

# **UNFURLING THE NATURE OF RELATIONSHIP BETWEEN GLOBAL COMPETITIVENESS AND EMPLOYMENT RELATIONS SYSTEM: A STUDY ON SELECTED COUNTRIES**

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## **1. PROLOGUE**

In the present era of globalisation, employment relations system cannot be dissociated from the business environment of a particular country. Accordingly, a specific linkage need to be identified in the context of employment relations system and the socio-economic-politico environment of a country. In fact, employment relations system can be considered as a sub-system of the larger socio-economic-politico ecosystem of a country. Moreover, it would be interesting to relate this ecosystem with the similar ecosystem of other countries and the domain gets expanded into a cross-country perspective. In this context the cross-national perspective of employment relations emerges as a significant area of interest (Bean, 1994). The present paper is a cross-country level study that is concerned with an analysis of the nature of relationship between global competitiveness and employment relations system on the basis of some identified aspects. The study has been carried out on the basis of data relating to the G-20 countries. The distinctiveness of the G-20 list is that it comprises both developed as well as developing countries spread across several continents. Thus, cross-country comparison can be easily carried out. Employment relations system encompasses the multifaceted conglomeration of issues relating to legal, institutional and employer-employee relations that are directed towards regulation of work, employment and protection of employees' well-beings. The paper starts with the basic proposition that the variables that govern this system at the national level can be identified on the basis of identified aspects. Subsequently an effort has been taken to establish their relationship vis-à-vis global competitiveness.

## **2. CONTEXTUALISING THE RESEARCH PERSPECTIVE**

Employment relations system encompasses different areas and perspectives that in other way highlight the increasing relevance of the subject in the corporate and academic world today. Presently, the focus of employment relations revolves around the ‘continuity and change’ in the field and how it adjusts itself with the changing perspectives at the country-level (Pot, 2000). Experts argue that employment relations system needs to be adjusted with changes in business environment and in this regard global competitiveness is an important aspect of the business environmental paradigm. In this context, literature highlights the cross-country perspective and the changing trends in this regard. It has been argued that employee-supportive employment relations system may reduce the competitiveness of a country (Forteza and Rama, 2002; Busse and Hefeke, 2009). Accordingly, some experts support attenuation of employee-supportive employment relations system for facilitating competitiveness (Burki and Perry, 1997). The convergence and divergence in employment relations in different countries have been documented in extant literature (Wever, 1995; Collins, 2001). It has been argued by some experts that global competitiveness calls for non-rigid employment relations. In this regard, experts highlight the challenge posed by competitiveness on employment relations and trade unionism (Eaton, 2000; Hepple, 2005). However, the exact form of the linkage between global competitiveness and employment relations system needs further exploration since there is contradiction in the extant literature on this issue. In this context Lansbury, Kitay & Wailes (2003) have highlighted the three streams of literature. In this regard, it has been opined that that global competitiveness has resulted in convergence in employment relations system. On the otherhand, other experts are of the opinion that there is divergence in the employment relations system due to the prevalence of the country-level institutional system. However, it makes sense to follow the proposition of the third school of thought that highlights the “complex interactions” between the global and local influences that lead to specific employment relations result. Employment relations system comprises dispute prevention and resolution, tripartite social dialogue; negotiation, consultation and information exchange between and among the different

actors; collective bargaining; etc. (www.ilo.org). Thus employment relations system at a country-level can be understood as a conglomeration of these aspects.

### *Research questions*

It is quite evident from the discussion in the previous section of this paper that a study highlighting the nature of relationship between employment relations systems and global competitiveness would be worth exploring. In this regard, the author proposes some relevant research questions:

- Can global competitiveness be related to the important facets of employment relations system?
- If so, in what nature this relationship can be conceived?
- Can the latent dimensions of global competitiveness and employment relations be identified and related to each other?
- Can we map the positions of the identified countries on the basis of the dimensions of global competitiveness employment relations system?
- In this regard can we make a distinction between developed and developing countries?

