

SEED WORKING PAPER No. 41

Flexibilizing Employment: An Overview

by

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InFocus Programme on Boosting Employment
through Small Enterprise Development
Job Creation and Enterprise Department



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Foreword

This paper was commissioned by ILO's InFocus Programme on Boosting Employment through Small Enterprise Development (IFP/SEED) and the Employment Intensive Investment Branch (EMP/INVEST) in order to expand the knowledge base on the process of informalization of the formal economy, a process that is contributing to the rapid growth of the informal economy worldwide.

Flexibilized employment has been a subject of considerable debate. On the one hand, flexibilizing employment has become part and parcel of the reorganization of work and production as enterprises seek to lower costs and enhance their competitiveness in times of rapidly changing markets and technologies. It has offered new opportunities for small enterprises to enhance their linkages to larger firms, but it has also reduced the economic and social security of workers, and increased their vulnerability to exploitation, especially in situations where there is little or no labour market regulation. On the other hand, flexible forms of employment have been promoted as a means to increase employment opportunities, especially for workers who have been subject to discrimination in the labour market. In a number of northern European countries, for example, flexible forms of employment such as part time, temporary and on call work have been promoted through national policies, with varying degrees of monitoring, regulation and social security being provided. Some studies indicate that these forms of employment can eventually lead to more secure long-term employment for persons who would otherwise be unemployed by providing an entrance into the labour market, experience and contacts.

The subject is of particular interest to countries that are in transition from command economies with assured life-long employment to market economies with little labour market regulation. Often, existing labour legislation no longer applies to the actual situation, and governments, aware of the deteriorating situation of workers, struggle to find a solution.

This paper was prepared in response to a request from the Ministry of Labour and Social Security of the People's Republic of China for information on how to define the different forms of flexible employment. It will be the subject of discussion in a panel concerning the emerging informal economy in China at the China Employment Forum in April 2003. The objective of the paper goes beyond that of defining the different forms of flexible employment, however, and seeks to explore the potential positive and negative consequences of legitimising flexible employment, and to suggest how public policy can address and alleviate the undesirable outcomes.

This paper was written by Kim Van Eyck, consultant and an expert on informalization of the formal sector. Andrea Singh, Senior Specialist on the Informal Economy in IFP/SEED was responsible for supervision together with Liu Jingchang of EMP/INVEST, and Peter Auer of the Employment Strategy Department (EMP/STRAT).

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Executive Summary

The emergence of flexible forms of employment has gained increasing attention from governments, enterprises and workers' organizations in recent years. Labour market flexibilization has occurred alongside changes in the global organization of production, trade liberalization, processes of economic restructuring and national legislative reform. Labour market flexibilization is widely believed to enhance competitiveness in an environment of rapidly changing markets and technologies. Flexibility is often constructed in opposition to labour "rigidities" such as protective labour legislation, collective bargaining agreements and codified regular employment. Many policy makers see the formation of flexible labour markets as key to solving high levels of unemployment. In some cases, flexibility is viewed by trade unionists and enterprises alike as a strategy to retain employment and to increase employment options for workers. In other cases, flexibility is opposed by those who point out its relationship to economic and social insecurity. Although flexibilization strategies have been enthusiastically embraced by policy makers, recent evidence suggests a much more cautious and long-term approach to labour market flexibilization - one that takes into account both positive and negative potential outcomes.

This paper offers a definitional framework for examining flexibilization processes and resultant forms of employment. This conceptualization underscores flexibility as a *strategy* affecting many aspects of employment (including legal regulation, labour markets, labour processes and the terms and conditions of work) and as a resultant category or *form* of employment (such as temporary work).

Three different theories regarding the perceived need for increased labour flexibility are introduced. The first emphasizes how technological innovations have driven changes in the organization of production. The second perspective on the drive towards flexibility prioritizes how changes in the organization of production and the increasing competitiveness of the global economy have prompted enterprises to search for ways to lower their labour costs and to increase labour productivity. The third perspective highlights the political nature of flexibility seen as a struggle over whether governments, enterprises or workers will benefit from changes in the regulation, organization and wage distribution of labour markets.

