institutions? For the British context, we also investigate whether the new workplace practices are correlated with employees' job satisfaction. The paper is structured as follows: in section 2 we briefly survey the existing evidence on workplace practices and firm performance for Britain and Italy and recall the different institutional contexts of the two countries. Section 3 presents the data sets. The empirical specification and the results are presented in Section 4. The last section concludes.

## **2. Workplace practices, firm performance and institutions. The existing evidence.**

The interest in topics related to workplace practices began with the adoption, initially by a few large US firms, of some innovative practices essentially aimed at the employees' involvement. The early research on the nature of the new practices and on their impact on the firm's performance had been conducted on a case study basis and still provides a wealth of information on the chain of events that results in the adaptation of new workplace practices although it cannot be generalized to a broader spectrum of the economy (Krafcik (1988), Womack, Jones and Roos (1991), Ichniowski (1992), Berg et al (1996), and Batt (1995)).

Successive intra-industry studies have the advantage of improving in generalization and largely avoiding the problems arising from the underlying heterogeneity of production processes (Ichniowski, Shaw, and Prenzushi (1997), Arthur (1994), Kelley (1994, 1996), Bailey (1993), and Dunlop and Weil (1996)). They consistently emphasize the role of a coherent system of new workplace practices, mainly related to the human resource management, as opposed to the adoption of single detached practices. According to these studies, systems based on flexible job definitions, cross-training, and team-working, along with extensive reliance on incentive pay, result in levels of productivity substantially higher than those obtainable using traditional human resource management practices. Again, these results represent an important contribution to the literature on workplace practices and productivity, but it is hard to generalize the findings to broader segments of the economy.

In the last decade the inclusion, in some nationally-representative surveys conducted at the firm or plant level, of detailed questions regarding the workplace organization, meant the possibility to finally investigate the issue at the economy level. Thanks to a significant number of empirical studies the picture on the diffusion of high performance practices is now quite clear, at least for a few countries, though the evidence on their productivity effects is not always overwhelming and unidirectional (Osterman, (2000) and (2004), Godard (2001), Bartel (1989), Ichniowski (1990), Huselid (1995), Huselid and Becker (1996), Delaney and Huselid (1996), Black and Lynch (2000), Caroli and Van Reenen (2001). On the whole, the findings agree on a few points: i) a particular set of job re-design and employee involvement practices (reduction of hierarchical levels, autonomous team-working, job rotation, information sharing, suggestion system from lower levels of the firm's

hierarchy, project groups, development of cognitive, social and relational skills through training programmes, incentive-based retribution systems, ect...) can positively influence firm performance; ii) the positive impact of such practices on the firm's performance is higher when they are implemented in bundles (Milgrom and Roberts 1990, Ichiniowsky et al., 1997 ).

Britain is one of those countries for which workplace practices data are available from nationally representative survey (WERS 1998 and WERS 2004). The picture drawn by Millwards and Forth (2004) on the basis of WERS (1998) shows a diffused adoption of team-working, functional flexibility practices and problem-solving groups, all present in 30% to 50% of the establishments, but a very limited presence of systems of these practices which are implemented in only in 5% of the establishments. Maybe not surprisingly, the labour productivity effects of the practices, if estimated using again national representative data, are also, overall, rather limited: Wood and Menezes, 1998 and de Menezes et al. (2001) find little association between systems of involvement practices, at various degrees, and subjective measures of labour productivity; similarly Bryson et al (2005), again using WERS (1998), find that high-involvement practices have a positive impact on a subjective measure of labour productivity but this effect is confined to unionized workplaces and is not at all significant on a subjective measure of financial performance. On the other hand, studies using specific samples do find a positive association between workplace practices and either subjective ratings of labour productivity (Hoque, 1999; Guest et al., 2003; Guest and Hoque, 1994) or quantitative measure of productivity growth (Patterson et al, 1997). This could suggest that productivity effects might depend on specific firm characteristics or specific bundles of practices which are hard to pin down at the economy level.

Italy, on the contrary, is among those countries where no national survey exists on work- place practices. In the Italian debate, the interest in workplace organisation followed the 1993 agreement (so-called "Accordo di Luglio") between employers and trade unions; this agreement envisaged a participative industrial regime based, on the one hand, on a company performance- related wage drift (to be added to the wage bargained at the national level) and, on the other, on a substantial participation of employees and their representatives to the firm's life. The legitimacy of this new form of industrial relations was thought to enhance a reciprocal trust and thereby lower the costs of restructuring

production processes and adopting new human relation practices. The existing evidence, however, is only based on specific surveys addressed at a local level<sup>4</sup>.

One of these surveys, which has recently completed its second wave, is based on a questionnaire designed on WERS's MQ. The first wave conducted in 1999 (Leoni et al (2000)), had been addressed to the whole population of manufacturing firms with more than 50 employees located in the province of Bergamo. The second wave, conducted in 2003 (Leoni et al 2004), has again been addressed to the same population of firms and to the population of manufacturing firms with more than 50 employees located in the nearby province of Brescia. The extent of adoption of innovative practices that emerges from the 1999 survey is mixed: some practices are widely spread, typically information sharing (75.2), while others, namely involvement in institutionalized mixed commissions, are only rarely adopted (30%). Comparing the first to the second wave, the diffusion of team working and financial participation remain almost stable (only 20-25% of workplaces have adopted them) while there is a slight increase in the diffusion of job rotation (from 25% to 30%). As far as the productivity impact of the practices is concerned, the econometric results available on the first wave suggest that positive effects are favoured by high skills and by good industrial relations; in particular, team autonomy, consultation, information sharing, selective hiring and cognitive training increase productivity only if the firm's has good industrial relations and a relatively flat organizational structure (Cristini, Gay, Labory and Leoni (2003)).

### **The different institutional contexts**

The evidence on the diversity of the institutional contexts in which the Italian and the British firm operate, has been thoroughly documented. As far as the labour market is concerned, Italy and The UK are at the two extremes of the employment protection legislation (EPL) ranking: Italy is among the strictest countries, both in the eighties and in the nineties<sup>5</sup> and The UK is among the most liberal countries (Nicoletti et al. (2000)). Italy also ranks high in product markets regulation (see figure 2). Djankov et al. (2002) find that

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<sup>4</sup> There are three different local surveys covering some areas of Lombardy and Emilia-Romagna. See for example Colombo and del Mastro (2000), Pini (2004) and Cainelli et al (2001).

<sup>5</sup> Lazear (1990), for the period 1956-84, and Bertola (1990), for the late 1980's, rank Italy as the strictest country in terms of EPL. A study by the OECD's Employment Outlook for the late 1980's, ranks Portugal as the strictest country followed by Italy, Spain, and Greece and a similar study by the OECD's Employment Outlook for the late 1990's, which includes Turkey, North America, and Transition Economies as well, continues to rank Portugal as the strictest, followed by Turkey, Greece, Italy and Spain. The study by Nicoletti et al. (2000), which does not include some of the countries in the OECD's Employment Outlook study, also ranks Italy third, after Portugal and the Netherlands, in terms of the strictness of regulations on permanent contracts.

it is one of the most restrictive countries for the number of procedures required to set-up a business while the UK is one of the least demanding countries<sup>6</sup>. According to a broader measure of product market regulations<sup>7</sup> Nicoletti et al. (2000) rank Italy third and The UK last, out of 27 OECD countries. By breaking up this measure into administrative burdens to start-ups, regulatory opacity, and barriers to competition, UK always ranks last while Italy ranks first in terms of administrative burdens to start-ups. According to the same data, Italy also appears heavily regulated in terms of state involvement while the UK ranks above EU average. To draw a picture of the institutional context specifically faced by manufacturing firms in 2003, a few additional elements should however be accounted for. Firstly, the manufacturing sector produces tradable goods, hence firms are likely compete in international markets where the degree of competition is similar<sup>8</sup>. Secondly, the temporary labour contract surge has reduced somewhat the famous rigidity of the Italian labour market, by making it easier for firms to adjust their workforce. Finally, the strength of the pound in the period under consideration relative to the euro has probably penalized the British firms. All these remarks could indeed mitigate the expected role of the institutional context.