### *Aspects considered*

Having highlighted the research questions, the next task would be to identify the aspects based on which we can examine the nature of linkage in a better way. Separate aspects relating to global competitiveness and employment relations system have been identified. In the context of global competitiveness, the apex aspect considered is the Global Competitiveness Index. Additionally, the sub-domains associated with the global competitiveness have also been considered. The sub-domains considered are basic requirements, efficiency enhancers, innovation and sophistication factors, regulatory environment, business environment and market sophistication. The Global Competitiveness Report 2014-15 published by the World

Economic Forum provides country-specific values on the core aspects of competitiveness and in this paper country-wise values on GDP per capita, basic requirements, efficiency enhancers, innovation and sophistication factors have been considered. Additionally, country-wise values on regulatory environment, business environment and market sophistication have been obtained from the Global Innovation Index 2014, published by the World Economic Forum. Furthermore, under each sub-domain, there are certain aspects which have also been considered. The aspects or sub-aspects considered are intellectual property protection, macroeconomic environment, higher education and training, goods market efficiency, labour market efficiency, financial market development, technological readiness, market size, business sophistication, efficiency of legal framework in settling disputes and ethical behavior of firms. This has been done in order to identify the specific aspects of global competitiveness paradigm that might be related to the aspects of employment relations system of a country. The details of the aspects considered alongwith the data sources have been exhibited in the table in the appendix.

#### *Database and Countries Considered*

In order to understand the research problem in the right perspective, G-20 countries have been considered in this study. The uniqueness of the G-20 list is that it is a conglomeration of both developed as well as developing countries spread across several continents. This would enable effective cross-country comparison. As indicated in the table in the appendix, country-wise data relating to certain aspects of global competitiveness that are relevant in understanding the present-day perspective have been obtained mainly from the Global Competitiveness Report 2014-2015 and Global Innovation Index 2014. Country-level data on issues governing employment relations system have been obtained primarily from ICTWSS (Institutional Characteristics of Trade Unions, Wage Setting, State Intervention and Social Pacts) database of the Amsterdam Institute for Advanced Labour Studies, University of Amsterdam. Additional

data on employment relations system has been obtained from another secondary data source doing Business Report 2014-World Bank database. Due to non-availability of data corresponding to some of the identified aspects, Argentina, Saudi Arabia and Russian Federation have not been considered in this study. The final list of G-20 countries considered in this study consists of *Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Japan, Korean Rep., Mexico, South Africa, Turkey, United Kingdom and United States.*

### *Methodological Considerations*

Using the identified database, the author has employed appropriate statistical techniques in order to objectively analyse the nature of relationship between global competitiveness and employment relations system. To set the ball rolling in line with the identified research question, correlation analysis has been employed in order to analyse the interrelation between global competitiveness and employment relations system. In this context, firstly, the statistically significant relationship between global competitiveness index and the various aspects of employment relations system has established. In this exercise, values of Pearson's correlation coefficient upto 10% level of significance have been considered. In the correlation analysis, the author has considered the pertinent aspects of global competitiveness which are shown in the table in the appendix. To carry forward the analysis, the different aspects of global competitiveness have been related to the aspects of employment relations system. Secondly, using dimension reduction technique, the latent dimensions of global competitiveness and employment relations system have been segregated. In this regard, the 8 aspects of global competitiveness and 8 aspects of employment relations system (as indicated in the table in the appendix) have been considered for carrying out principal component analysis. On the basis of the results of principal component analysis and the subsequent computation of factor scores, the relationship between the different dimensions has been statistically established using a scatter plot. The implications of this relationship have been analysed. Furthermore, the positions of the selected countries have been mapped on a two-

dimensional matrix involving the global competitiveness dimension and employment relations system dimension. In this regard the difference in position between the developed and developing countries has been discussed.

### 3. ANALYSIS AND INTERPRETATION OF RESULTS

#### 3.1 Analysis and interpretation of interrelationships

3.1.1 As discussed in the methodology section, the relationship between global competitiveness index and the different aspects of employment relations system has been established using Pearson's correlation coefficient. It has been observed that among the eight aspects of employment relations system considered in this study, only two aspects are having statistically significant relationship with the global competitiveness index as shown in table I below.

**Table I: Relationship Matrix: Global competitiveness index and the aspects of employment relations system**

		Cooperation in employee-employer relations	Redundancy support for employees
Global Competitiveness Index	Pearson Correlation	0.617	-0.478
	Sig. (2-tailed)	.011	.061

It is evident from the above table that among the various aspects of employment relations systems, there are two aspects that are statistically significantly related to the global competitiveness index. The positive relation between global competitiveness index and cooperation in employee-employee relations signifies the fact that healthy employee-employer relations system enables a country to gain competitive edge. Interestingly, a negative relation between GCI and redundancy support for employees has been identified. Redundancy support for employees has been designed in this paper to include items like legal protection, third party notification and approval relating to dismissal of employees. These signify legal support

available to employees and put forward the question as to whether competitiveness gets reduced in case of countries providing support to employees in the context of redundancy?