The new modes of employment relations and occupations that are emerging in the dynamic environment of global production merit attention for their potential to contribute to employment creation and to increase the range of opportunities for both employers and workers. This paper reviews a wide range of strategies to enhance the flexibility of both external and internal labour markets. External strategies include: outsourcing, temporary and subcontracted work. Strategies pertaining to workers in the core of the internal workforce include: downsizing, part-time, compressed workweeks, telecommuting, alternative officing, job sharing and performance-related pay. Strategies to flexibilize the peripheral workforce include: key-time staffing, e-working, occupational reengineering, multi-tasking, and cross-training.

Flexibilization has created both new possibilities and constraints for workers and workers' organizations. Those concerned over the degree to which flexibility may be gained at the expense of workers draw attention to a long list of disturbing trends in flexible employment including: wage deterioration, increased stress, work speed-up and intensification, and increasing labour

market inequality, insecurity and alienation. This paper examines the emergence of new forms of flexible employment in light of such concerns and explores the potential for labour flexibility to be balanced with labour protection. The argument presented here is that, while many forms of flexibilization offer expanded choices for workers and increased adaptability for enterprises, flexible strategies must be accompanied by measures to enhance economic and social security in order to produce long-term benefits in productivity and the creation of decent work.

The research reviewed here on the outcomes of flexibility for both enterprises and workers challenges easy assumptions that flexibility measures alone will reduce unemployment, increase productivity or lower labour costs. Although flexibilization strategies such as downsizing or outsourcing may save money in the short term, the costs of such strategies are, in the long run, born by both workers and employers. Flexible forms of employment such as part-time or temporary work need not be associated with precarious or insecure forms of work. In cases where labour legislation provides flex-workers with adequate social protection, flexible employment may serve as a bridge to long-term employment or as a complement to other productive and reproductive activities. In the most positive cases of flexibilization, the key factors underlying success are the strength of protective measures (typically in the form of national legislation) that ensure income security, social insurance, safety standards and representation.

Innovative strategies to enhance the security and quality as well as the flexibility of employment are illustrated throughout the paper. Box 4.1, for example, describes measures to equalize wages and benefits between temporary and permanent workers in OECD countries. Box 4.2 refers to a case study in Brazil wherein homeworkers were granted formal employment contracts and included in quality management circles. Box 5.2 provides an example of an Italian union that incorporated working time flexibility into collective bargaining agreements.

These cases underscore the importance of developing a range of flexible employment strategies. If policies include focus on improving functional and job structure flexibility, for example, the productivity of firms may be enhanced to the degree that more costly strategies such as downsizing or outsourcing may be avoided.

Although employment flexibility alone does not offer a magic bullet for the creation of decent work – in combination with measures to develop social dialogue and security protections – the potential is far greater (Ozaki, 1999; Auer, 2001). In order to ensure that flexibilization strategies are implemented in ways that enhance competitiveness, productivity and security, recommendations include institutional flexibility, new approaches to collective bargaining and mechanisms to increase income security.

