

Employment through flexibility: Squaring the circle

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EUROPEAN FOUNDATION
for the Improvement of Living and Working Conditions



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This leaflet examines the impact of new forms of work organisation on employment and points to the links between workplace flexibility and innovation in European enterprises. It is based on a report which analyses findings drawn from the EPOC (Employee direct participation in organisational change) survey on change in the workplace carried out by the European Foundation for the Improvement of Living and Working Conditions. The conclusions of the report concerning the relationship between the various forms of flexibility, innovation and change in employment offer a substantial contribution to the policy debate.

Key Findings

- Functional flexibility (individual and group delegation) and numerical flexibility (downsizing or 'back to core business'), are not mutually exclusive. Most workplaces practise both to some extent.
- Compared with other workplace initiatives, functional flexibility has only a moderate effect on employment levels, in the medium term. Its importance is in protecting existing jobs rather than in the creation of new jobs.
- It is no surprise that the survey found that innovation is associated with increases in employment and, therefore, it can be argued that labour market flexibility is not a substitute for innovation in the creation of jobs.
- Neither is it surprising that much of the growth in employment results from contract flexibility (part-time and temporary contracts). Employment reductions, on the other hand, are associated with 'down-sizing' and 'back to core business'.
- Individual 'face to face' consultation (regular formal interviews between a worker and his/her immediate supervisor/manager) enhances the effects of functional flexibility, and also has a stronger positive impact on employment levels than other forms of consultation or of delegation.
- The more workplace practices are used in combination, the greater the prospects for employment growth. The combination of the different forms of flexibility, together with consultation and innovation, has a positive effect on employment growth.
- Growth is more likely to be associated with highly innovative workplaces which consult with their employees (rather than delegate responsibilities), have a fair amount of contract flexibility and practise numerical flexibility to a moderate extent. These workplaces are more likely to be non-EU owned and their employees are marginally less likely to be members of trade unions.

Policy background

Employment is at the top of the European social policy agenda. Given priority at the European Council meeting in Luxembourg in November 1997, employment is now written into the Amsterdam Treaty, in the employment and social policy chapter. This commits the Member States to coordinated action on promoting policies for the creation of employment.

In order to become more jobs-focused, it is argued that the European labour market should be more flexible and less bound by restrictive regulations through legislation and traditional practices. The dilemma for the European policy makers is how to achieve the desirable degree of workplace flexibility while, at the same time, preserving the social values and social protection which are essential elements of the European social model. The question is whether it is possible to combine increased competitiveness with social protection.

The European Commission, in its 1997 Green Paper, *Partnership for a new organisation of work*, argued that the 'flexible firm' - one which is based on 'high trust and high skills' - is crucial for innovation and for competitiveness, the premise being that the flexible firm can be both competitive and socially responsible.

Workplace flexibility

Much of the debate on workplace flexibility has been based on case study 'best practices' rather than on empirical research. This report draws on the data from the EPOC workplace survey carried out in 5,800 establishments in ten EU member States, in the autumn of 1996. The survey provided an opportunity to examine the nature and extent of various forms of flexibility in European enterprises.

The EPOC data was used to investigate if various assumptions inherent in the current debate about the characteristics of flexible organisations were correct. Furthermore, the data was used to examine the relationship between the different forms of flexibility and changes in employment levels.

The Foundation report on employment and flexibility approached these issues in two stages, using bi-variate analysis:

- It explored the relationship between functional flexibility (the delegation of decision-making to the individual or to the work group) and employment;
- It further examined this relationship by 'adding in' numerical and contract flexibilities, innovation, and 'face to face' consultation.

A third stage, using multivariate analysis, assessed the relative significance of the different measures of flexibility, innovation, consultation and the key structural dimensions, such as workplace size, business sector, ownership, and country. This approach also allowed for an assessment of the significance across the ten countries, of the clusters of workplace measures and to construct a picture, in terms of employment, of which workplaces are 'stable', 'shrinking' and 'growing'.

Functional flexibility and employment

Functional flexibility is not practised in 42% of workplaces. Of the remainder, most (36%) only allow 'very little', while 6% of workplaces can be considered to have 'high' levels of functional



flexibility, in that a substantial number of responsibilities are delegated to the individual worker or to the work group.

The more intensive the practice of functional flexibility, the more positive the employment impact, especially in medium-sized workplaces, which show that gains in employment outnumber losses by 9%. Indeed, the practice of functional flexibility seems to be associated more with employment retention than employment growth. Overall, the country proved to be a significant influence, as those countries with intensive functional flexibility showed better performance in terms of employment.

Table 1: *Functional flexibility and net employment change by country*

	10 country average	DK	FR	GR	IR	IT	NL	PT	SP	SV	UK
Stable employment: % of workplaces reporting increase/decrease in employment	40	49	39	42	45	34	42	42	37	44	40
Net employment change: % of workplaces reporting increase/decrease in employment	+5	+22	+8	-7	+32	+11	+26	+6	+5	-2	+7

Numerical flexibility

Very few establishments (3 out of 10) practice numerical flexibility (down-sizing or back to core business) compared to all levels of functional flexibility (6 out of 10). Not surprisingly, numerical flexibility has a negative influence in employment.

Nevertheless, when functional and numerical flexibility are used together, the survey findings show that functional flexibility helps to moderate the negative employment effects of numerical flexibility.

