12. Flexibility conflict?

Contents

1. Introduction
2. Flexibilisation versus individualisation?
3. Positive sum game
4. Consequences for efficiency
5. Conclusions and EUCOWE relevance

References
1. Introduction

This paper deals with the presupposed conflict of interests between employers and employees resulting from a decoupling of operating hours and working times. It starts from the notion that both long operating hours and flexibility are relative concepts. As there is some discretion, the ultimate choice may differ between countries, sectors of activity as well as establishments. Section 2 addresses the various ways a flexible and efficient production system can be established and the core determinants of the chosen mix. Section 3 looks into the win-win situations. The micro and macro economic consequences of the various mixes of flexibility are addressed in Section 4. Central here is the question whether there is a superior system of flexibility. It is concluded that both the development and the use of the various working time arrangements differ between EU Member States. Apart from the business cycle and the production technique, institutional and cultural factors play an important role. Some flexibility mixes may be conflicting management strategies, e.g. employability and external numerical flexibility. Compensation within labour contracts is mainly a theoretical solution. Feasible win-win outcomes concern flexibility from the core workers: internal functional flexibility and flexi-year labour contracts. There are business-economic limits to flexibility. Moreover, micro and macro level flexibility and efficiency may conflict. There is no single peak mix of duration of operating hours and working time options.

2. Flexibilisation versus individualisation?

Individualisation concerns the strive of people to match employment, time and income on their personal preferences and circumstances. Flexibility can be defined as the degree to which an organisation is capable of continually adapting the deployment of people and resources to the ever-changing demands of the environment and the difference in work processes. This definition covers the technical-economical flexibility (production system), the financial flexibility (for instance profit sharing, piece-rate payment and wage flexibility) (means) and the social or staff flexibility (people). These forms of flexibility are interrelated. For instance, a flexible production system may be a substitute for a flexible employment system, and create employment security. Due to shorter terms of delivery, industrial firms have to concentrate production on the desired moments (just-in-time production), implying that firms are confronted with more variation in busy and slack times, maintenance outside the production time, and a more optimal use of the capital goods is becoming more necessary. These developments express the shift from product towards order driven production systems. New technology will make work less physical and more service like. In the new Service Economy, service functions are predominant in all types of productive activities in the secondary, industrial as well as the primary, agricultural sector. The development of technology and the consequent changes in the production process, produced great development of service functions at all phases of transformation processes. The pure production costs have continued to decrease. Moreover, there is a growth of industrialisation within the tertiary sector. Modern technology has forced the tertiary sector to make radical changes to some of its functioning modes through the introduction of processes which are very close to the capital intensive processes in manufacturing (see Giarini and Stahel, 1993).
Apart from the phase of the business cycle, the production technique and the structural business environment, institutions and culture are core determinants of efficiency, i.e. cost-effectiveness and productivity, as well as the choice how to achieve the desired flexibility (mix of duration and flexibility of operating time, labour contract structure and working time options). Longer operating time relative to competitors ceteris paribus reduces unit costs and hence increases competitiveness. The expansion of operating hours goes hand in hand with uncertainty: cost effectiveness of this decision depends on the behaviour of the competitors and the business cycle situation. Hence long operating hours is mainly a relative concept. The balance between duration and flexibility of operating hours depends on the level and the share of the fixed costs and the unit variable costs.

**Figure 1: Forms of flexible labour input**

<table>
<thead>
<tr>
<th>Internal numerical flexibility</th>
<th>External numerical flexibility</th>
</tr>
</thead>
<tbody>
<tr>
<td>Working time reduction</td>
<td>Downsizing</td>
</tr>
<tr>
<td>Overtime</td>
<td>Flexible jobs</td>
</tr>
<tr>
<td>Working time flexibility</td>
<td>Back to core</td>
</tr>
<tr>
<td>Short-time</td>
<td>Lay-offs</td>
</tr>
<tr>
<td>Job rotation</td>
<td>Subcontracting</td>
</tr>
<tr>
<td>Task adjustment</td>
<td>Freelance work</td>
</tr>
<tr>
<td><strong>Internal functional flexibility</strong></td>
<td><strong>External functional flexibility</strong></td>
</tr>
<tr>
<td>Schooling</td>
<td>Outsourcing</td>
</tr>
<tr>
<td>Training</td>
<td>Posting</td>
</tr>
</tbody>
</table>

