

## **The impact of change on employees: what do annual reports say?**

By

Sarah J Williams  
School of Accounting, Economics and Finance  
Deakin University, Geelong, Australia.

Professor Carol Adams  
School of Accounting, Economics and Finance  
Deakin University, Burwood, Australia

Margaret Milner  
Department of Accounting and Finance  
University of Glasgow, Scotland.

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### **Abstract**

As part of the accountability process public companies are required to report annually to stakeholders. Given the substantial investment in human capital, the disclosure of employment related policies, and the impact of changing policies and practices on employees, could be expected. Over the last few decades the UK banking sector has experienced major change. Increased competition, technology, regulation and deregulation have all contributed to changing practices, which have had a significant impact on employees. This paper examines changes in the banking sector, and the employee information reported in the annual reports of a large UK bank, over the period 1980 to 1995. The purpose of this paper is to examine how the changes, and the effects of the changes on employees, were reported in the annual reports.

### **Introduction**

As part of the accountability mechanism companies are required by law to report annually to stakeholders. Human capital is one of the key non-financial areas of business activity where greater disclosures in the annual report and accounts are likely to be demanded in the future (Verma and Dewe, 2004). Given the investment in human capital and its value to an organization, the disclosure of employment related policies, and the impact of policies and change on employees, could be expected.

The 1980s signalled a period of significant change for the UK banking sector. This paper examines the changes that ~~have~~ occurred over the period 1980 to 1995, and the employee information reported in the annual reports of one UK bank, the National Westminster Bank (NatWest), over this period of change. The main purpose of this paper is to examine how the changes, and effects of these changes, are reported and/or reflected in the annual reports.

## Background

Until the 1980s the banking scene was one of order, predictability, hierarchy and bureaucracy (Storey, 1995). Banking culture was essentially conservative with banks traditionally not regarding themselves as simply in business for profit but having responsibility to the wider community (Nevin and Davis 1979, p.198 from Storey et al, 1997). The banking sector was notable for its stable employment and industrial relations environment. Banks offered lifetime employment, structured careers, and paternalistic welfare oriented personnel policies (See Storey, 1995, and Sinden, 1996). They promoted unitarism, encouraging an ethos of team work, shared interest and loyalty, and a concern with the 'whole man' (Cressey and Scott, 1992). However, increased competition, pressure to improve financial performance, technology, regulation and deregulation, have all contributed to changing practices, and management (Howcroft, 1988; Cressey and Scott, 1992). ~~W~~~~There is increasing recognition that the traditional approach to staff management which emphasised staff~~ id ranging changes have taken place in terms of delivery mechanism, branch structure and staffing and rewarding (Brubakk and Wilkinson, 1996).

One major change relates to the mode of employment. The proportion of banking employees working part-time increased from 7.6% in 1981 to 11% in 1989 (Sinden, 1996).<sup>[1]</sup> Most of these were women. By 1991 part-time women as a proportion of all women employed in the banks had risen to 21% from a level of 15-16% between 1980-90 (Cressey and Scott, 1992). The proportion of women bank employees had risen from 57% to 62% by 1990. The reason advanced by Rajan (1987 from Burton, 1990) was that a tiered system of branches was emerging, and that the lower tiered branches, factory-style processing centres<sup>[2]</sup>, would increasingly be staffed by female, part-time workers, and non-career personnel, doing standardized routine operations. Retail banks have also made use of temporary labour to supplement core workers (Sinden, 1996). Extended opening hours also resulted in an increase in part-time contracts. Toward the end of the 1980s the banks were eagerly seeking part-timers to meet the predicted fall in labour market entrants (O'Reilly, pp.109-110). Storey (1995) suggested that the retreat from a highly stable internal labour market model to a relatively unstable but allegedly more flexible labour force, and experimentation with various uses of technology, indicated a trend toward a segmented labour force with a few highly specialised individuals separated from a larger mass of relatively unskilled labour, the latter hired for routine activity and with little prospect of career advancement. Under Atkinson's (1984 from Burton, 1990) model of the flexible firm specialised 'core' workers are required to be versatile and adaptable to reflect changes in technology and other factors. The employer is willing to invest in training for this group as they provide firm specific skills