Glossary of Terms and Abbreviations

Terms

Alternative officing:	the restructuring of physical workspaces and hierarchies of communication (including electronic systems)
Compressed workweek	a decrease in the number working days associated with full-time employment wherein, for example, forty-hours are distributed over four days as opposed to five, increasing the workday from eight hours to ten
Cross-training:	the overlap of duties and tasks assigned to teams of workers who can be expected to “cover” for each other (to perform certain aspects of a coworkers job for a short period)
E-working:	work involving telecommunications such as telephone or computer, most frequently carried out in outsourcing firms (see also telework or telecommuters)
Enterprise:	a unit engaged in the production of goods or services for sale or barter, also referred to as a “firm” in this paper
Fixed-term contract:	a formal or informal contract of employment for a specific project or for a specified period of time
Homework:	work carried out in the home or small workshop that contributes to the production chain of a larger enterprise; typically subcontracted labour
Home-based work:	similar to homework, but designed to avoid association with low wages, poor working conditions and insecurity
Key-time staff:	on-call workers whose hourly, weekly or monthly work schedules depend on the volume of production or service delivery of the enterprise
Informal work:	work that is not registered under specific forms of national legislation
Indefinite contract:	usually a formal employment contract projected to last over the long-term
Job-sharing:	an arrangement wherein two part-time workers share the duties and responsibilities of a full-time position
Multi-tasking:	the assignment of a wide-range of tasks and duties to be carried out simultaneously (or in close alternation) by one employee
Outsourcing:	the process of relocating production processes previously carried out “in-house” to outside of the enterprise
Outsourcing firms:	intermediary firms who provide labour or services integral to the production process of a (typically) larger enterprise

Part-time work:	contracts that stipulate working hours at least one-fifth less than the statutory or conventional number of hours for full-time work calculated on a weekly, monthly or yearly basis
Performance-related pay:	systems of remuneration that allow firms to reward individual performance through wage adjustments, bonuses or profit-sharing schemes
Self-employed:	workers who are not solely dependent upon one customer and who maintain some control over the production process
Subcontracting:	labour contracted through an intermediary but performed for another enterprise
Telework:	subcontracted work performed in small workshops, outsourcing firms or at home and utilizing telecommunications technology
Telecommuters:	teleworkers associated with increased skills, wages and autonomy – frequently professional level and wage employees of enterprise
Temporary work:	dependent employment that does not offer workers the prospect of a long-lasting employment relationship

Abbreviations

ASEAN	Association of South East Asia
BPR	Business Process Reengineering
EI	Employee Involvement
EU	European Union
ILO	International Labour Organization
IMF	International Monetary Fund
JIT	Just-in-time
NAFTA	North American Free Trade Agreement
OECD	Organization of Economic Cooperation and Development
SME	Small to Medium Sized Enterprise
TQM	Total quality management
WTO	World Trade Organization

1. Introduction

The emergence of flexible forms of employment has gained increasing attention from governments, enterprises and workers' organizations in recent years. Labour market flexibilization has occurred alongside changes in the global organization of production, trade liberalization, processes of economic restructuring and national legislative reform. Labour market flexibilization is widely believed to enhance competitiveness in an environment of rapidly changing markets and technologies. Flexibility is constructed in opposition to labour "rigidities" such as protective labour legislation, collective bargaining agreements and codified regular employment. Many policy makers see the formation of flexible labour markets as key to solving high levels of unemployment. In some cases, flexibility is viewed by trade unionists and enterprises alike as a strategy to retain employment and to increase employment options for workers. In other cases, flexibility is opposed by those who point out its relationship to economic and social insecurity. Although flexibilization strategies have been enthusiastically embraced by policy makers, recent evidence suggests a much more cautious and long-term approach to labour market flexibilization – one that takes into account both positive and negative potential outcomes. What factors have driven the perceived urgency to increase labour flexibility?

There are three different perspectives on the push for flexibility. The first emphasizes how technological innovations have driven changes in the organization of production including the "Just in Time" (JIT) system requiring a labour force able to respond quickly to changes in market fluctuations. Increasingly specialized products, produced on demand, require enterprises to quickly adjust the size, composition, and often the location, of their work force (Piore and Sabel, 1984). In addition, communications and transportation technologies have facilitated the flexible location of production in order to take advantage of particular skill or wage characteristics of local labour markets (Dickens, 1998). The decentralization and geographic dispersion of production has resulted in the proliferation of smaller production units supplying goods and services previously produced by only one enterprise.