Contract flexibility

Around one third of establishments reported increased use of part-time or temporary working. The more contract flexibility is used, the greater the chance of stability or increases in employment. However, only 7% of workplaces use ‘high’ levels of contract flexibility, which is on a par with that of functional flexibility (6%). Around 18% of the total apply both practices to some degree, but only 8% combine them to a ‘medium’ or ‘high’ degree.

When this happens, however, the impact on employment levels is positive. Functional flexibility and contract flexibility are mutually reinforcing in terms of the impact on jobs.

Innovation

Innovation is defined by a combination of initiatives taken by management and whether the largest occupational group has been directly affected, in the last 3 years, by major changes in work organisation resulting from these initiatives.

The survey found that one of the key hypotheses of a European ‘high road’ strategy for economic growth - that functional flexibility goes hand in hand with innovation - does not, in fact, happen very often. Two-thirds of workplaces report having ‘no’ or ‘very little’ innovation. Only 3% of European workplaces can be considered to have ‘intense’ innovation.

Only 2% of workplaces have ‘high’ scores for both functional flexibility and innovation but the combination of these two practices do result in employment growth. This is not only true for the 3% of ‘intensive’ innovative workplaces, it also works increasingly in workplaces which move from ‘none’ to ‘low’ to ‘medium’ intensity of combined functional flexibility and innovation, so growth in employment becomes more likely.

Table 2: *Functional flexibility, innovation and net employment change*

Stable employment: % of workplaces reporting no increase or decrease in employment	40
Net employment change: difference in % of workplaces reporting either an increase or a decrease in employment	+5
<i>Change in employment in workplaces with:</i>	
No functional flexibility (delegation) or innovation	-8
Low functional flexibility and low innovation	+2
Medium functional flexibility and medium innovation	+14
High innovation	+12
High functional flexibility	+14
High functional flexibility and high innovation	+27

Consultation and employment

‘Face-to-face’ consultation (formal, regular meetings between the individual worker and his/her supervisor/manager) is no more intensively practised than the other flexibilities: two-thirds of workplaces do not practise it and, surprisingly, some 20% of workplaces made extensive use of the other practices while having little or no ‘face-to-face’ consultation. Nevertheless, the more intensive ‘face-to-face’ consultation is used in combination with functional flexibilities, contract flexibilities and innovation, the more positive the employment outcome. Indeed, it is this combination of initiatives which is most likely to be associated with positive employment trends.

The survey findings also indicate a stronger relationship between ‘face-to-face’ consultation and employment growth than that of delegative forms of participation, and this relationship is almost as strong as the measure for innovation.



Impact of variables on employment

Two kinds of multivariate analysis were used to measure the impact of the different variables on employment changes: multinational logistic regression (MLR) and a linear probability model (LPM). The findings from these two methods produced a high degree of overlap, showing that the main findings of the relationship between the various forms of flexibility and employment are close to reality. The analysis confirms that:

- ⊗ intensive numerical flexibility is very detrimental to employment growth;
- ⊗ functional flexibility involving the delegation of rights and responsibilities to employees is not strongly related to employment changes - at best it reduces trends towards employment reduction;
- ⊗ innovation, contract flexibility and 'face-to-face' consultation with individual employees all have a positive effect on employment.

Workplace models

From the analysis, it is possible to characterise different types of workplaces in terms of employment by the most important influences, as follows:

The 'shrinking' workplace:

1. Uses intensive numerical flexibility
2. Is owned by an EU-based multinational company
3. Has a very large workforce
4. Is Portuguese and German, and
5. Has a highly unionised workforce

The 'stable' workplace:

1. Is Danish
2. Operates in the non-profit sector
3. Belongs to the trade sector, and
4. Practises functional flexibility (i.e. delegative participation)

The 'growing' workplace:

1. Is highly innovative
2. Is a subsidiary of a non-EU-based company
3. Is either Irish or Dutch
4. Does not numerical flexibility but
5. Practises contract flexibility to a moderate extent
6. Is not unionised, and
7. Practises 'face-to-face' consultation

The EPOC survey - Employment through flexibility analysis Methodology

The methodology key points can be summarised as follows:

- The basis of the analysis of Employment through flexibility is a secondary analysis of the EPOC survey (1996).
- Ten countries were involved in the EPOC survey: Denmark, France, Germany, Ireland, Italy, the Netherlands, Portugal, Spain, Sweden and the United Kingdom.
- The overall response rate for the ten countries was almost 18 per cent, with a range between 9 per cent (Spain) and 39 per cent (Ireland).
- Respondents were workplace general managers or the manager he/she felt was the most appropriate; the focus was the workplace's largest occupational group. In this report, the terms 'organisations' and 'workplace' are used instead of the technical term 'establishments'. An example is a factory of a larger firm.
- The size threshold was 25 employees in the case of the smaller countries and 50 in the remaining countries; the total number of respondents was almost 5,800.

The report on *Employment through flexibility - Squaring the circle?* On which this leaflet is based was written for the Foundation by Keith Sisson, IRRU, Warwick Business School; Dieter Fröhlich, ISO-Institut, Cologne; Fred Huijgen, Nijmegen Business School; James Wickham, Trinity College, Dublin and Hubert Krieger and Kevin P. O'Kelly, European Foundation for the Improvement of Living and Working Conditions.

FURTHER INFORMATION

Information about Foundation publications is available on the Foundation website at www.eurofound.ie. The Foundation's EIRO (European Industrial Relations Observatory) website is a good source of information on industrial relations topics: www.eiro.eurofound.ie. For details on the report on financial publication mentioned in this leaflet or on other works in this field, please contact Camilla Galli da Bino,

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