### **3. The dataset**

#### **The data for the Italy**

The dataset used for Italy is drawn from two surveys conducted in two provinces of Lombardy, the most industrialized region of the country, producing in 2003 over 27% of the Italian industrial VA (excluding constructions) and employing over a fourth of the Italian employees working in that sector. The two provinces together make up, in the same year, 23% of the region's industrial VA (excluding construction) and employ an equal percentage of workers in the same sector; moreover their productive structure is well representative of large areas of the North of Italy and some areas of Central Italy, which make us believe that the analysis, although carried out on a specific sample of firms, can provide valid

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<sup>6</sup> An entrepreneur in Italy has to follow 16 different procedures to acquire the necessary permits to start a business, which is the same number required in Senegal, Ecuador, Romania and Vietnam, and well above the worldwide average number of 6.04 procedures. The corresponding number for UK is only 5. This study also finds, that in Italy the minimum time to start up a firm is about 62 days, while in UK is just about 4 days.

<sup>7</sup> This measure captures: (1) barriers to entrepreneurship (e.g., administrative burdens on start-ups and corporate firms, licensing and permit systems, existence of antitrust exceptions for public enterprises), as well as (2) state control over business enterprises (e.g., size of public enterprise sector, price controls in competitive industries)

<sup>8</sup> We find confirmation of this in both our samples where only 20% of the firms declares to have a high market share. The inclusion of a market share indicator in Britain regressions is positive but not significant and does not change the results.

results beyond the local industrial context and comparable to those obtained from the British sample. In particular, the sources of information used for the empirical analysis are the following: 1) a survey conducted in 2003 among the universe of firms belonging to the Bergamo Province Industrial Employers Confederation; 2) a very similar survey in the same year on all firms belonging to the Brescia Province Industrial Employers Confederation; 3) a longitudinal balance sheet data-set relative to both samples of firms. The questionnaires<sup>9</sup>, which comprise various sections covering organisational design and work practices, were sent to 350 firms located in Bergamo and to 200 firms located in Brescia. The response rate was respectively 30 and 40 percent, implying a final sample of 100 firms located in the province of Bergamo and 83 located in the province of Brescia. For the empirical analysis we combine these two samples given that the questionnaires are identical in the sections of interest and that the two provinces are located next to each other. The questionnaires provide us with detailed data on workplace practices and other important firm characteristics (size, sector, market share, etc ) at plant level<sup>10</sup>.

Information on value added, capital stock, accumulation rate, leverage and profits is drawn either directly from the Balance Sheets Collector (Centrale dei Bilanci di Torino) or from a huge database of accounts, ratios, activities at company level (AIDA). For comparability with the information available for the British sample of firms, we use only the financial information of the accounting year in which the survey was conducted. Finally, in order to match plant level practices with plant level productivity and performance, we focus the analysis on mono-plant firms: the final sample then comprises 92 mono-plant firms. In line with the population distribution by sector, almost one fourth of the respondents belongs to the metal and machinery sector, 1% to the chemical one and 6% to the textile sector (see table 1). As far as the size distribution is concerned, most firms are of small size (50-100 employees). Although this group represents over 50% of the whole firm population, focusing on mono plant firms seems to reduce the number of middle and large firms and this could cast some doubts on the representativeness of the sample. Moreover previous literature widely stresses different probability of adoption between small and large firms and this could weaken the analysis on the impact of workplace practices on firm performance for the Italian context. However this seems not to be the case as the simple correlation coefficients between the number of innovative practices and firm size is 0.12 in

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<sup>9</sup> An English version of the questionnaires is available upon request from the authors.

<sup>10</sup> The sections of the questionnaires are the following: hierarchical levels, teamworking, industrial relations, hiring and selection procedures, extent and quality of training, consultation and information sharing, incentive pay systems.

the sample comprising both mono and multi plant enterprises. The descriptive statistics relative to the financial performance are reported in table 2.

### **The data for Britain**

For Britain we use the WERS 2004 Management survey. WERS is a nationally representative survey of workplaces with five or more employees. Our focus on private manufacturing sector workplaces, with 50 or more employees and with information on objective financial performance, drops the usable sample to 123 workplaces. The management questionnaire provides us with data on workplace practices, while the financial performance questionnaire provides objective measures on the performance of individual establishments for the accounting year 2003. The dataset also includes a subjective measure of financial performance based on the respondent's opinion as to whether the level of financial performance in the establishment is, relative to other establishments in the industry, "A lot better than average" "Better than average" "About average" "Below average" or a "A lot below average". The responses to this question are skewed towards positive responses, as usually the case in this type of qualitative questions. In the estimation sample, for example, only 9 percent of managers rates the financial performance at their workplaces to be "a lot below" or "below average", whereas 40 per cent rates it as "average", 53 per cent rates it "above average" and 13 per cent rates it "a lot above average". Kersley et al (2006) undertake a careful comparison of the subjective and accounting-based productivity measures for the private sector in WERS 2004 and find that the correlations between the two measures are modest. This is a reason why we decided not use the subjective measure and focus our analysis on the objective measure; moreover this choice avoids the problem of comparing qualitative and subjective measures across the two countries. The distribution of the firms by industry and by size is reported in table 3<sup>11</sup>.

A fifth of the firms operates in the metal machinery sector, another fifth in the textile industry and 12% belongs to the chemical sector. With regard to the dimension, half of respondents are of small size (50 -100 employees) and one fifth are firms of large size

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<sup>11</sup> We always take account of the complex sample design used for WERS04, which involved disproportionate stratified sampling by workplace size and industry sector. The potentially biasing effects on descriptive statistics are accounted for by using the sampling weights provided in the data set, these weights being approximately equal to the inverse of the probability of selection of each establishment into the sample. For a straightforward discussion of the importance of accounting for the sample design in analysis of WERS data, see Purdon and Pickering 2001.

(more than 200 employees). As far as the measure of firm performance is concerned, we use objective data of labour productivity obtained, for the British sample from the additional financial information available in WERS 2004. Unfortunately, this is available only for the year 2003 and will restrict us to a cross section production function. The objective measures of financial performance are reported in table 4: the value added of the British firms is, on average, 60% higher than the VA of the Italian firms even if the average firm size is almost the same; the British firms are however more capital intensive with respect to the Italian ones.

### **Definition of workplace practices and their diffusion among firms**

The task of comparing workplace practices across countries is not an easy one essentially because there isn't a precise and shared definition of what in the literature is referred to as "high performance workplace practices"; the problems one encounters are of two broad types (Cristini et al 2003).

First of all, the definition of workplace practices is survey-specific since questionnaires differ across surveys and the way a practice is defined depends on the way questions are posed and answered. Secondly, even if the questionnaires were the same, the practices are still likely to differ in their implementation so that, ideally one should measure not so much what employers or managers say they do, but how they do it (Black and Lynch 2000); this is particularly important as it is how a workplace practice is actually implemented within the workplace that determines the extent to which it can affect the firm's performance (OECD 1999).

Whereas the second problem is the focus of this paper, particularly insofar as the different institutions firms face in different countries may affect the working of otherwise similar practices (Greenan and Mairesse 1999; Millward 2000), the first issue is solved, in our case, since the two questionnaires use equal phrasings to detect practices, as explained in the previous sections. Hence we are able to define a precise set of workplace practices and in doing this we follow Bryson et al (2005) and Forth et al (2004); specifically, we focus on the following three broad indicators: task practices, individual supports, and organisational supports.

The first group of practices includes three definitions of team working: i) at least 60% of employees in the largest occupational group work in formally designed team (*Team*, hereafter); ii) at least 60% of employees in the largest occupational group work in formally

designed team and team members jointly decide how the work is to be done (*Team\_joint*, hereafter); iii) at least 60% of employees in the largest occupational group work in formally designed team and team members are given responsibility for specific products and services (*Team\_resp*, hereafter). Task practices also include a measure of job rotation defined as a dummy equal one if at least 60% of employees in the largest occupational group are formally trained to be able to do jobs other than their own<sup>12</sup> (*functional flexibility*, hereafter).

The individual support practices refer to: i) meetings between senior managers and the whole workforce that occur at least monthly and where at least 10% of time is given over to questions or contributions from employees (*meetings*, hereafter); ii) information regularly given by the management to the employees or their representatives about the establishment's financial position and the internal investment or staffing plans (*information disclosure*, hereafter); iii) human relations training covering teamworking, communication or problem solving addressed to the largest occupational group in the last 12 months (*human relation training*, hereafter).

Finally, the organisational support practices consist of all the financial participation schemes targeted to at least 60% of the non-managerial employees in the last 12 months like employee share ownership scheme, profit- or performance related pay (*financial participation*, hereafter).