The second perspective on the drive towards flexibility prioritizes how changes in the organization of production and the increasing competitiveness of the global economy have prompted enterprises to search for ways to lower their labour costs and to increase labour productivity. For industrializing countries, structural adjustment programs have included prescriptions for the liberalization of labour markets as a part of overall objectives to enhance productivity and competitiveness by "freeing up" the ability of the market to set wages and to adjust labour supply, e.g. by lowering costs. In addition to the restructuring of external labour markets through strategies such as downsizing, outsourcing or subcontracting, enterprises have also sought new ways to increase the productivity of their remaining internal workforce. One model for organizational restructuring has involved the division of employees into "core" and "periphery" segments, consisting of a small and stable "core" of upper-level management professional and a much larger, more flexible and lower cost "periphery" of workers.

In addition to technological innovations and competitive pressures, flexibility is also understood in the context of shifts in the balance of power between national governments, foreign and domestic capital and labour unions. The logic of "free" market reforms calls for less "interference" in labour market regulation by governments and trade unions. In this way,

flexibilization is viewed as a political-economic strategy of capital to gain increasing control over labour market regulation in order to maximize profit. The liberalization of labour markets in many countries has been accompanied by a rapid decline in levels of unionization and in the subsequent power of unions to win distributional demands. Thus, the search for flexibility is also viewed as a political struggle over whether governments, enterprises or workers will benefit from changes in the regulation, organization and wage distribution of labour markets. The political economy perspective on flexibilization emphasizes that the political nature of flexibility must be recognized in order to ensure that all labour market participants have a voice and an opportunity to advocate for flexibility for their constituency.

The search for increasing labour flexibility has resulted in profound changes in the terms and conditions of work for a rapidly growing segment of workers worldwide. The liberalization or flexibilization of national labour legislation generated a plethora of new contractual forms allowing for increased flexibility in the location of production, the duration of employment, work hours, wages, benefits and assigned tasks. Such measures have given enterprises increased freedom to adjust the size and composition of their workforce and have created opportunities for workers to gain new skills and to enter and exit the labour market more easily. Enterprise restructuring has also prompted the redesign of occupations to facilitate “multi-tasking” and “polyfunctional” work teams. New flexible work arrangements enhance the ability of employees to balance work and home life by telecommuting or adopting a compressed workweek. New human resource practices emphasize the flexibility of the individual worker in terms of retraining, adopting new work attitudes and “taking charge” of career and retirement planning.

The new modes of employment relations and occupations that are emerging in this dynamic environment merit attention for their potential to contribute to employment creation and to increase the range of opportunities for both employers and workers. Flexibilization has created both new possibilities and constraints for workers and workers’ organizations. Those concerned over the degree to which flexibility may be gained at the expense of workers draw attention to a long list of disturbing trends in flexible employment including: wage deterioration, increased stress, work speed-up and intensification, and increasing labour market inequality, insecurity and alienation. This paper examines the emergence of new forms of flexible employment in light of such concerns and explores the potential for labour flexibility to be balanced with labour protection. The argument presented here is that while many forms of flexibilization offer expanded choices for workers and increased adaptability for enterprises, that flexible strategies must be accompanied by measures to enhance economic and social security in order to produce long-term benefits in productivity and the creation of decent work.

This paper is organized as follows. Section 2 offers a definitional framework for examining flexibilization processes and resultant forms of employment. Sections 3-6 make up the descriptive overview of the flexibilization of employment in the past two decades. Generalizations are made regarding processes in both developed and developing countries as background for further discussion and analysis. Section 3 summarizes changes in national labour legislation aimed specifically at labour market flexibility. In section 4 new forms of employment associated with external labour market flexibility are introduced. These forms include: subcontracting, outsourcing, temporary agencies and homeworkers. Section 5 introduces flexible forms of employment internal to enterprises stimulated by organizational restructuring. Flexible forms of employment in both the core and periphery will be discussed including part-time, job

share, telecommuters and e-workers, consultants, and temporary and on-call workers. The flexibilization of standard forms of employment will be described in section 6 along with a discussion of the characteristics of the new “flexi-worker”. Following the descriptions presented in sections 3-6, section 7 examines the prevalence and characteristics of such forms across countries. Section 8 analyses the outcomes of labour market flexibilization and addresses concerns regarding the association between flexibilization and increasing labour market insecurity and inequality. This section draws conclusions regarding the advantages and disadvantages of flexible forms of employment. Section 9 offers recommendations based on aspects of policy adjustment and enterprise initiative that appear to balance the needs for flexibility, stability and worker protection.