3.1.2 Having recognised the nature of relationship between global competitiveness index and the identified specific aspects of employment relations system, we shall, in this section, expand the discussion further by analysing how the different aspects of global competitiveness can be related to the different aspects of employment relations system. Thus, while in the previous section, global competitiveness was considered at the aggregate level, in this section we shall disaggregated global competitiveness. It is evident from the correlation matrix in table II that certain aspects of global competitiveness are statistically significantly related to certain aspects of employment relations system.

**Table II: Correlation Matrix: Relationship between the different aspects of global competitiveness and employment relations system**

	Per Capita GDP	Intellectual property protection	Institutions	Macroeconomic environment	Higher education and training	Goods market efficiency	Labor market efficiency	Financial market development	Technological readiness	Market size	Business sophistication	Efficiency of legal framework in settling	Ethical behavior of firms	Regulatory environment	Market sophistication
Right to organise and bargain		.477 (.062)		-.587 (.017)					.470 (.066)					.637 (.008)	.475 (.063)
Government intervention in wage bargaining	-.439 (.089)		-.439 (.089)	.599 (.014)	-.473 (.064)	-.558 (.025)			-.485 (.057)		-.568 (.022)			-.489 (.054)	-.513 (.042)
Bargaining Levels							-.544 (.029)								
Mandatory extension of collective agreements							-.552 (.027)			-.501 (.048)					
Union Density														.514 (.042)	
Employer-Employee Cooperation			.539 (.031)			.511 (.043)	.632 (.009)			.452 (.079)	.563 (.023)	.471 (.066)	.527 (.036)		
Redundancy Support for Employees	-.506 (.046)	-.477 (.062)	-.541 (.030)		-.644 (.007)	-.496 (.051)	-.558 (.025)	-.575 (.020)	-.577 (.019)		-.454 (.078)	-.527 (.036)	-.490 (.054)	-.579 (.019)	-.637 (.008)

Several negative relationships highlight that there is a normal opposing linkage between employment relations system and global competitiveness. One result that is detrimental to the spirit of state-support in the context of employment relations is that state support for protecting the interest of employees possibly goes against the spirit of global competitiveness. This therefore justifies why some individuals and organisations raise their voice against globalisation in view of its negative impact on employees' interest. This can be explicated from several (13) negative relationships between redundancy support for employees and the various aspects of global competitiveness. Additionally, the aspect involving government intervention in wage bargaining is also having negative relationships with 8 aspects of global competitiveness. These negative relationships highlight lesser regulatory/state role in employment relations vis-à-vis global competitiveness. On the otherhand, employer-employee cooperation is having several (7) positive relationships with the aspects of global competitiveness. This therefore indicates that global competitiveness call for healthy employer-employee relations sans the traditional way of looking at employment relations. In other words, employer-employee relations can be maintained at the company level without and the necessity of strict employment relations regulation. However, there is also the necessity to further investigate the relationships among items that would in other way, clarify the nature of relationship in a better way. There is positive relationship between the right to organise and bargain aspect of employment relations and certain aspects of global competitiveness like intellectual property protection, technological readiness, regulatory environment and market sophistication. A closer look at these issues relating to global competitiveness reveals that these are issues which do not contradict with the right to organise and bargain. Thus in context of global competitiveness the right to organise and bargain is allowed as long as it doesn't affect the issues that affect competitiveness. Furthermore, these issues on competitiveness are more relevant to firms where the right to organise and bargain is not significant.