According to this specification, the individual supports practices are designed to give employees the skills and information that are needed to work in an "involved manner" (such as working in teams), whilst the organisational support practices are designed to help secure and retain a stable and committed workplace (Bryson et al 2005).

Before estimating the effect of these practices on the firm performance, which we will discuss in the next section, we briefly analyse the extent of adoption at a certain point in time in each sample. As we can see from table 5, Italian mono plant firms base their organisation on individual supports: nearly 70% of them adopted information disclosure, 30% Meetings and about another 30% human relation training. They have also a fair extent of financial participation schemes (25%) and of functional flexibility (31%). On the other hand aspects regarding working in team with autonomy or responsibility are virtually ignored: less than one fifth of workplaces have adopted them. Concerning the British establishments, they seem to have a more coherent organisation where along the diffusion of the employee involvement (working in teams) we find also an extensive adoption of

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<sup>12</sup> The closer definition of this practice in the Italian questionnaire is whether employees are asked to do jobs other than their own.

some complementary initiatives such as human relation training and financial participation schemes. In this context the effects of employee involvement on firm performance should be higher, given the supports of other workplace practices.

Using simple two sample t tests, we find some preliminary evidence on the complementarity between teamworking and financial incentives in both the Italian and the British context. The evidence is based on two results: i) workplaces where teamworking is simultaneously adopted with financial participation have generally a statistically higher mean value added per worker with respect to those establishments where these practices are introduced alone (see table 6); ii) the value added per worker of establishments adopting either teamworking or financial participation is not statistically different from that of firms adopting neither of them. In the same way, we also investigated complementarity between teamworking and human relation training and found no evidence of it. (see table 7).

#### 4. Econometric issues and evidence

In order to test the effects of workplace practices on the firm's performance, we assume that the production function for the  $i$ th establishment can be represented by the following function:

$$Y_i = F(H_i, K_i, A_i) \quad (1)$$

where all variables refer to the year 2003<sup>13</sup>.  $H_i = e^{\gamma S_i} N_i$  is the skill-augmented labour input where  $S_i$  is a high skill dummy and  $N_i$  is the number of employees. The dependent variable is the firm's objective value added,  $K_i$  is the capital and  $A_i$  is a vector of multifactor productivity related variables among which we include the firm's workplace practices. The log linear-specification of equation (1) take the following form:

$$y_{ij} = \alpha_i + \beta_1 n_{it} + \beta_2 k_{it} + \beta_3 S_{it} + \beta_4 taskp_{it} + \beta_5 individuals_{it} + \beta_6 financialp_{it} + \varepsilon_{it} \quad (2)$$

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<sup>13</sup> As explained in the previous section, for the British sample the financial data are available only for the accounting year 2003 which prevents using panel data to estimate the production function. Notice in addition that the workplace practices for Britain are recorded some time after 2003; generally it is assumed that workplaces practices have not changed to any substantive degree during this spell of time.

where *taskp* is a vector of task practises dummies, *individuals* is a vector of individual support practices dummies, *financialp* is financial participation and  $\varepsilon_{it}$  is the idiosyncratic error component.

In estimating equation (2) four major problems should be considered:

- 1) suitable and sufficient controls of firm specific characteristics must be provided for the estimated coefficients to be unbiased; this is extremely important, particularly if the unobservable time invariant part of the error term is correlated with other regressors, namely the inputs in the production function and in particular the workplace practice indicators.
- 2) Some variables are likely to be measured with errors (such as capital); and this measurement error may exert a downward bias on the corresponding estimated coefficients.
- 3) Capital, employment and output are likely to be simultaneously determined, implying endogeneity of  $n$  and  $k$  in equation (2). This should bias upward  $\beta_1$  and  $\beta_2$ .
- 4) We only evaluate the short run impact of workplace practices on financial performance. This could lead to an underestimation of true impact given that some practices may take some time before influencing firm performance.

The availability of only cross-section information prevents the direct use of panel techniques, which could have easily solved our worries. Hence, bearing all these considerations in mind, we will skip the interpretation of the coefficients on employment and capital knowing that they could be biased due to both endogeneity and measurement error and we will interpret the estimates of the effects of workplace practices on establishment performance as statistical correlations that could give some guidance on the true causal effect. Table 8 reports the results of the estimated equation (2) for the Italian sample. Models 1 to 3 differ for the definition of teamworking while models 4 to 6 include interactions terms. The use of *functional flexibility* is positively related to VA and this result is robust across all specification; teamworking also takes a positive coefficient but it is statistically significant only when defined 'quantitatively'; when qualifying teamworking either in terms of autonomy or responsibility (*Team\_joint* and *Team\_resp* respectively) the coefficients drops somewhat, specially in the case of autonomous teams. Of the two individual support practices, the use of *meetings* is positively associated with the firm's performance across all specifications whereas the top-down *information disclosure* shows a consistently negative coefficient. *Human relation training* is only marginally significant but

negative throughout. However, the positive interaction with teamworking, counterbalance this effect and is particularly relevant in presence of output-responsible teams. Moreover the results suggests that the consistently positive coefficient of the high skill dummy already captures the association between human resource training and VA. Finally, the relation between VA and *financial performance* is positive but very low, in line with the only marginal share that PRP schemes still play in the Italian workplaces. These findings confirm, first of all, the relevance of high skills for the firm performance, a result that backs that of Cristini et al (2003) on the first wave sample. Secondly, they indicate the significance of some traditional task practices (teamworking) but also of some 'innovative' ones, like job rotation, which we saw increased in diffusion since 1999. However, advanced forms of employees' autonomy and empowerment are not yet significantly associated with performance although specific human resource training could channel VA increases through output-responsible teams. Thirdly, among the individual support the reciprocal information in terms of meetings is strongly linked to VA, contrary to the top-down information. Finally, the practice of motivating employees by linking pay to performance is, in the Italian workplaces still far from bearing a significant effect on performance<sup>14</sup>.

Table 9 reports the corresponding results for the British sub-sample. As we have already said in the description of the dataset, we do take account of the complex sample design used for WERS04 in all estimations<sup>15</sup>. Given that we are working only on a subset of the full dataset, we encounter situations in which some strata are represented by just one workplace. We remedy by identifying these single strata and combining each of them with its closest neighbouring stratum. The impact of the sample design on the standard errors is accounted for by the use of a linearised variance estimator (Bryson et al 2005). The estimated results indicate that workplace practices have, if anything, only a tenuous link with the VA. Although traditional *teamworking*, *meetings*, *information disclosure* and *financial participation* are all positively associated with VA, the values of the coefficients are rather low and not significant at the usual level. Advanced teamworking and job

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<sup>14</sup> The negative or low effect we estimate for some practices may in principle be due to fixed costs borne by the firm at the start of the adoption (influence costs, expenditure for consulting and for training, non-production during organisational changes). We think however this is not the case for our sample of firms: running regressions on the value added of the successive available accounting years, namely 2004 and 2005, we find that the medium run impact of practices on financial performance seem to be quite similar to the short run one Results are available on requests from authors.

<sup>15</sup> The sampling weight used is the FPQWTNR, i.e. the standard establishment weight for the subset of cases returning a Financial Performance Questionnaire.

rotation even show a negative sign. Analogously to the Italian case, *human relation training* is negatively associated with performance but in this case the high skill dummy does not pick up any positive effect. One possible explanation, as suggested in footnote (8) could be the contemporaneity between the implied training costs and the dependent variable, but we have no data to check for this presumption.

On the whole, the results obtained so far indicate that the adoption of innovation practices has spread substantially more across the British manufacturing firms than across the Italian ones; however they also indicate that the practices' association with the firms' VA is much lower in Britain than in Italy. One possible explanation of this fact is that the British context, characterized by market flexibility and competitiveness, exerts a stronger pressure for the adoption of such practices; at the same time, however, the performance effect of the workplace practices is small, on the whole, as the market discipline dominates. If this is the case, we should find that in the more regulated Italian context the pressure to innovate the workplace is lower but the innovative practices, where present, have a stronger association with the firm performance as their effectiveness is comparatively larger given the smaller 'incentive' provided by the market. Indeed this is, *prima facie*, what we observe in the Italian sample.