2. Forms and scales of flexibility

In order to understand the new forms of labour flexibility, it is first necessary to recognize the inherent difficulty of pinning down labour relations and forms of employment that are continually in flux. In addition, many of the new forms of employment share characteristics with one or more previously recognized forms thus defying categorization according to existing labour laws. In this way, flexible employment overlaps with informal employment to the extent that it is outside the realm of legal or institutional regulation. Flexible jobs may also be located outside the physical space of the enterprise. In addition, flexible employment is frequently disguised, as in the case of “perma-temps” or temporary workers who work alongside regular employees in the same enterprise over the long-term. Lastly, the heterogeneity of language used in contractual agreements and labour laws complicates cross-country comparisons of flexible employment. Nevertheless, this paper utilizes the most common conceptualizations for purposes of discussion.

Before examining the variations of flexible employment included in Parts 4 and 5 of this paper, Standing (2002, p. 33) provides a helpful guide to seven characteristics of production systems, labour arrangements and employment that may be flexibilized. These aspects of flexibility may or may not correspond closely with particular categories of employment. For example, working time flexibility is commonly manifested in the creation of part-time or on-call jobs. Or, as in the case of telecommuters, one job may incorporate several aspects such as organizational, working time and locational flexibility. Even standard forms of employment can be flexibilized in the course of productive restructuring. In this way, flexibility is understood as both a *strategy* affecting many aspects of employment (including legal regulation, labour markets, labour processes and the terms and conditions of work) and as a resultant category or *form* of employment (such as temporary work). The following characteristics of employment flexibility are central to the ways in which flexible employment is conceptualized in this paper.

- *Organizational flexibility*: more turnover of firms, more use of subcontracting and production “chains” and a tendency to contract out the employment function;
- *Numerical flexibility*: more use of external labour, such as contract workers, outworkers, homeworkers, agency labour, temporary workers and teleworkers;
- *Functional flexibility*: more changes in work tasks, job rotation, and skill for individual workers;
- *Job structure flexibility*: more changes in the structure of jobs, associated with changes in job titles, number of them, etc.;
- *Working time (or temporal) flexibility*: more continuous working, flexible hours, etc.;
- *Wage system flexibility*: a shift from fixed wages to flexible wages, monetisation of remuneration, greater use of bonuses, etc.; and

- *Labour force flexibility*: less attachment to sectors, companies or occupational groups, erosion of “collective labour” and greater tendency for workers to move in and out of the labour market.

In addition, the increasing ability of enterprises to relocate all or part of their production process to different locations within countries and around the world can be considered an eighth aspect: *locational flexibility*. Thus, this paper presents the notion of flexibility in terms of a range of aspects of employment that can be flexibilized rather than as a dichotomy between flexible or inflexible employment. This point is critical since referring to “flexible employment” more broadly can lead to confusion and/or equation of the term with informal employment.

In addition to recognizing the eight characteristics listed above, a second key point in conceptualizing flexibility concerns the different levels at which labour flexibilization is institutionalized. Through a variety of formal or informal customs or norms, flexibility may be achieved at the following levels of governance:

- *Global*: through multi-lateral or international institutions such as NAFTA, ASEAN, the WTO and the ILO and through the internationalization of production across the boundaries of the nation-state;
- *National*: through State governments, and national enterprise and workers’ associations;
- *Local labour markets and institutions*: through local trade and development organizations, enterprises and other local labour market institutions such as universities, trade schools, unions and community organizations;
- *Enterprise*: through corporate or managerial practices and collective bargaining agents or workers’ representatives; and
- *Individual*: through the design of particular occupations and through the ways in which individuals are able to negotiate their employment contract and entry in and out of the labour market.