whereas the skills of the peripheral workers are common, and therefore there is little or no incentive to invest in training for this group (Atkinson and Gregory, 1986). Atkinson and Gregory (1986) argued that this results in security and incorporation for the few bought at the deterioration of conditions of employment for the many. There is some evidence to support the adoption of some elements of this model in the banking sector. Essentially a three-tiered occupational structure evolved with the clerical tier increasingly being made up of non-career, part-time workers (Burton, 1990). Morris (1986, p.95) reported that part-time jobs were largely clustered in the two lowest grades and predicted that promotion opportunities for this group would remain low. <sup>[3]</sup> While part-time staff were excluded from the more highly skilled clerical positions the banks were increasingly relying on trained staff to promote and market services, a consequence of technology and rationalisation (Burton, 1990).

Downsizing and restructuring were the themes of the 1990s. A response to increased competition was takeover and merger activity leading to branch closures. This and other forms of restructuring led to significant job losses. This was an environment of increased uncertainty, uncertainty about the future role of branches, staff, and managers. Staff numbers in the sector fell from 452,000 to 387,000 from 1991-94 (Littlefield, 1995 from Sparrow, 1996). Job losses were among the most dramatic and highly publicized between 1989 and 1994. Barclays recorded a loss, its first ever, in 1992. The banks highest levels of job losses occurred immediately after the loss in 1993 and 1994. However high levels of job losses occurred in 1990 and 1991 before the full impact of the recession was felt. Sinden (1996, p.4) argued that the advent of a national recession during the period of major restructuring by the retail banks contributed to the need for more streamlined operating procedures, but may also have made the process of 'downsizing' 'less painful and less dramatic' than it might otherwise have been. Between 1989 and 1991 greater London experienced a loss of almost 20,000 jobs in banking and bill discounting as retail banks relocated central functions out of London. (Sinden, 1996). In 1993, UK banks moved for the first time to compulsory redundancies (White, 1993). Unions accused Barclays of 'corporate bullying' when it attempted to speed up its voluntary staff redundancy program.

New structures and technology, demanding levels of customer service and new competitors heightened attention toward performance. The shift towards responsive, performance oriented, market driven cultures suggested the need for a shift in behaviour and attitudes and for the development of new competencies. Loyalty, caution, conformity and accuracy in every detail were qualities highly prized under the old regime. Under the new, the 'human resource' was expected to be performance-driven, competitive, outgoing, adaptable, educated, sales-oriented, committed and non-risk averse. Relationship-handling and sales skills were important. There was a continued drive for greater productivity, wide-scale adoption of performance-related pay schemes, new performance criteria incorporated into appraisal schemes, a squeeze on across the board pay rises and collective bargaining, and a reduction in promotion opportunities. Nat West led the way into performance and related pay in 1988 (Goodswen, 1988 from Storey, 1995).

~~We are looking closely at our costs, and we have already implemented a number of initiatives to reduce costs and~~

~~improve income streams. As part of our drive for profitable growth, we continue to look closely at means of cutting work and activities which do not add value to our services. We are streamlining our operations in order to release staff for more profitable activities and are confident that we shall achieve lasting cost savings of more than 200 million pounds per annum over the next two or three years' (Chief Executives review, 1989 Nat West AR)~~

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Sparrow (1996) argued downsizing and delayering resulted in increased employee cynicism. The banking sector was traditionally a stable industrial relations environment. Trade unionism was discouraged as it was thought by employers to be inappropriate in an industry which sought to foster high-trust employment relations and family values (Storey et al, 1997; Morris, 1986).

Storey (p.3) suggests that the banks sponsored and even instigated staff associations as a way of fending off independent trade unionism. Observers report an upsurge in discontent, some maintain actual militancy, among bank workers in the 1990s (Gall, 1993). Barclay's BIFU computer staff took industrial action in 1991 for a seven week period in response to a pay offer and an attempt to move to performance related pay (Storey, 1995). Morison (1993) suggested that the changes in the banking sector have resulted in longer and more stressful hours of work. Mills (1992) commented on the lack of motivation and low staff morale (See also Storey et al 1998). ~~Low staff morale and trust (Storey, 1995).~~ Sparrow (1996) argued that to manage the negative news banks invested in a series of employee involvement schemes such as team briefing, attitude surveys and direct communication. Research indicates that these were little read and there was widespread cynicism regarding their truth. HR problems relating to number of employees, labour turnover, absenteeism and redeployment were rarely divulged (Townley, 1994 from Sparrow, 1996).