### 3.2 Analysis and interpretation of dimensions

On the basis of acceptable results of Kaiser-Meyer-Olkin (KMO) measure of sampling adequacy

		Employment Relations Dimensions	Global Competitiveness Dimensions
Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		0.6	.757
Bartlett's Test of Sphericity	Sig.	.002	.000

and Bartlett's Test of Sphericity as evident from the table III, principal component analysis has

been carried out. However, the results of principal component analysis reveals that the aspects involving global competitiveness converge into a single dimension while the aspects involving the employment relations system converge into two dimensions. The aspects that form the two dimensions of employment relations systems are exhibited in table III. As already discussed in the methodology subsection, I have used the results of the PCA for computing scores of the single extracted dimension of global competitiveness and the two dimensions of employment relations system. Thus corresponding to each country, we have three factor scores, one for the single dimension corresponding to global competitiveness and two scores for the two dimensions of employment relations system. These scores have been used as measures that signify the different dimensions of global competitiveness and employment relations system. On the basis of this, our objective is to assess where the G-20 countries stand vis-à-vis these dimensions. This in other way would also enable us to re-examine the nature of relationship between global competitiveness and employment relation system through the positional analysis of the G-20 countries.

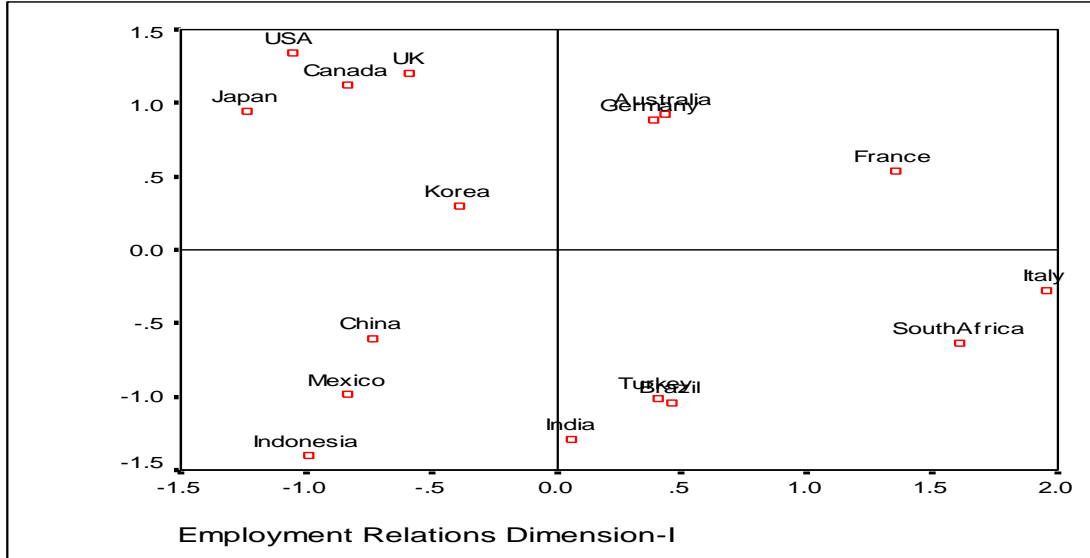
**Table III: Results of KMO and Bartlett's Test**

ER Dimension 1	ER Dimension 2
Bargaining Levels	Right to organise and bargain aspect
Mandatory extension of collective agreements	Government intervention in wage bargaining
Union Coverage	Union Density
Employer-Employee Cooperation	Redundancy Support

In line with the methodology identified in section, an effort has been taken to map the positions of the G-20 countries on a two dimensional map involving global competitiveness dimension and