The relative strength of institutions at various scales determines the degree to which flexibility will be introduced via legislative reforms, collective bargaining, unilateral employers’ decisions or individual contracts of employment. For example, in those countries where labour market rigidities are perceived to lie mainly in “excessive” legislative regulation, flexibility tends to focus on how national legislative reform may grant greater freedom for individual employers or social partners to negotiate the terms of flexibility. In other cases where sectoral collective bargaining agreements (in local labour markets) are perceived as hampering flexibility, measures may focus on decentralizing industrial relations to the level of the enterprise. This paper focuses primarily on three scales of flexibilization: 1) national policies designed to increase labour market flexibility; 2) labour markets external and internal to enterprises; and 3) changes in individual occupations and careers.

3. Flexibilizing national labour legislation

As discussed above, the flexibilization or liberalization of national labour regulations in many countries during the late 1980s and 1990s was motivated by a desire to allow the entry of technological innovations to reshape the industrial labour force, and to increase labour productivity in the face of new competitive pressures. Although this process is often referred to as “deregulation”, Standing (2002) and others argue that this label is a misnomer as the *number* of regulations did not necessarily decrease, but rather the *quality* (and beneficiaries) of regulations shifted. Given the political nature of legislative change, Rubery (2000) suggests that any assessment of labour market reform should take into account the direction of such change and the extent to which the system represents the interests of all groups. The analysis in section 9 refers to changing relations of power and interest formulation between representatives of labour, industry and the State that shaped labour re-regulation. For now, a brief overview of the outcomes of legislative reforms will provide a basic understanding of the regulatory context in which flexible forms of employment have emerged.

On the whole, legislative reforms in both developed and industrializing countries aimed at regulations concerning:

- Employment contracts other than regular full-time work;
- Contracting union workers;
- Hiring of special groups (women, youth, minorities, migrants, handicapped, etc.);
- Wage levels;
- Employment benefits (social security contributions, health insurance, training);
- Occupational standards;
- Retirement;
- Dismissal (including conditions concerning mass firing); and
- Leave (including maternity/paternity leave).

The set of rules governing the types of contracts that are permitted between employers and workers, the conditions under which contracts are negotiated (individually or collectively), the requirements for severance and the terms of employment (including wages and benefits) are key features common to any country’s labour markets. These regulations are commonly referred to as employment protections. Collective bargaining may also be considered as a factor outside of statutory regulations, along with socio-cultural or informal institutions and norms that govern employment.

Economists and policy-makers tend to characterize employment protection arrangements along a rigidity/flexibility continuum. However, those emphasizing the protective nature of job security rules are more likely to consider the continuum as protective/deregulated. Table 3.1 illustrates the ends of the spectrum of the employment protection/regulation continuum. Factors concerning the duration of employment contracts, hiring standards and dismissal and severance requirements are the most commonly highlighted in discussions of flexibilization at the level of national labour legislation.

Table 3.1: The employment protection continuum

RIGID OR PROTECTED	FLEXIBLE OR DEREGULATED
Fixed-term contracting restricted	Unrestricted temporary agency work
Temporary work restricted	Unrestricted fixed-term contracting
Hiring standards	No hiring standards
Employer dismissal rights restricted	Unrestricted dismissal rights
Substantial severance and advance notice required	No severance or notice required
Substantial administrative requirements for layoffs	Simple administrative procedures

Source: Betcherman, Luinstra and Makato, 2001.