~~Sparrow (1996) reports that changes have resulted in changes to the security of, and rules implicit in, the employment contract. Downsizing and delayering has resulted in increased employee cynicism. Some observers would maintain actual militancy a Storey (p.3) suggests that the banks sponsored and even instigated staff associations as a way of fending off independent trade unionism.~~

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## **The Reporting of change, and effects of change, by Nat West**

### **'Social responsibility' 1980—1989**

The Nat West reports in the early 1980s, reflect the bank's growth and increased profitability (under attack for being excessive as a result of high interest rates), while emphasising the bank's concerns regarding the effects of recession, and the social cost of unemployment. 'Unemployment remains a pressing problem and we have accepted the responsibility cast on large employers to do all in their power to contribute to the reduction in unemployment, especially among young people ...'

(1981, p.11); 'With unemployment remaining a very serious feature of the economy we are pleased to maintain our involvement in many activities which contribute in some small measure to a reduction in the number of unemployed ... The continued growth of our business has justified a relatively high level of recruitment of school-leavers during 1982. (1982, pp.24-5). 'We are very conscious of our social responsibilities' (1984, p.8); 'high employment remains a deep concern to us' (1984, p.5). 'Unemployment particularly amongst young people, remains the largest social problem in the UK. We have continued our support for various schemes designed to create new jobs and teach useful work skills' (1985, p.5).

Record profits continued in 1986 when 'support for wide range of social and community projects exceeded 8 million. The bank recruited more than 12,000 school leavers and graduates during 1987 (1987, p.16). They continued to emphasise their social responsibilities. 'As the leading bank in the United Kingdom, we accept a major responsibility towards local communities' (1987, p.7). 'Through secondments, through the dedicated efforts of our staff ... and through special services ... we are taking positive steps to make Britain a better place for all' (1988, p.18). Again in 1989 the Chairman emphasised concern for the well-being of the community (1989, p.7). These comments are in sharp contrast to their actions during the 1990's, as will be discussed later.

## **Technology and branch rationalisation**

~~'The progress, success and satisfaction of which I can speak is the measure of the loyalty, skill and devotion of the Group's staff ...' (p.13)~~

The 1980s growth period was accompanied by increased technology and a commitment to increased efficiency and customer service. Computers provided increased capacity and speed of processing. The stated strategy was to increase use of automated payments facilities, as payments processing was staff intensive and therefore costly, and introduce new techniques for handling cash 'another cost intensive element of our service' (1980, p.15). Research into electronic aids was aimed at reducing 'much of the branch routine work of record keeping, filing etc'. How freed up staff time would be utilised was not discussed. The report indicated that the banks way of dealing with the effects on staff of this significant change in technology and branch structure was to provide them with a promotional video! 'The introduction of new services, new methods and new equipment, if they are to be successful, requires the full co-operation of our staff. The Bank recognises the importance of keeping employees informed of developments and as part of this policy, a visual presentation entitled 'Looking to the Future' has been given to many members of staff and representatives of the staff bodies' (1980, p.17). There was recognition in the 1981 report that these changes could impact on working methods and career prospects. 'To meet the needs of our expanding business, we must use new and improving technology. Recognising the possible effect on working methods and career prospects, the Bank is keeping the Unions informed fully in order that their views can be taken into account' (1981, p.20). However, evidence indicates that the unions did not have a strong presence in the large banks, that trade unionism was in fact discouraged (Storey et al, 1997; Morris, 1986).

In the 1982 report there is an indication of the changing roles of staff as a consequence of the new technology. The report refers to the use of servicetills to speed up transactions at branch counters, the installation of rapid cash tills, and Branch Processors for the automation of branch records: 'The system saves much routine work and gives staff more time to attend to the needs of customers and promote the Bank's business' (1982, p.24). It was reported in 1982 that the emphasis had been on the acquisition of large central computer processors to enable staff to deal efficiently with continued growth of volumes of paper and accounting data. 'Technology will play an increasing part in the drive to provide customers with high volume, low-cost, efficient services' (1982, p.16). Technological innovations were designed to: 'contain costs and improve efficiency' (1985, p.2); 'provide customers with low cost efficient services' (1987). There was no discussion of how the impact of these changes on employees would be managed.