Notice also that both for Britain and for Italy the mediating effect of unions, observed in previous studies (Bryson, 2005; Cristini et al, 2003), is not immediately relevant here since all establishments in Britain sub-sample we analyze have at least one recognized union and the same is true for the Italian sample, where union representatives are present in all firms. The inclusion of a good-industrial-relations variable as additional control does not change the results. Finally, it is possible that our analysis did not detect performing bundles if these are made up of a number of practices greater than two. The small number of observations prevent us from pursuing this issue further using these datasets.

#### **4.1 Counterfactual analysis**

To shed some light on the first of the possible explanations mentioned above, we compare the average predicted (log) VA of the Italian establishments with that of the British ones and apply an Oaxaca-type decomposition method on the difference between the two. In this way we can quantify the relative role of two components: the difference in the establishment characteristics (endowment or variable effect) and the difference in the

estimated coefficients (coefficient effect)<sup>16</sup>. If equation (2)<sup>17</sup> is estimated separately for each country, using Italy as reference, the difference in the average predicted log of VA between the British establishments and the Italian ones can be decomposed as follows:

$$(\hat{y}_{uk} - \hat{y}_{ita}) = [(\bar{x}_{uk} - \bar{x}_{ita})\hat{\beta}_{uk}] + [(\hat{\beta}_{uk} - \hat{\beta}_{ita})\bar{x}_{ita}] \quad (3)$$

The first term in brackets in equation (3) measures the contribution of the difference in establishment characteristics and the second term indicates the difference in the average value added due to differences in estimated coefficients (i.e. coefficient effect). On the basis of the results presented in tables 8 and 9, we decompose the differences in the average predicted value added into these two components. Table 10 reports the results of the Oaxaca decomposition. The diagonal components are the average predicted (log)VA using establishment characteristics and estimated coefficients associated with the same country; the columns give the effect on the value added triggered by changing the establishment characteristics and the rows report the corresponding effect due to changing the estimated coefficients. If we compare the Italian with the British establishments the average predicted log of value added are 8.67 and 9.65, respectively<sup>18</sup>. If Italian workplaces are attributed the British establishments' characteristics, the average predicted log of value added increases from 8.67 to 10.17, i.e. an increase slightly larger than a standard deviation and sufficient to move the median firm to above the 90% percentile. On the other hand if the Italian establishments operate according to British context, the average predicted value added increases by only around 7% (coefficient effect), insufficient to bring about an important change of the position in the VA distribution. As reported at the bottom of table 10, the weight of the two components is very different: the variable effect explains most of the difference in the predicted value added (about 90%), while the coefficient effect accounts only a modest fraction of it. According to our analysis, the difference in the VA performance between British and Italian establishments in the private manufacturing sector is mainly explained by the difference in the endowments of inputs (high skilled employees and capital) and in workplaces practices and to a less

<sup>16</sup> In our case we can think of the coefficient effect as capturing the marginal productivity of the production function inputs

<sup>17</sup> In this case we estimate equation(2) not introducing the region dummies for the British sub-sample to have a specification that is fully comparable with that of Italian sub-sample. We think this is not a problem for the estimation since the regional dummies are not highly statistically significant and the coefficients of the other variables are quite robust to their exclusion.

<sup>18</sup> Figure 3 reports the kernel densities of the predicted value added for both the Italian and the British establishments.

extent by the institutional context per se. This is also illustrated in figure 4 where we see that the kernel density of the predicted value added for the Italian establishments is fairly similar to its counterfactual density, the latter representing the behaviour of the Italian establishments in the British institutional context. On the other hand, figure 5<sup>19</sup> indicates that when the Italian establishments are attributed the characteristics of the British ones, the fat left tail of the (log) VA distribution disappears and the firms concentrate around the mean value. Quite interestingly the effect does not impact on the right tail of the best performing firms: higher endowments in terms of skills, capital and workplace practices cure the poor performers but do not provide an additional boost for the best performers.

#### **4.2 New workplace practices and employees' job satisfaction in the British context**

For Britain we find that new workplace practices do not influence the establishment's value added, thereby confirming some previous results (Wood and Menezes, 1998; de Menezes et al. 2001; Bryson et al. 2005). In this section, we investigate if these practices are at least correlated with employees job satisfaction<sup>20</sup>. Freeman and Kleiner (2000), for example, find, on US data, that employee involvement practices have no significant effect on productivity but a positive effect on the employees' job satisfaction.

To address this question, we draw on data from the WERS 2004 Employment Survey and we match it with the Management Survey. The units of analysis in this section are the sampled employees in each establishment. We have data on our variables of interest for 1,600 workers belonging to 123 establishments used in the main analysis. The employee survey asks workers to rate their level of satisfaction with respect to seven aspects of their employment: sense of achievement obtained from work, scope for using own initiative at work, the amount of own influence over job, the training received, the pay received, job security and the actual work itself. Each of these categories is assigned a rank between 1 and 5, with 1 representing "very satisfied". Missing a question on overall job satisfaction, we sum the ranks of each of the 7 items mentioned above and take the quartiles of its distribution as the main categories of our overall indicator. Following Bender et al (2005), we estimate the following ordered probit regression model of each aspect of job satisfaction and for the overall indicator:

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<sup>19</sup> We also perform a one-sample Kolmogorov-Smirnov test according to which the equality of the two distributions is strongly rejected.

<sup>20</sup> We cannot extend the analysis to the Italian sample because this is not a matched employer-employee dataset

$$JS_{ij}^k = Z_i \beta^k + X_j \gamma^k + \varepsilon_{ij}^k \quad \text{with} \quad JS_{ij}^k = m \quad \text{if} \quad \text{rank}_m < JS_{ij}^k < \text{rank}_{m+1} \quad (4)$$

where  $JS_{ij}^k$  is job satisfaction on item  $k$  of employee  $i$  in the establishment  $j$ .  $Z_i$  are the individual level characteristics concerning the worker and the working position, such as tenure, hours worked, education, union membership, age and wages<sup>21</sup>.  $X_j$  include establishment level variables, i.e. size, industry, skill composition of the workplace and most importantly the new workplace practices. The results are reported in tables 11 and 12. The coefficients for all the individual characteristics are omitted from the tables because they are robust to all specifications and reflect findings reported elsewhere<sup>22</sup>. As it has been found in the main literature in this field (Clark 1997, Groot et al 1999, Bender et al 2006, Asadullah et al 2006) earnings and hours worked are not correlated with job satisfaction, while education and tenure seem to influence it negatively. This is also true if we consider union membership. Men, workers with poor health and workers of larger establishments seem to be less contented. Interestingly, establishments with higher-skilled employees tend to have more satisfied employees. More relevant to our purposes are the coefficients relating to the firm-level variables on workplace practices. Only human relation training seems to have a positive effect on our measure of overall satisfaction and on satisfaction on training, pay and job security. Functional flexibility increases satisfaction on training and pay. On the other hand, financial participation and information disclosure are negatively related with the overall job satisfaction and with satisfaction on the sense of achievement, pay and job security. Team working and meetings seem to be irrelevant for job satisfaction. Overall these results indicate that management practices per se play only a weak role in influencing job satisfaction. As in Bloom and Van Reenen (2006), we don't find evidence for the pessimistic view according to which management practices may raise productivity at the expenses of wellbeing at work but cannot argue, by contrast, that management practices are beneficial for workers as in the human resource management literature<sup>23</sup>.

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<sup>21</sup> Unfortunately the data tenure and wage are reported in interval-censored form instead of in a continuum. We linearize them using the mid-point of each interval.

<sup>22</sup> The results are available on request from authors.

<sup>23</sup> See, among others, Delaney and Huselid 1996, Huselid et al 1997.

## 5 Conclusions

Using data from the 2004 Workplace Employee Relations Survey on British establishments and two comparable surveys on manufacturing firms located in the North of Italy, this paper contrasts the adoption of workplace practices in the manufacturing private sectors of the two countries and looks at the impact of new workplace practices on objective measures of financial performance. We find that: (i) the adoption of innovation practices has spread substantially more across the British manufacturing firms than across the Italian ones; (ii) the statistical association between the innovative practices and the firms' performance is lower in Britain than in Italy; (iii) for the British establishments, we also find that innovative practices play a weak role in influencing job satisfaction. We further explored the first two results by means of a counterfactual analysis which suggests that had the Italian workplaces the same characteristics of British ones, in terms of diffusion of practices, capital intensity and skills, their average predicted value added would triplicate. This would essentially come about by trimming the left tail of the performance distribution while leaving the right tail virtually unchanged. On the other hand, were the Italian establishments to move and operate in the British context, their financial performance would improve very modestly. We conclude that the difference in the financial performance between British and Italian establishments in the private manufacturing sector is mainly explained by difference in the endowments rather than by the institutional context in which they operate, although the latter is also very different. Our results agrees with Leoni et al. (2000) according to which about 80% of the firms in the Italian sample is still largely organised on very traditional schemes based on narrow skills, low levels of delegation and extensive hierarchy. This Tayloristic work organisation appears inadequate to fully exploit the potential of the complex and versatile investments in advanced manufacturing. Policy aiming at the diffusion of new forms of organisation through incentives to employers, together with skill improvements, could partly alleviate the problems regarding performance and competitiveness of Italian manufacturing firms and could help them to catch up the British ones.