One of the most important aspects of labour legislation in terms of flexibility concerns the ability to deviate from contracts for standard employment. The flexibilization of hiring rules for “non-standard” workers increases the ability of employers to contract workers for a temporary or fixed duration as well as for less than full-time.¹ Neoclassical economists argue that legal requirements regulating the use of atypical or non-standard employment and termination have negative effects on employment as these controls tend to impede the ability of firms to adjust the volume of labour to fluctuations in demand (Ozaki, 1999). Efforts to flexibilize employment contracts have thus included measures to dissociate part-time from standard employment in the setting of wages and benefits, in cases where part-time employment has previously been on an equal footing with standard employment. Employer’s obligations to provide non-standard employees the wages and benefits equivalent to those of standard employees were subsequently removed in many cases. Over the past two decades, in both developed and industrializing countries, the trend has been towards the removal of restrictions on non-standard employment.

Employers and enterprise associations state several reasons for pursuing the flexibilization of regulations concerning hiring practices. The most obvious advantage is cost savings followed by the ability to contract workers for specialized tasks, or tasks of a short duration. In addition, temporary contracts allow employers flexibility during restructuring processes when it may be difficult to determine the long-term demand for permanent positions.

Table 3.2 summarizes the statutory rules in these areas for a set of countries selected to illustrate the range of approaches. The table demonstrates the considerable variation that exists from countries with the most to the least protective legislation.

As mentioned previously, in addition to the flexibilization of rules pertaining to hiring and non-standard contracts, national labour re-regulation also affected laws concerning individual versus collective contracts, the hiring of special groups (e.g. affirmative action and rules against child labour), dismissal and retirement, wage levels, benefits, provisions for leave and occupational standards. Although it is difficult to summarize the diversity of legislative change across countries, during periods of market reforms the tendency was to increase the ease with which employers could hire and fire workers, and to decrease the protection for workers. While

¹ Non-standard employment is also referred to as irregular, atypical, contingent, casual, precarious or flexible. For the purposes of this report, non-standard employment will refer to all jobs outside of formal full-time employment (as regulated by statutory labour laws).

changes in rules concerning hiring allowed employers the possibility of converting full-time regular workers to part-time or temporary workers, changes in firing rules granted more freedom for employers to dismiss workers and to administer mass lay-offs without penalty.

In addition to hiring and firing regulations, changes in provisions for social security and retirement were highly significant measures affecting labour market flexibility. Along with market reforms aimed at decreasing public spending, social security systems were reformed in many developed and industrializing countries. Both government and employer contributions to social security were reduced or eliminated altogether in some instances and in others new privatized or mixed contribution funds for health benefits and retirement were introduced. Laws concerning retirement and severance were adjusted to permit firms to reduce non-labour costs by offering “voluntary” retirement packages to senior workers with high benefits and pensions.

Other aspects of employee benefits including educational and training supplements were also subject to reduction or elimination as existing contracts were flexibilized and as new workers were hired. In many cases, the change in employment status of workers (from standard to subcontracted, for example) amounted to disenfranchising workers from benefits without changing corresponding laws.

This flexibilization of the terms and conditions of employment often occurred alongside processes of de-unionization and the weakening of collective bargaining agreements. In some cases new limitations were imposed on collective bargaining at the industrial level and/or laws mandating union contracts for public sector workers were removed. The overall loss of bargaining power for trade unions further aggravated the ability of workers to make claim to remaining legislated protections. As Chandrasekhar and Ghosh (2002) point out in India, even in cases where official legislation of workers’ rights and protections were strengthened at the national level, the shift in relative bargaining power away from workers and towards employers increased the tendency of employers to eschew compliance with such laws.

Table 3.2: Legal arrangements for fixed-term contracts and temporary work, selected countries