The human resource management (HRM) has various options available to react and adapt to structural changes and volatile conditions (see Figure 1). The desired flexibility for coping with the fluctuations in sales can be realised by the incumbent workers. The firm can choose to change the work schedules of current employees, for instance by changing full-time jobs to part-time jobs, by introducing shorter working hours, variable shifts, overtime, yearly hour systems et cetera (internal numerical flexibility). The firm can also change the quality or function of the incumbent personnel. The staff’s flexibility is increased mainly by task widening (new tasks of equal level), task enrichment (additional higher level tasks) and job rotation. Changes in the required skills are achieved mainly by retraining and extra training. This mainly concerns the employees’ multiple deployability and their capabilities to switch to other jobs and functions (internal functional flexibility). In this case, both the employer and the employee invest in the labour relation. A wider term closely related to this is
employability. Employability refers to the lasting deployment of employees, or their capacity to obtain and keep jobs. This permanent employability holds both for the internal labour market within an organisation (internal employability) and for the external labour market (external employability).

Firms can also use the external labour market to cope with fluctuations in the production. The most frequently employed method to adjust to production or service changes is the deployment of extra labour, for instance through extra permanent staff, part-time staff, employees with fixed-term contracts, agency staff or staff on call (external numerical flexibility). The reasoning in this case is that traditional labour costs form a fixed cost factor, which considerably hampers the freedom of action available to adjust to changing circumstances. The external numerical strategy also refers to downsizing, back-to-the-core, and lay-offs. Besides, there is external functional flexibility. This externalisation consists of (among others) outsourcing, posting, freelance work and subcontracting. In this case, employment contracts between employer and employee are replaced by a commercial contract. For instance, employers can obtain certain goods or services from outside contractors instead of having their own staff provide these. In this way, part of the risk is shifted to the suppliers.

The various forms of flexibility are to a certain degree substitutes, i.e. functional equivalents. The desire to extend operating hours and to make working hours more flexible is often preceded by a period of working much overtime. The introduction of reversible shifts may be a substitute for the expansion of the capital equipment. Working time reduction and short-time are alternatives for lay-offs and down sizing (dismissal). Also temporary jobs and outsourcing are substitutes. Subcontracting and back-to-the-core on the other hand are complementary. The firm can trade-off hours for workers. It can buy fewer hours from each worker and employ more of them, or it can employ fewer workers and induce each of them to work longer by paying overtime premiums. Also numerical and functional flexibility can be view substitutes. Part-time employment enables the employer to vary the number of hours worked, and temporary employment enables them to vary the number of personnel employed or engaged. A part-time work force extends the organisation's flexibility to meet fluctuations in work demand without hiring employees on fixed-term contracts or agency workers who may be unfamiliar with the job, or to extending hours of overtime, which are costly to the organisation and exhausting for full-time employees.

On average, in all European Union (EU) countries working irregular hours is on the increase. However, specific types of working hours deviate from this pattern between countries. Not only the development, also the use of different working time arrangements vary between the EU countries (Seifert, 1999). Dutch experience shows that longer shop opening hours is not costs effective, redistributes employment between firms within sectors (from dependent to independent and from small to large establishments) and reduces the quality of employment (Delsen, 1999a). Hence, micro level efficiency may not imply or even conflict with macro efficiency. Also the proportion of temporary jobs and part-time jobs in total employment has been increasing steadily year after year in virtually all EU Member States since the late 1980s (see Delsen, 1995, 1998; 1999b). In Europe, the structural increase in the use of external flexibility is mainly the result of changes in legislation, the growth of the service sector, but most of all the changing management style. However, also supply-side factors play a role, e.g. related to part-time employment.
3. Positive sum game

Flexibility may not only be of interest to the employer, but also to the employee. I mention four examples of win-win outcomes. *Internal functional flexibility* implies that idleness is prevented and extra capacity is available. Internal mobility is improved and employees’ knowledge and skills are kept up-to-date. The functional flexible employee is multi-deployable and runs less risk to be fired. More job security and more variation in work is offered.

Until now little or no attention is paid to the possibility of a trade-off between security and other working conditions within labour contracts, contrary to the present policy between contracts. Labour contracts may be offered with relatively high remuneration or good working conditions and with relatively low security i.e. protection against dismissal, and others within which lower wages in exchange for more security tailored to the diversity of preferences of employees (Delsen, 1995). Recent German research (Hagen, 2001) shows no evidence for a compensating wage differential for temporary workers.