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**Table 1: Size and sector distribution, sample of Italian firms.**

Sectors	Size (n. of employees)				Total
	50-100	100-150	150-200	≥ 200	
Metal and machinery	37.5	8.33	12.5	41.67	26.67
Chemicals	100	0	0	0	1.11
Textile	80	20	0	0	5.56
Other	38.33	31.67	8.33	21.67	66.67
Total	41.11	24.44	8.89	25.56	100

**Table 2: Summary statistics on firm performance (Italian firms), nominal values in thousands of euros.**

Variables:	obs	mean	s.d.	min	max
Average number of employees	91	159.94	147.18	50.00	1008.00
Value Added	92	7699.56	9208.35	40.90	60405.04
Value Added per employee	91	50.52	33.96	0.27	234.214
Capital	91	9121.55	19082.19	49.53	159444.00

**Table 3: Size and sector distribution, sample of British firms.**

Sector	Size (n. of employees)				Total
	50-100	100-150	150-200	≥ 200	
Metal and machinery	75.6	6.75	12.46	5.19	22.41
Chemical	21.78	11.36	19.36	47.51	12.2
Textile	61.5	14.23	10.38	13.89	21.76
Non metal	65.13	3.25	9.17	22.45	19.8
Others	31.04	17.18	19.09	32.7	23.83
Total	53.27	10.73	13.78	22.22	100

**Table 4: Summary statistics on firm performance (British firms), nominal values in thousands of pounds.**

Variables	obs	mean	s.d.	Min	max
Average number of employees	123	180.41	338.96	51.00	10006.00
Value Added	108	11984.47	44916.41	-120370.	476964.00
Value Added per employee	108	52.90	83.75	-100.57	1059.92
Capital	86	154795.70	1999572.00	865	2.80E+07

**Table 5: Incidence of workplace practices in the manufacturing sector establishments, Britain 2004 and Italy 2003.**

	ITALY	UK
	Percentage of workplaces	
<b>Task practices</b>		
Team	20	75.3
Team_joint	12.2	37.2
Team_resp	14.4	67.2
Functional Flexibility	31.1	22.3
<b>Individual supports</b>		
Meetings	31.1	17.9
Information disclosure	67.7	58.3
Human relations training	27.7	62
<b>Organisational supports</b>		
Financial participation	25.5	50

**Table 6: Complementary of team working with financial participation, ttest on mean productivity.**

	Mean va per worker	
	ITA	UK
Nor Team or Financial participation	49.91	37.77
Team or Financial participation	49.84	51.57
p-value (Ha: diff≤0)	0.5	0.24
Nor Team_joint or Financial participation	48.8	49.79
Team_joint or Financial participation	51.7	49.18
p-value (Ha: diff≤0)	0.3	0.51
Nor Team_resp or Financial participation	48.35	35.62
Team_resp or Financial participation	52.4	52.66
p-value (Ha: diff≤0)	0.28	0.16
Team or Financial participation	44.43	43.54
Team and Financial participation	107.5	77.9
p-value (Ha: diff≤0)	0	0.05
Team_joint or Financial participation	51.85	54.95
Team_joint and Financial participation	48.9	32.34
p-value (Ha: diff≤0)	.	0.85
Team_resp or Financial participation	46.47	52.99
Team_resp and Financial participation	139.2	52.17
p-value (Ha: diff≤0)	0	0.51

**Table 7: Complementary of team working with human relations training, ttest on mean productivity.**

	Mean va per worker	
	ITA	UK
Nor Team or HR Training	46	37.52
Team or HR Training	55.77	51.38
p-value (Ha: diff≤0)	0.08	0.27
Nor Team_joint or HR Training	48.6	73.9
Team_joint or HR Training	52.28	40.06
p-value (Ha: diff≤0)	0.31	0.98
Nor Team_resp or HR Training	45.69	66.17
Team_resp or HR Training	57.29	45.6
p-value (Ha: diff≤0)	0.05	0.86
Team or HR Training	60.89	66.65
Team and HR Training	36.71	42.31
p-value (Ha: diff≤0)	0.9	0.91
Team_joint or HR Training	56.01	46.03
Team_joint and HR Training	28.94	32.16
p-value (Ha: diff≤0)	0.95	0.91
Team_resp or HR Training	60.09	47.14
Team_resp and HR Training	43.26	44.49
p-value (Ha: diff≤0)	0.77	0.56

**Table 8: The effects of workplace practices on value added, Italian sample.**

	Model1	Model2	Model3	Model4	Model5	Model6
In N	0.93*** (0.14)	0.94*** (0.20)	0.87*** (0.14)	0.88*** (0.12)	0.97*** (0.19)	0.79*** (0.11)
In K	0.39*** (0.03)	0.34*** (0.03)	0.38*** (0.03)	0.40*** (0.03)	0.32*** (0.03)	0.41*** (0.03)
High skilled	0.45** (0.18)	0.53** (0.23)	0.44** (0.19)	0.37** (0.17)	0.50** (0.23)	0.22 (0.17)
Team	0.50** (0.23)			0.36 (0.24)		
Team_joint		0.19 (0.25)			0.04 (0.22)	
Team_resp			0.37 (0.27)			0.02 (0.18)
Team*financialp				-0.12 (0.40)		
Team*hrtrain				0.37 (0.31)		
Team_joint*financialp					-0.57 (0.39)	
Team_joint*hrtrain					0.59 (0.39)	
Team_resp*financialp						0.30 (0.65)
Team_resp*hrtrain						0.87*** (0.28)
Functional flexibility	0.43*** (0.14)	0.44*** (0.14)	0.46*** (0.14)	0.41*** (0.15)	0.40** (0.15)	0.47*** (0.15)
Meetings	0.22** (0.10)	0.25** (0.12)	0.26** (0.12)	0.22* (0.11)	0.30** (0.13)	0.20 (0.12)
Information disclosure	-0.51*** (0.18)	-0.40* (0.20)	-0.41** (0.18)	-0.46*** (0.16)	-0.40** (0.20)	-0.33** (0.16)
Human relations training	-0.26 (0.18)	-0.32 (0.24)	-0.29 (0.22)	-0.38* (0.21)	-0.44 (0.27)	-0.48* (0.24)
Financial participation	0.17 (0.12)	0.17 (0.13)	0.16 (0.12)	0.22 (0.14)	0.22 (0.14)	0.16 (0.13)
R sq.	0.94	0.93	0.93	0.94	0.93	0.94
N	78	78	78	78	78	78

Note: All regressions include industry dummies. Estimates are obtained using weighted least squares, the weights being the inverse of the firm size, defined by the number of employees. Heteroschedastic consistent standard errors.

**Table 9: The effects of workplace practices on value added, British sample.**

	Model1	Model2	Model3	Model4	Model5	Model6
In N	0.96*** (0.12)	0.91*** (0.13)	0.90*** (0.12)	0.97*** (0.13)	0.90*** (0.12)	0.92*** (0.12)
In K	0.13* (0.07)	0.15** (0.07)	0.16** (0.07)	0.13* (0.07)	0.16** (0.07)	0.16** (0.07)
High skilled	-0.10 (0.22)	-0.12 (0.23)	-0.10 (0.22)	-0.06 (0.21)	-0.08 (0.24)	-0.15 (0.24)
Team	0.23 (0.19)			0.50 (0.33)		
Team_joint		-0.11 (0.19)			-0.17 (0.29)	
Team_resp			-0.10 (0.20)			-0.38 (0.33)
Team*financialp				0.23 (0.36)		
Team*hrtrain				-0.70 (0.44)		
Team_joint*financialp					-0.29 (0.34)	
Team_joint*hrtrain					0.25 (0.33)	
Team_resp*financialp						-0.08 (0.36)
Team_resp*hrtrain						0.49 (0.38)
Functional flexibility	-0.24 (0.27)	-0.26 (0.28)	-0.28 (0.28)	-0.21 (0.25)	-0.22 (0.25)	-0.30 (0.28)
Meetings	0.10 (0.28)	0.10 (0.27)	0.11 (0.29)	0.10 (0.28)	0.10 (0.28)	0.14 (0.29)
Information disclosure	0.32 (0.26)	0.29 (0.28)	0.34 (0.25)	0.29 (0.26)	0.30 (0.28)	0.36 (0.24)
Human relations training	-0.55** (0.27)	-0.42* (0.23)	-0.42* (0.23)	-0.07 (0.28)	-0.49 (0.30)	-0.64** (0.31)
Financial participation	0.32 (0.24)	0.34 (0.25)	0.35 (0.25)	0.10 (0.33)	0.43 (0.29)	0.38 (0.33)
R sq.	0.68	0.67	0.67	0.69	0.68	0.68
N	81	81	81	81	81	81

Note: All regressions include industry dummies.