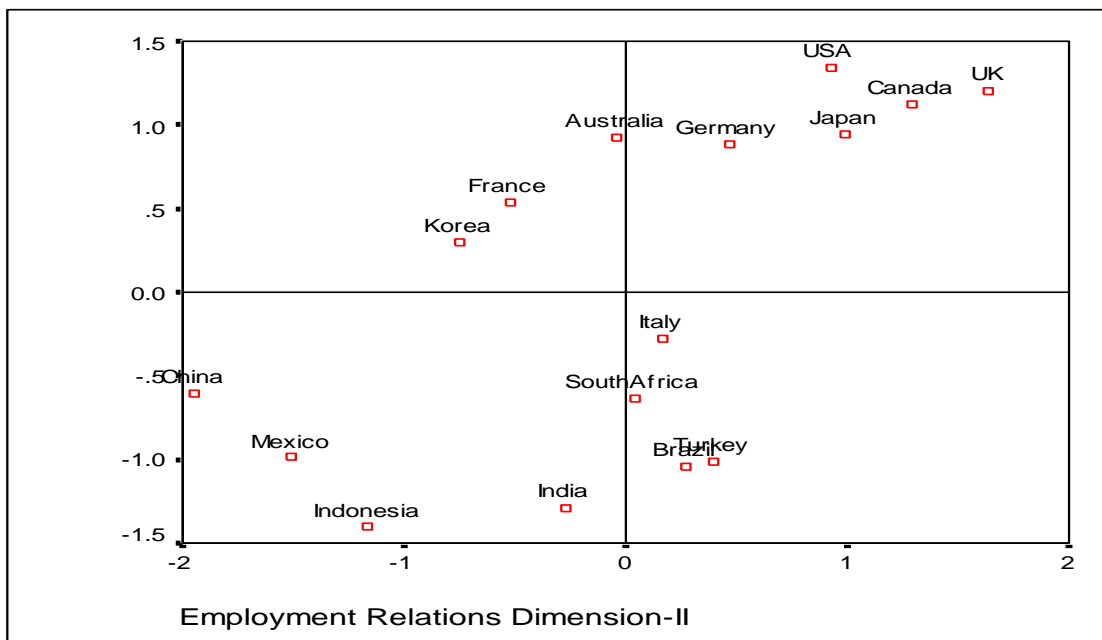
employment relations dimension. However, since there are two dimensions of employment relations as extracted from the principal component analysis, two positional maps have been used. The first map locates the position of countries on the basis of the global competitiveness dimension and employment relations dimension-I and the second map considers employment relations dimension-II. These have been depicted in figures I & II. As apparent from figure I, the G-20 countries are differentially located on the two maps. It is also clear that the pattern of relationship between global competitiveness and employment relations system are different in the two figures. Thus, in our effort to understand the nature of relationship between global competitiveness and employment relations, we need to determine which particular aspect of employment relations has been considered. In figure I it is observed that the developed countries are located in first two quadrants at the top. Australia, Germany and France are having high scores on both global competitiveness and employment relations dimension I. On the otherhand, many of the developing countries are located in the fourth quadrant which signifies low scores on both employment relations dimension as well as global competitiveness dimension. The developing countries' position largely remain unchanged in figures I & II. Germany's position remains largely unaltered in both figures which signify high values in both the dimensions of employment relations and global competitiveness. Again the positions of Brazil and Turkey remain more or less same in both the figures. It is evident from figures I & II that there are only few countries that have higher scores on both employment relations and global competitiveness dimensions. This in other way highlights that few developed countries have established a balance between the two aspects. In our case the percentages of countries having this balance are 18.75% and 31.25% respectively. Figures I & II also segregate G20 countries into four categories High GC-High ER, High GC-Low ER, Low GC-High ER and Low GC-Low ER.

**Figure I: Positional map of countries vis-a-vis global competitiveness dimension and employment relations dimension-I**



In figure I it can be observed that there are three countries in the High GC-High ER quadrant, five countries in the High GC-Low ER, five countries in Low GC-High ER and three countries in Low GC-Low ER. In figure II, the configuration changes to a certain extent wherein five countries figure in the High GC-High ER quadrant, three are in High GC-Low ER quadrant, four countries lie in the Low GC-High ER and four are positioned in the Low GC-Low ER quadrant.

**Figure II: Positional map of countries vis-a-vis global competitiveness dimension and employment relations dimension-II**



#### 4. CONCLUSION

In the present paper, an effort has been taken to analyse the nature of relationship between global competitiveness and employment relations through a multifarious approach. This is based on the assertion that the relationship should not be construed from a simplistic perspective and has to be addressed from different perspectives. Accordingly, the methodological aspects have been designed in order to address the basic research problems identified in this paper. It is quite evident from this paper that there is a general negative linkage between global competitiveness and employment relations system. This trend has actually been reflected in the loosening of employment relation systems of countries and there is an observed shift from a centralised employment relations system to a company-level employment relations system that focuses more on the employer-employee relations system at the organisational level. The findings of this paper reiterate this trend to a certain extent. In this context, the author is of the opinion that employment relations system should be envisaged in such a way that it is at par with the requirements of the competitiveness paradigm and protects the interest of employees. Thus the call of the hour is to realign employment relations system so that it supports the competitiveness of a country on one hand and also protect the interest of employees. Although this can be a challenge for many countries, there are some countries that have been able to forge a balance in these two contradictory areas. The paper has been successful in highlighting the nature of relationship between two apparently contradictory issues. Further research can be carried out by expanding the sample size of countries and the results can be verified with the results obtained in this research work.