Numerical flexibility may be obtained from the core workers: minimum-maximum contracts and working year contracts. Meeting fluctuating production demands solely with core employees would be expensive; e.g. overstaffing during normal periods, paying overtime premiums, speeding up the pace of production temporarily, maintaining an internal pool of workers. Part-time employees might work on a minimum-maximum contract or full-time employees work a flexible number of hours per day. The success of such an approach depends on the work schedule preferences of core employees. The ultimate level of labour flexibility is the flexi-year. Managers in Europe favour such a system whereby the annual number of working hours is fixed, but an enterprise would be free (within certain limits) to vary the number of hours actually worked; wages would remain constant and independent of the hours actually worked during a particular period, while overtime would no longer be paid but would be offset by fewer working hours at a later date. The loss of overtime pay may be an important reason why incumbent workers oppose the flexi-year contract. Over the past decades trade unions in Europe have traded working time reduction for flexibility. Flexibility has been the major *quid pro quo* required and obtained by European employers for working time reduction. This suggests a win-win situation. Working time reduction seems a social act. However, the reduction of working hours may result in the working hours which (from an individual’s perspective) are shorter than the optimum number. In return for shorter working hours irregular working hours are introduced. From the individual perspective also the temporal flexibility may be sub-optimal. Both cases seem a matter of preferences. Why speak of unsocial hours? Active time management will imply time flexibility both on the working hours side of the employees and on the business hours side of the working places. More emphasis on time management in connection with manpower planning in the enterprises may contribute to obtaining an optimum workforce mix within an enterprise. Moreover, the model of the working year contract is better suited for changes in the life-pattern - education, work in gainful employment, retirement. The distinction between educational and recreational leave is of importance in this respect. The desired changes in the volume and structure of the workforce’s contracts to reach this optimum depend on the specific nature of the supply of labour or fluctuations in the workload. Hence, every enterprise has its own typical optimum workforce mix.

In the current turbulent environment, individual employees are expected to take more responsibilities with regard to their own professional development. An active career management directed towards lifelong employability is increasingly considered a necessity.
Employability is seen as a reply to the increasing uncertainty caused by the degradation of the social security system, internal flexibilisation and the increasingly businesslike relation between employer and employee. The only real security is on the side of the employee him- or herself. Employees must take their career planning into their own hands, to be less dependent on other people’s caprice. Employability is presented by policy makers (life-time employability) as the new certainty to replace the supposedly outdated life-time employment. It may be argued that there is a trade-off – a negative relationship – between external flexibility and employability. External flexibility and employability are conflicting management strategies. Life-time employment can engender high levels of trust and cooperation between manager and worker, easing the process of change and adjustment: "Flexible rigidities" are the result. Efficiency losses may result from limitation on the allocation of production factors by the employer. Productivity increase may result from a reduction in turnover, an increase in motivation and commitment and an extension of on-the-job training. There is a trade-off between macro rigidity and micro flexibility. The necessity and opportunity of switching to diversified quality production are greater in economies marked by these institutional rigidities.

4. Consequences for efficiency

Flexibility has business-economical limits. The collective labour agreement “à la carte” lends shape to the individualisation, to tailor-made employment conditions. It enables employees to vary their employment conditions according their personal situation. However, also higher engagement, administrative, monitoring, negotiating and maintenance costs occur. Less standardisation has a hidden price tag that has to be paid. Producers not only have to take into account the production costs of goods and services, including distribution and marketing, but also the increasing transaction costs resulting from customisation. The latter are the costs related to contracts, as well as the search costs for suppliers and customers on the product markets and suppliers on the labour markets. The existence of transaction costs is linked to the fact that contracts are “incomplete”. In a neo-classic economy characterised by perfect markets and complete labour contracts firms do not have to worry about how to motivate their employees. In reality incomplete contracts – certainly in the labour market – are the rule rather than an exception, and mutual trust between employers and employees is an important source for motivation and commitment. This results in rigidities, but may also be considered a “invisible handshake” that is profitable for both employee and employer.

Within a firm, the divergence between (individual) working hours and operating hours or day, week of per year increasingly makes demands on the logistic and organisational procedures. More attention has to be paid to the information and communication systems within the firm. For instance, more rosters and time tables are needed; opportunities for job rotation have to be created or increased, part-time jobs are introduced or extended; also more time is needed to transfer duties and employees are expected to work on irregular days and times, for instance working on Saturday and/or Sunday, mini-shifts, compressed working week or shift work. So, the ratio between operating time and working time (o/w-ratio) indicates the extend to which organisational, communication and logistic procedures are needed.