**Table 10: Oaxaca decomposition of the average predicted value added.**

Characteristics	Coefficients	
	Italy	Britain
Italy	8.666	8.733
Britain	10.175	9.657
Oxaca decomposition		
1) Variable effect	0.923	
2) Coefficient effect	0.067	
Total effect	0.99	

**Table 11: The effects of workplace practices on employees' job satisfaction, British sample.**

	Model1	Model2	Model3	Model4	Model5	Model6	Model7	Model8	Model9	Model10	Model11	Model12
High skilled	-0.12 (0.07)	-0.12 (0.07)	-0.14* (0.08)	-0.17** (0.07)	-0.17** (0.07)	-0.17** (0.07)	-0.14* (0.07)	-0.14* (0.07)	-0.15* (0.08)	-0.13* (0.07)	-0.13* (0.07)	-0.12* (0.07)
Team(1)	0.10 (0.06)			0.02 (0.05)			0.06 (0.05)			0.05 (0.08)		
Team(2)		-0.10 (0.08)			-0.05 (0.08)			-0.07 (0.07)			-0.09 (0.08)	
Team(3)			0.13* (0.07)			-0.04 (0.06)			0.06 (0.06)			-0.06 (0.08)
Functional flexibility	-0.04 (0.07)	0.03 (0.08)	0.00 (0.07)	0.02 (0.07)	0.04 (0.07)	0.03 (0.07)	0.06 (0.07)	0.08 (0.08)	0.06 (0.07)	-0.10 (0.08)	-0.07 (0.09)	-0.09 (0.08)
Briefings	0.13** (0.06)	0.11 (0.07)	0.13** (0.06)	0.07 (0.06)	0.06 (0.06)	0.05 (0.06)	0.08 (0.05)	0.07 (0.05)	0.08 (0.05)	0.10 (0.09)	0.09 (0.09)	0.08 (0.09)
Information disclosure	0.10 (0.07)	0.13** (0.06)	0.09 (0.06)	0.06 (0.06)	0.07 (0.06)	0.08 (0.06)	-0.02 (0.05)	0.00 (0.05)	-0.02 (0.06)	0.11 (0.08)	0.13 (0.08)	0.14* (0.08)
Human relations training	-0.10 (0.07)	-0.06 (0.07)	-0.08 (0.07)	-0.05 (0.06)	-0.04 (0.06)	-0.05 (0.06)	0.00 (0.07)	0.02 (0.07)	0.01 (0.07)	-0.24*** (0.08)	-0.23*** (0.08)	-0.24*** (0.08)
Financial participation	0.15** (0.06)	0.12* (0.06)	0.16** (0.06)	0.06 (0.06)	0.04 (0.06)	0.05 (0.06)	0.09 (0.06)	0.06 (0.06)	0.09 (0.06)	0.10 (0.07)	0.06 (0.07)	0.09 (0.07)
N	1603	1618	1618	1608	1608	1608	1599	1599	1599	1602	1602	1602

Notes: All regressions include relevant individual characteristics (tenure, log of hours worked, log of weekly wages, gender, age dummies, whether a union member, whether has dependants, schooling dummies, whether a supervisor, health status), and establishment level variables (size, industry and regional dummies). Model1-Model3(Sense of achievement); Model4-Model6(Own initiative); Model7-Model9 (Influence); Model10-Model12(Training)

**Table 12: The effects of workplace practices on employees' job satisfaction, British sample.**

	Model1	Model2	Model3	Model4	Model5	Model6	Model7	Model8	Model9	Model10	Model11	Model12
High skilled	0.06 (0.08)	0.06 (0.08)	0.07 (0.08)	0.21* (0.11)	0.21* (0.11)	0.20* (0.11)	0.03 (0.07)	0.03 (0.07)	0.02 (0.08)	-0.04 (0.07)	-0.04 (0.07)	-0.04 (0.07)
Team(1)	-0.05 (0.07)			0.14 (0.10)			0.04 (0.06)			0.04 (0.07)		
Team(2)		-0.18* (0.09)			0.08 (0.13)			-0.12 (0.08)			-0.15 (0.10)	
Team(3)			-0.11 (0.08)			0.04 (0.11)			0.04 (0.07)			-0.01 (0.08)
Functional flexibility	-0.16 (0.10)	-0.12 (0.10)	-0.16* (0.09)	0.05 (0.10)	0.05 (0.10)	0.07 (0.09)	0.03 (0.07)	0.06 (0.07)	0.03 (0.07)	-0.04 (0.08)	-0.00 (0.08)	-0.04 (0.08)
Briefings	0.05 (0.09)	0.06 (0.09)	0.03 (0.09)	0.02 (0.13)	-0.01 (0.13)	-0.00 (0.13)	0.05 (0.07)	0.05 (0.07)	0.05 (0.07)	0.10 (0.09)	0.09 (0.10)	0.08 (0.09)
Information disclosure	0.16** (0.08)	0.16** (0.07)	0.18** (0.08)	0.16 (0.11)	0.20* (0.10)	0.19 (0.12)	0.14** (0.05)	0.16*** (0.05)	0.14** (0.06)	0.15** (0.07)	0.17** (0.07)	0.16* (0.08)
Human relations training	-0.17** (0.08)	-0.15* (0.08)	-0.18** (0.08)	-0.19* (0.10)	-0.19* (0.10)	-0.17* (0.10)	-0.10 (0.06)	-0.08 (0.07)	-0.10 (0.07)	-0.15* (0.08)	-0.13* (0.07)	-0.15* (0.08)
Financial participation	0.15** (0.06)	0.10 (0.07)	0.15** (0.06)	0.20** (0.09)	0.21** (0.10)	0.19** (0.09)	0.06 (0.06)	0.02 (0.06)	0.06 (0.06)	0.16** (0.07)	0.11 (0.07)	0.16** (0.07)
N	1614	1614	1614	1566	1566	1566	1616	1616	1616	1524	1524	1524

Notes: All regressions include relevant individual characteristics (tenure, log of hours worked, log of weekly wages, gender, age dummies, whether a union member, whether has dependants, schooling dummies, whether a supervisor, health status), and establishment level variables (size, industry and regional dummies). Model1-Model3(Pay); Model4-Model6(Job security); Model7-Model9 (Work itself); Model10-Model12(Total satisfaction).