Branch rationalisation was another feature of the drive for efficiency. References to branch rationalisation were couched in terms of customer service and growth. 'With customer service and growth potential foremost in our mind, the representational requirements and operational efficiency of the branch banking structure remain under constant review. The branch rationalisation and modernisation programmes continue ...' (1981, p.20). The Bank reported on the establishment of corporate banking centres to meet the needs of business customers. Saturday trading was launched in response to a perceived customer need. The effects on staff were not discussed. In 1986 it was reported that the bank was in the midst of a major programme of redesigning branches, 'emphasising the open-plan public space, with our staff having closer personal contact with customers' (p.12). The report in 1986 also emphasised the specialist service areas of the bank, for example, house mortgage finance, and personal investment services. These changes indicate changing roles for existing staff to sales type and specialist roles, or, in the case of special services, the employment of staff with specialist skills. Research indicates that some staff regarded the new role of 'selling' goods to customers as demeaning.

### **'Cost containment' and redundancies**

While national unemployment and social responsibility were high priorities according to the rhetoric in the reports in the growth period through the 80s these were not high priorities in the 1990s when the bank's focus turned increasingly to cost cutting and increased profitability. As stated earlier the 1980s was a period of increased profitability for the banks, despite the recession and the writing off of significant third world debt. In the 1989 report the new Chairman, Alexander, emphasised the drive to reduce costs and increase profitability, and how planned changes would impact on tasks.

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As part of our drive for profitable growth, we continue to look closely at means of cutting work and activities which do not add value to our services. We are streamlining our operations in order to release staff for more profitable activities and we are confident that we shall achieve lasting cost savings of more than 200 million per annum over the next two to three years. Technology has a key role to play in our streamlining programme. It helps to speed up the work-flow, increase

accuracy and free staff from routine labour-intensive jobs to deal with our growing business (1989, p.16).

Despite the large increase in profit, the Chairman's report paints a negative picture. 'In common with much of the banking industry, the Nat West group has experienced a difficult year. 1990 has been a period of uncertainty, with high interest rates, rising inflation and much slower growth, leading ultimately to recession.' Significantly, this was a year when quite considerable redundancies occurred. 'In 1990, Nat West staffing numbers fell to 112,600 (1989 113,000) ... In the UK staff numbers fell from 96,000 in 1989 to 95,000'. The previous concern for society and unemployment is absent. The emphasis is on reducing costs, particularly staff costs, in the interests of shareholders and, they purport, 'continuing employees'. The Chairman reported that the bank was: 'challenged with the task of reducing costs' (p.4); 'giving at least as much emphasis on our cost reduction programmes as we are to our marketing initiatives' (p.10); 'working hard to control our costs more effectively ...' (p.10).

The emphasis on increasing profits led to the redeployment of staff to more sales type roles: 'With the greater emphasis on marketing and profits, there has been a major shift in staff numbers out of the back office and into the marketplace' (p.14). 'In Corporate and Institutional banking, we have taken decisive measures to make our business leaner and more responsive to customer needs. We have concentrated our marketing effort and reduced staff numbers by bringing together employees directly responsible for individual customer relationships with those responsible for selling particular financial products and services' (p.10). And of the consequences? 'While every attempt will be made to redeploy staff whose positions disappear because of these measures, it is nevertheless likely that some cost savings will come from early retirements and redundancies. These measures are unavoidable and necessary in the longer-term interests of our shareholders and continuing employees' (p.10-12).

This emphasis continued: 'Cost containment continues to be a priority ... During 1991, the UK branch network has been reduced by 117 branches to 2,816 (1990 saw a reduction of 100 branches). UKBB staff numbers have been reduced by more than 2,600 during the year and further job reductions are planned through a combination of the introduction of new technology and more efficient work practices' (1991, p.12). Possibly as a consequence of criticism the Chairman attempts to justify the banks actions in the 1992 report using arguments of customer service and, obviously the driving force, shareholder returns.