Corporatism is associated with co-operative labour relations and decentralisation with antagonistic relations. Firms in countries with decentralised wage setting spend more
resources on disciplining activities than do firms in more centralised economies. The maintenance costs of regulation in decentralised Anglo-Saxon countries can be expected to be higher than in the more centralised Rhineland countries. These higher transaction costs are expressed, for example, in a higher intensity of supervision, the ratio of supervising personnel to staff carrying out the work. In the United States (17.6 percent) and the United Kingdom (15.4 percent), this ratio is three to four times higher than in Belgium (5.5 percent), the Netherlands (4.5 percent), Germany (4.4 percent) and Sweden (4.0 percent) (see Gordon 1994). The higher transaction costs are also shown by the lawyer density, the number of lawyers per 100,000 inhabitants and the expenditure on legal services expresses the transaction costs (Van Waarden 2001). In the United States (312) the lawyer density is nine times that of the Netherlands (35). By comparison lawyer density ratios of some other European countries were: West Germany 190, Britain 134, Italy 81 and France 49. Expenditure on the legal services in the United States has been estimated to 2.4 percent of gross domestic product (GDP). In Germany, Britain, France and Italy the lawyering costs amounted to 0.5 to 0.6 percent of GDP, in the Netherlands it is not even 0.1 percent.

According to the technical annex of the EUCOWE project, long and flexible operating hours are key indicators of economic performance of a single enterprise, a company, a sector within or between national economies. The view that short working or operating hours go hand in hand with poor growth and employment performance does not hold (Seifert, 1999). From a social point of view, efficiency only improves if GDP increases thanks to investment in more effective machines, a better-educated labour force, improved organisation of production or due to a rise in the employment of people who were previously excluded. A rise in labour productivity enables one to opt for a greater income. If this is the case, GDP also increases. Increased efficiency can also be “converted” into shorter working hours and therefore additional leisure time or less intensive labour. In the last two cases, GDP does not increase. A country with a low level of labour productivity may be economically richer than a country with a high level of labour productivity, particularly if the level of productivity per hour is high (Delsen, 2002). Flexibility and not duration of operating hours seems the core factor! Related to employment a distinction has to be made between hours, time, persons and effort. Also other research shows that there is no single peak set of capitalist institutions, i.e. there is no one superior economic system or country. The link between institutions and outcomes is subject to a particular world economic environment. Neither the Anglo-Saxon model nor the Rhineland model is dominant every time and everywhere (Delsen and De Jong, 1998; Freeman, 2000).

5. Conclusions and EUCOWE relevance

The central objective of the EUCOWE project is the collection and the analysis of comparative and representative survey data on the relationship between operating hours and working time management and their consequences for employment. The structural changes in the business environment - steeper global competition and increased customer orientation – render flexibility and duration of operating hours more important. There also are autonomous technological and demographic developments that dictate the external business environment and explain the shift from stake holder to share holder capitalism, i.e. the change in management style, and hence the relationship between operating time and work organization
and employment. Notably the technological developments (ICT) have an impact on the desired innovation and qualifications, but also on the flexibility of the production process. The projects start from three hypothesis: long and flexible operating hours do not exclude each other; refer to each other, and have a positive influence on employment. Micro and macro efficiency may conflict.

The construction of types of enterprises in the technical annex to the project is based on operating hours. This suggests a dominant factor and probably a causal relationship? Also the fact that working time options are considered instruments of decoupling point towards operating hours being the target variable in the flexibility management of the firm? What is the central target variable of the EUCOWE project? It also suggests that management is the dominant actor. Supply side factors and institutional and cultural factors are not taken into account. The present disconnection of working time and operating hours is very much the result of collective working time reduction and the annualisation of working time agreed by the social partners (European Directive of 1993 on the organisation of working time) and part-time employment (European Directive of 1997), and is amplified by the business upswing after 1994.

Types of flexibility management will be constructed, including the need for qualification and technical innovation. Socially (un)sound operating hours management is a moving target. Internal development of employment and growth are of importance. This also holds for the relationship between operating time and working time options and employment. In the primary data collection a distinction has to be made between the structural relationship between operating hours and working time and employment, and deviations from this trend. The trend in operating time has to be established. This has implication for the number of historical years to be included in the questionnaire, i.e. to allow for correction of the business cycles.

The mix of duration and flexibility of operating time, labour contract structure and working time and the resulting employment level and structure at establishment level are determined by the phase of the business cycle, the sector specific production technique and the structural business environment, national institutions and culture. The collected data should allow to differentiate between sectors and between countries as well as time series analysis.

References