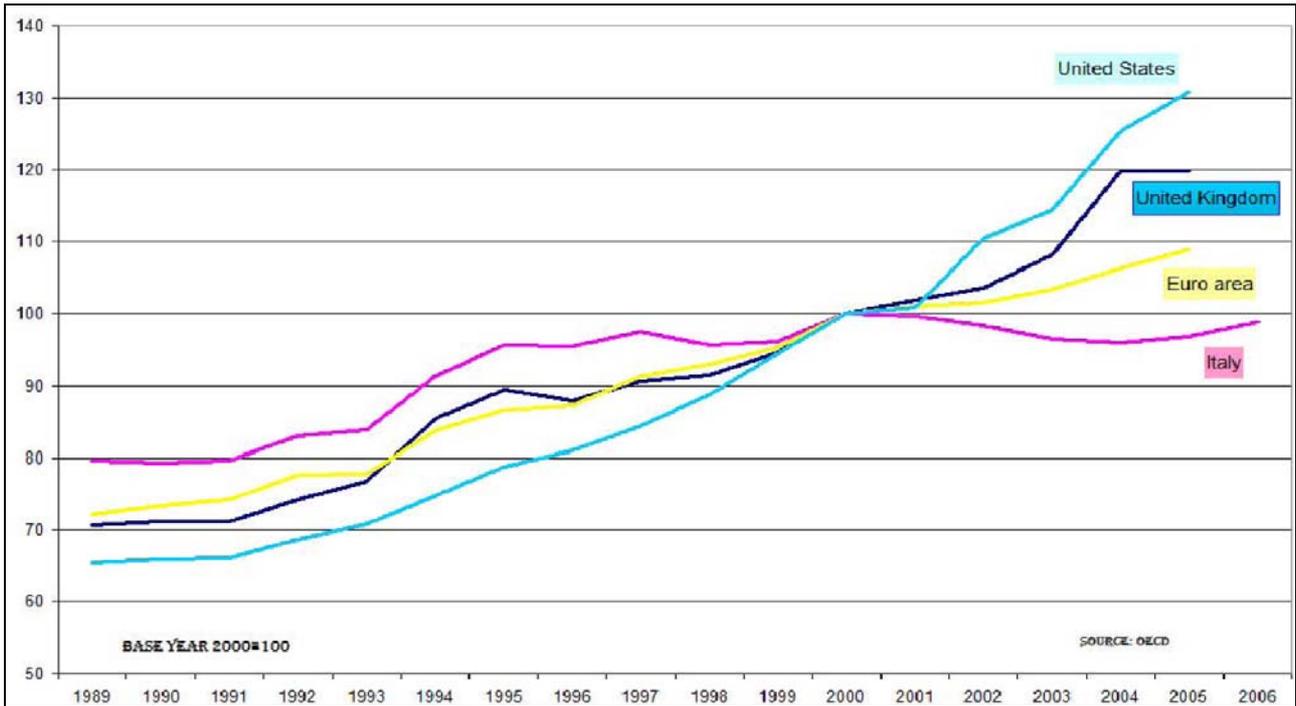


Fig.1: Average Labour Productivity, Manufacturing Sector, 1990-2006, Source: Oecd.

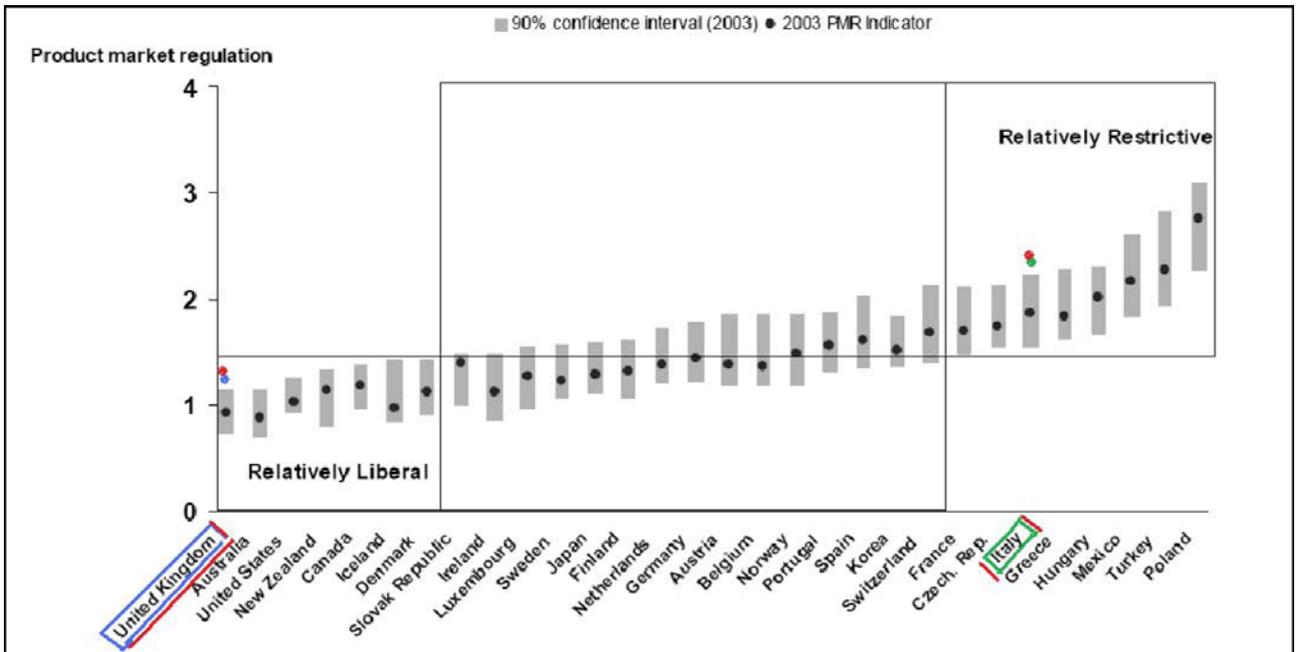
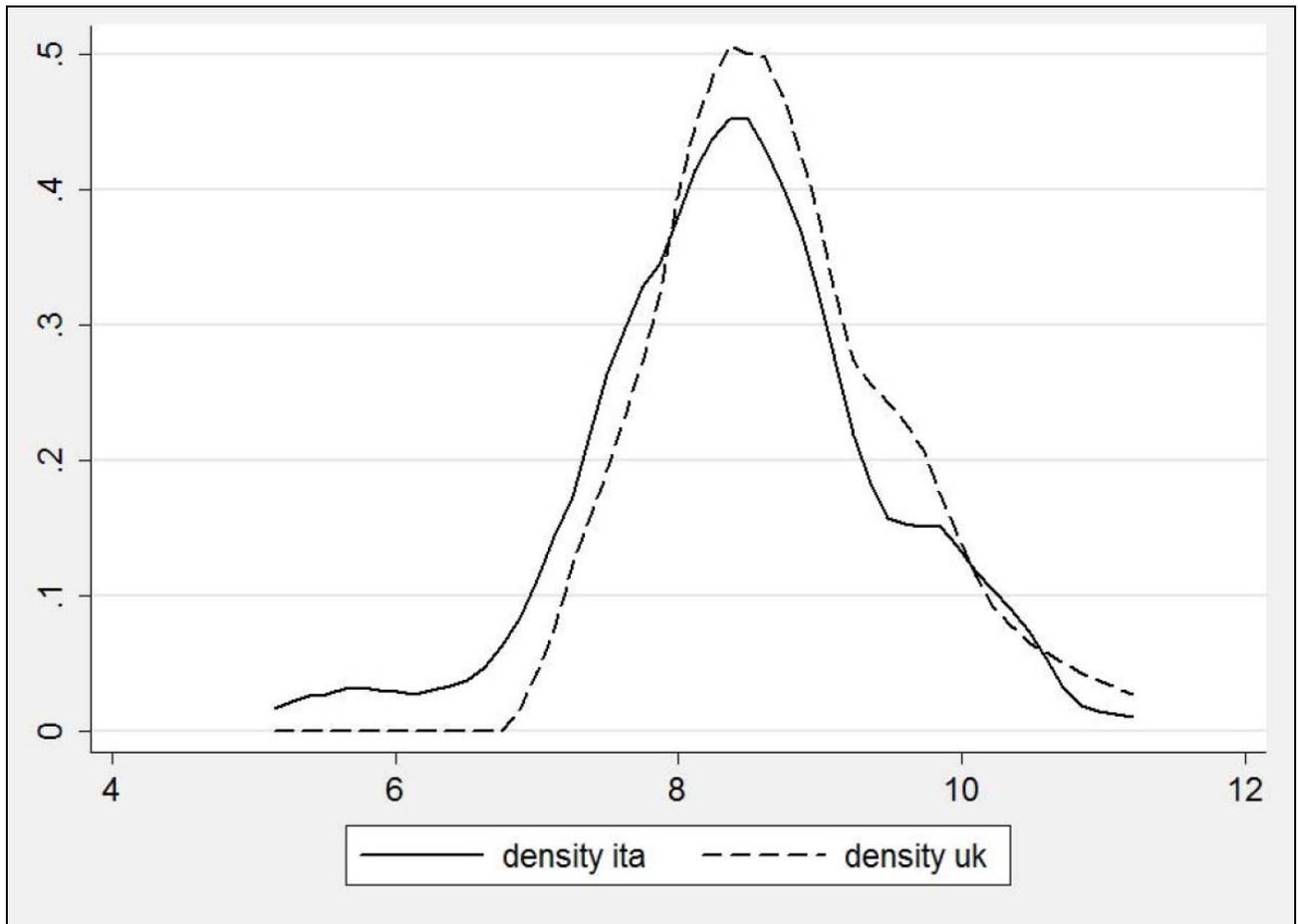
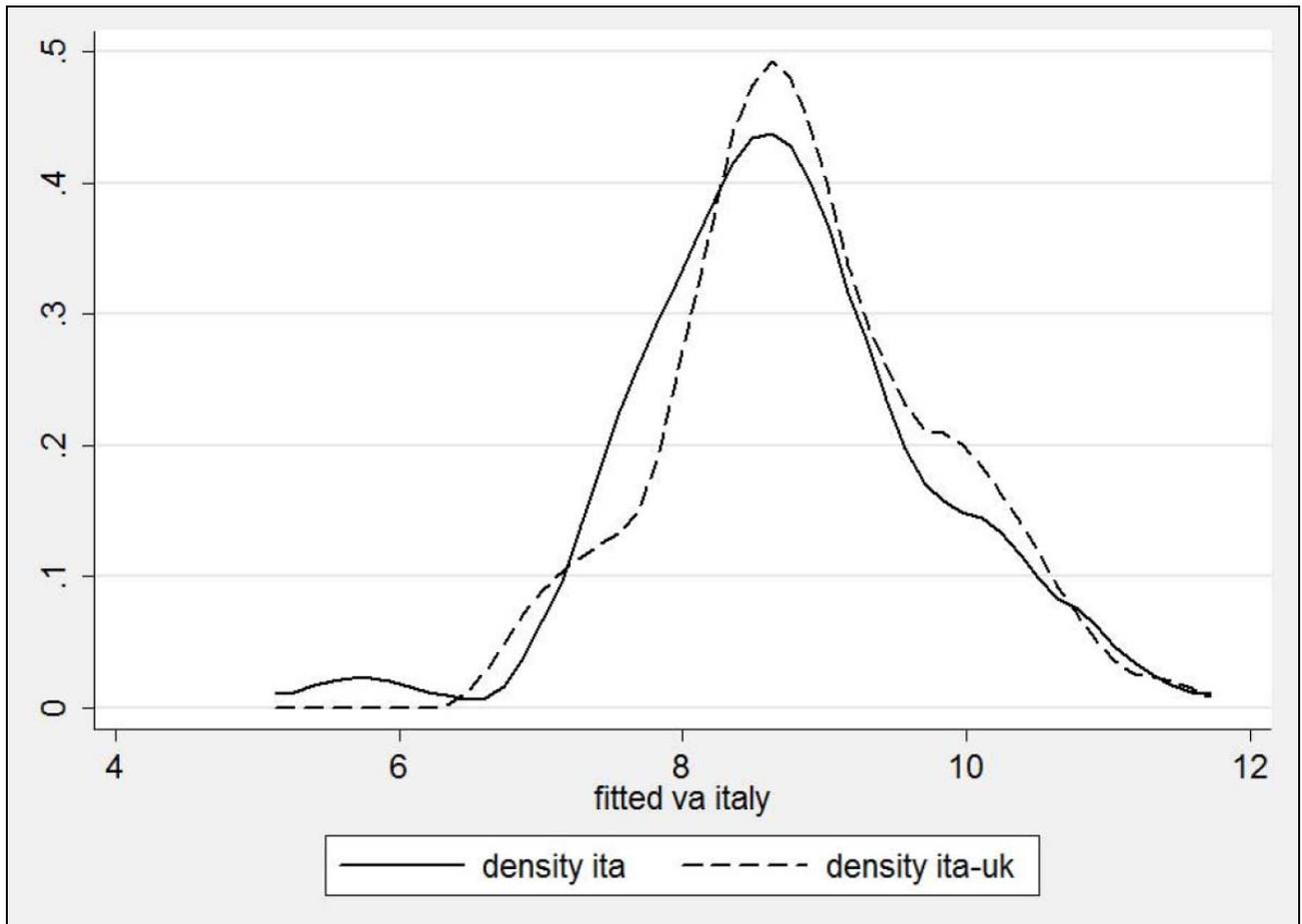