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In all of our businesses, our aim is to provide a better service to our customers. We believe this to be essential to enhance the investment of our shareholders. In giving service, the quality of what we provide stands or falls on the motivation, talents and dedication of all our colleagues. There is no doubt that this has been a difficult year for many of them – with significant redundancies, and the uncertainty which this creates, as well as the constant drive to improve productivity and to adapt to changing ways of doing business. We on the board are immensely aware of these demands, and we are very

grateful to everyone who is striving so hard to sustain our business

There has continued to be great public interest in the conduct of the banking system. ... as the Banking Ombudsman recognised in his Annual Report, it is not always clearly realised that we are a business, not a public institution. We are a service industry and will ultimately stand or fall on our ability to deliver what our customers want at a price they are prepared to pay. We have to be properly rewarded for our services. It is only in this way that we can serve our shareholders, the long-term interests of our customers and be part of a healthy and profitable banking system which is so important to the economy' (1991, pp.2-3).

NatWest shed 4000 jobs in 1993 after cutting 5000 in 1992. The reduction in staff was described as being a result of greater productivity (1993, p.9). <sup>[4]</sup> Staff levels fell by 14% between end of 1990 and mid 1993. There is no mention of staff reductions in the 1994 report. In January 1995 Nat West confirmed plans to cut 4,200 jobs during the year bringing 'total number of job losses in this bank alone to 23,000 since 1989-nearly a quarter of the workforce-and the bank has announced that further cuts will follow' (Storey, 1995, p.2). Most of these losses were in the branch network with a closure program of some 130 branches per annum (Storey, 1995, p.2). In this environment of increased uncertainty and staff dissatisfaction the Chairman writes of the need for improvements in the face of intensifying competition: 'We must be remorseless in improving our skills and standards of service. All this places tremendous demands on our staff. We extend our heartfelt thanks for their contribution and determination ... I am confident that we can build on our strengths to bring benefits to all our stakeholders – through growing returns to our shareholders, increased performance related rewards for our staff and improved services for our customers (1995). Discussion of the benefits to staff are limited to the financial.

### **Staff training**

These changes coincided with reports of considerable expenditure on staff training. It was reported in 1989 that tremendous effort had been made to train staff and to put the information systems in place to make sure that customers got the appropriate information and the products that suited them. This training appears to have been focused on those staff providing advice, or selling products to customers. In 1990 Nat West reported spending 60m pounds on training Nat West people to provide the service customers expect (p.21). There is no indication as to which staff, and or the percentage of staff, who were receiving the training. There is also no mention of changes in employment mode. By 1991 woman made up almost 100% of part-time clerical workers (Cressey and Scott, 1992, p.86). It is unlikely that the money spent on training was going to this group in part-time, lower grade positions, to improve their skills and promotion prospects. What was reported was that at the higher level, the Opportunity 2000 program was implemented to enable the number of women in managerial positions to be increased 'to a third by the year 2000' (p. 5). Within the first year of implementation (1991–1992), Opportunity 2000 saw women in management rise from just over 16% to 21.5%. This figure increased to 25% at the end of 1994.

## Staff participation

There was little mention of staff input or involvement in these changes until 1984. It appears prior to this staff had little involvement in changes within the organization. Staff were informed of the direction that the bank was taking through regular staff meetings, video presentations, 'circulars, staff newspapers...and other publications' (1982, p.25). It is difficult to determine the impact that the Employment Act 1982 had on communication and consultation levels with staff. However, both are discussed in greater detail within the annual reports published subsequent to the introduction of the legislative requirements. There was little of note, however, in relation to employee policies or impacts of change on employees. In 1984 staff were encouraged to suggest improvements to any areas of the bank. Staff attitude surveys were designed to determine 'the views and concerns of the staff, further assist in the monitoring of existing policies and provide additional input in respect of planning for the future' (1987, p. 25).

The bank also implemented self-managed 'quality service action' teams, involved in making decisions with regard to quality and service: '... membership provides further opportunities for self-development and job satisfaction' (1988, p.26). Increased involvement of staff coincided with recognition of increasing competition. '... the central challenge in an increasingly competitive and ever-changing financial marketplace is to maintain and continue to build on our position as Britain's leading Bank. I am confident that, through the continuing teamwork of our staff in partnership with our customers, we will meet the challenge' (1988, p.18). Staff were encouraged to become involved in the Bank's performance in a number of ways. Profit sharing schemes enabled them to receive an annual distribution of cash and/or shares. Savings-related Share Option schemes provided an opportunity for some ('eligible') staff to purchase shares in the bank.