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## APPENDIX

### Aspects for Understanding the Employment Relations System at a country-level

Sl no	Aspect	Description	Data source
1	Redundancy support for employees aspect	Aspects comprising legal provision vis-à-vis dismissal due to redundancy; third-party notification for worker dismissal; third-party approval for dismissal of 1/9 worker(s); retraining or reassignment obligation before redundancy; prevalence of priority rules for redundancies/reemployment. While the DB database provides country-wise information on these aspects on Yes/No basis. These have been added to compute country-level values assigning 1 to Yes and 0 to No.	Data from the Doing Business 2014 database from <a href="http://www.doingbusiness.org/data/exploretopics/employing-workers">www.doingbusiness.org/data/exploretopics/employing-workers</a> .
2	Right to organise and bargain aspect	Aspects comprising right of association in market sector; right of association in government; right of collective bargaining in market sector; right of collective bargaining in government sector; right to strike in market sector; right to strike in government sector. Country-wise information on these aspects on 'Yes/No' basis has utilised and has been added in order to compute country-level values.	Data obtained from Institutional Characteristics of Trade Unions, Wage Setting, State Intervention and Social Pacts (ICTWSS) produced by Jelle Visser at the Amsterdam Institute for Advanced Labour Studies, University of Amsterdam, Version 4.0, April 2013.
3	Government intervention in bargaining	Information on government intervention in wage bargaining is available from ICTWSS database on a scale of 1-5.	
4	The predominant level(s) of bargaining takes place	Information on government intervention in wage bargaining is available from ICTWSS database on a scale of 1-5. The information covers centralised level, intermediate level, industry level and company level.	
5	Obligatory extension of collective agreements by public law to non-organised firms	Information on extension of collective agreements by public law to non-organised firms is available bargaining is available from ICTWSS database on a scale of 0-3 ranging from usual extension to no legal provisions for extension	
6	Union Density	Union density rate, net union membership as a proportion of wage and salary earners in employment bargaining is available from	

		ICTWSS database.	
7.	Collective bargaining coverage	Information on employees covered by collective (wage) bargaining agreements as a proportion of all wage and salary earners in employment with the right to bargaining, calculated as percentage, (adjusted) is available from ICTWSS database.	
8	Employer-Employee Cooperation	The Global Competitiveness Report provide information on Cooperation in labor-employer relations in a country, based on Executive Opinion Survey	The Global Competitiveness Report 2014–2015, World Economic Forum

<b>Aspects for Understanding Global Competitiveness at a country-level</b>			
<b>Sl no</b>	<b>Aspect</b>	<b>Description</b>	<b>Data source</b>
1	Global Competitiveness Index	Global Competitiveness Index values	The Global Competitiveness Report 2014–2015, World Economic Forum
2	GDP per capita	Gross Domestic Product divided by midyear population	
3	Basic requirements	The basic requirements sub-index value of global competitiveness index has been considered and it includes Institutions, infrastructure, macroeconomic environment and health and primary education.	
4	Efficiency enhancers	The efficiency enhancer sub-index value in global competitiveness index has been considered and it includes higher education and training, Goods market efficiency, Labor market efficiency, financial market development, technological readiness and market size.	
5	Innovation and sophistication factors	The innovation and sophistication factors sub index value of the global competitiveness index has been considered and it includes Business sophistication Innovation	
6	Regulatory environment	The regulatory environment score in global innovation index has been considered and it considers acuity on the ability of the government to	

		formulate and implement legal provisions	Property Organization (WIPO).
7	Business environment	The global innovation index provides on business environment of a country and largely involves issues related to ease of doing business.	
8	<b>Market</b> sophistication	The Market sophistication score in global innovation index has been considered and it has comprises aspects centered around market conditions and the total level of transactions.	

### **Biography**

Dr Partha Sarkar has been serving the University of Burdwan, India, since December, 2001 in the field of Human Resource and General Management. Dr Sarkar has carried out his doctoral research work on the nature of relationship between business strategies and human resource management practices. He has contributed a number research papers in various reputed journals and edited volumes in several areas encompassing business strategy, strategic human resource management, and economic development. Dr. Sarkar has actively participated and presented research papers in various national and international seminars, conferences and workshops.