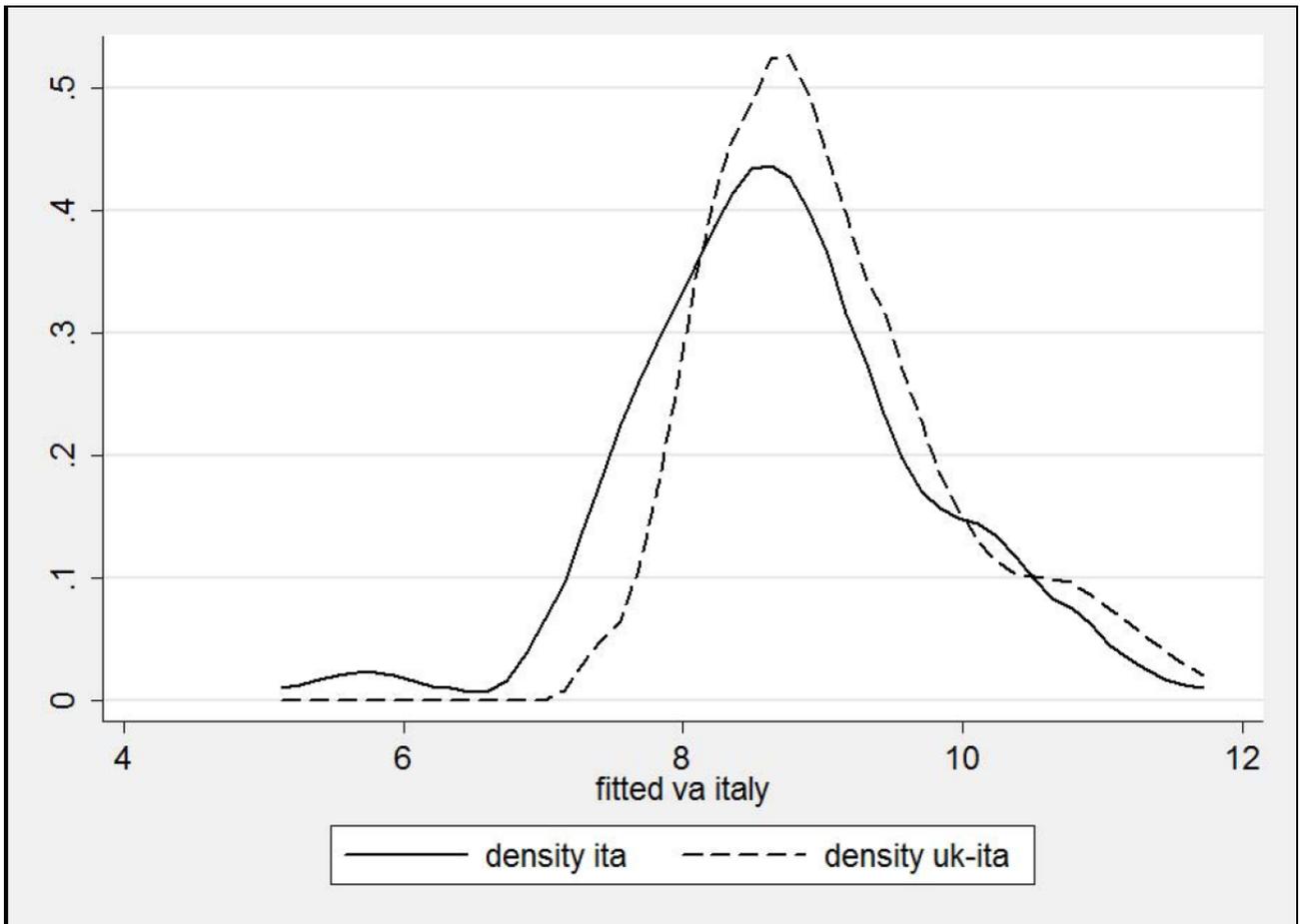
Fig.2: Index of Product Market Regulations, 2003, Source: Oecd.



**Fig.3: Kernel density of the predicted value added for Italian and British establishments.**



**Fig.4: Kernel density of the predicted value added for Italian establishments and its counterfactual in the British institutional context.**



**Fig.5: Kernel density of the predicted value added for Italian establishments and its counterfactual if they were attributed British establishments characteristics.**

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