In 1990 the bank's commitment to service quality continued with self-managed teams identifying and further addressing service or quality related improvements. 'The generation and recognition of employee ideas through team involvement remains key to the Banks objective of providing a high quality of service. Quality service action teams remain active in developing service improvement ideas and providing a forum for Staff to develop their skills in problem solving and leadership' (1991, p.5). They were also a basis for performance assessment. 'This year, part of the reward of Assistant Managers has been geared to emphasise teamwork in support of the achievement of specific, key business objectives of their branch or department' (1991, p.29).

Consistent with the emphasis on staff participation, team-work and efficiency, was the movement away from fixed salary to performance related pay. 'To sharpen the focus of the new Group structure on profitability, and to heighten our responsiveness to market forces, we have linked part of our managers pay to performance. Every manager is now accountable for reducing costs and promoting quality service' (1988, p.12). 'As part of the 1989 pay negotiations, agreement was reached for the use of one common method to evaluate all jobs. ... Last year, revised reward arrangements were introduced for managers. A new salary structure and an incentive bonus scheme are now being extended to all Appointed Staff from 1

January 1990... A performance-based bonus scheme will be extended to Unappointed Staff in 1990' (1989, p.30). The linkage of performance to pay continued to be extended:

... the traditional flat rate Christmas bonus paid to over 60,000 Unappointed staff had been replaced by a Performance Related Merit Bonus Scheme ... Individual performance is recognised and rewarded on two levels. At the first level, total job performance is assessed through an annual appraisal of key competencies and rewarded by way of an increase to basic salary. At the second level, individuals can earn performance based bonuses through one of the integrated range of bonus schemes (1991, p.29).

Later reports continue to emphasis 'appraisal systems', staff share option schemes, and performance-based incentive bonuses.

While the reports are of increased staff participation in decision making there is evidence of staff dissatisfaction. Prior to the mid-1980s bank workers were generally regarded as moderate and strike free. In 1985 all Clearing Bank Union members balloted on an overtime and cooperation ban over pay. No action resulted for the banks increased their offer. In 1986 the BIFU recommendations to strike over pay at Nat West, Barclays and Lloyds were narrowly rejected. In 1987 BIFU members in Nat West, Barclays and Lloyds voted for an overtime ban and work to rule but narrowly rejected strike action in response to imposed pay rises. In 1990 BIFU members voted for strike action to increase their pay offer, however, no action resulted due to the majority being too small to conduct successful action (Gall, 1993, p.68). While many bank workers in the early 1990s did not identify fully with trade unionism the percentage of women belonging to the BIFU had risen from 37% in 1965 to 56.4% in 1991.

## **Conclusion**

The Nat West reports provide evidence of the changes in the banking sector reported by Howcroft (1988 from Storey et al, 1997), Cressy and Scott (1992), Brubakk and Wilkinson (1996) and others. While the report rhetoric during the 1980s was concern for unemployment, and social responsibility there was little evidence of this in the early 90s when the emphasis on profitability and cost cutting led to significant job losses. Apart from the employee information required by law relating to disabled employment and staff involvement references to the contribution of employees over the study period could be described as token: 'The progress, success and satisfaction of which I can speak is the measure of the loyalty, skill and devotion of the Group's staff ...' (Nat West, 1980, p.13); 'their commitment and dedication to customer service is above all the basis of our success ...' (Nat West, 1986, p.8); 'We owe much to the loyalty and professionalism of our staff, and I thank them for that. The skills of our staff ensure quality of service to our 14 million customers ...' (1989, p.20). Apart from the information required by law references to staff tended to focus on how the strategies or changes aimed to improve customer service, efficiency and/or performance. There is little said of how redeployment and rationalisation would impact on staff

work practices or satisfaction, or of genuine concern for employees. Overall the reports tended to put a positive slant on the changes while evidence indicates increased staff dissatisfaction and decreased staff morale.

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[1]

According to a Banking, Insurance and Finance Union (BIFU) report part-time work in banking industry increased three fold between 1977 and 1986

[2]

Routine operations were relocated to processing centres in order to reduce costs and increase efficiency.

[3]

In 1977 clerical staff accounted for 77% of employees and for purposes of national wage negotiations were divided into 4 grades. Half of the clerical staff, mostly women, were in the lower 2 grades (Committee of London Clearing Banks, 1977).

[4]

This was partially offset by 2,000 new positions in relationship management and life insurance.