	FIXED TERM CONTRACTS	TEMPORARY WORK
Ethiopia	Permitted only in the following cases: <ul style="list-style-type: none"> • specified piece work • temporary replacement of absent worker • urgent work to prevent damage or disaster to life or property • work relating to the industry but performed at irregular intervals • seasonal work 	Licenses for private employment agencies are required from regional or national authorities, depending on scope of activities.
Chile	Maximum duration one year after which the contract becomes one of indeterminate duration.	No restriction
Czech Republic	Not allowed for: <ul style="list-style-type: none"> • graduates of university-level schools or specialist apprentice schools hired for work that corresponds to their qualifications • adolescents • employees under collective bargaining agreement • disabled persons 	No restriction
Spain	Permitted for various reasons (e.g., specific projects; temporary replacements; training contracts; production eventualities; special categories of workers; long-term unemployed)	Legal for justifiable cases
Japan	<ul style="list-style-type: none"> • 1 year duration without restriction • up to 3 years for particular types of workers 	Restricted to specific occupations
Germany	<ul style="list-style-type: none"> • Widely possible without justification • Maximum number of 4 contracts/24 months (no limits in justified cases) 	Generally approved except for construction
United States	No restrictions	No restriction

Source: Betcherman, Luinstra, and Ogawa, 2001.

Both legislative reform and the weakening or elimination of collective bargaining agreements significantly affected wages, employment security and benefits coverage for workers. However, in some countries the negative effects of re-regulation on worker security prompted policies in favour of workers' protection to be strengthened or reinstated following initial rounds of legislative reform. The impacts of such changes will be examined further in section 7 of this paper.

4. External labour market flexibility

Following the trend towards the decentralization of production, a variety of new contractual forms have sprung up to meet the needs of more specialized and flexible production systems. Parts of the production previously carried out “in-house” have been outsourced to firms or individuals providing technological and labour cost savings advantages. While the labour of sub-contracted workers continues to be an integral part of the production process, their employment relation is no longer with the parent enterprise. Thus, *numerical flexibility* is achieved by externalizing the employment contract. External labour market flexibility involves changing contractual relations between firms and between firms and employees. Increasing intermediation in inter-firm production networks has had significant effects on the resultant forms of employment.

With the rise of homework and producer-service firms (services sold primarily to larger businesses and government), employment contracts shift from work contracts to service contracts. In contrast to work contracts that stipulate concrete terms and conditions of employment (including the subordination of the worker to the employer), service contracts assume the independence of both parties. The lack of specificity regarding the degree of dependence between contractors and service providers leads to increasing ambiguity regarding employment protection mechanisms (Lavinias et al., 2001).

4.1 Outsourcing

Often described in terms of the emergence of production networks (and producer services), the decentralization of production has led to an overlapping array of flexible employment forms including outsourcing, temporary work and small and micro entrepreneurs. As a part of the extensive restructuring processes in financial service sectors worldwide, for example, the bulk of the accounts processing work previously performed in banks has been subcontracted to outsourcing firms. In addition clerical, cafeteria, security and janitorial services as well as mid-level services such as accounting, (insurance) claims processing, printing, computer systems management and sales (and product promotion) are now commonly provided by outsourcing firms.

Outsourcing firms are independent firms that supply services to a variety of enterprises or are “follow-on” firms or “piggy-back” firms that service only the parent enterprise. Similarly, cooperatives set up to cater to export companies in the manufacturing sector assume responsibility for part of the production process, while retaining exclusive control over work organization and labour contracts (see Lavinias et al., 2001). Such firms (sometimes created by the companies themselves) follow the parent enterprise as they move into new production sites within the same country or as they move into or expand operations in a different country.

Alternatively, outsourcing firms may be located in a country different from that of the parent enterprise. The development of transborder or offshore outsourcing firms offering data input and customer services grew in the 1980s and 1990s following trade and investment liberalization. Popular examples include German airlines outsourcing booking services to call

centers in South Africa or Swiss banks employing “guards” in North Africa to monitor security cameras in Geneva’s banks.²

Although outsourcing firms may offer new employment opportunities, the terms and conditions of work in such firms are typically far below that of standard employment, particularly in developing countries. In addition to significantly lower wages and lack of benefits, other serious concerns include poor working conditions, lack of representation and the informal and precarious nature of subcontracting. Certainly for firms operating in “Free Trade Zones” the exemption from most formal employment regulations provides little or no security for workers.

In addition, the recruitment of women workers or ethnic minorities for jobs in outsourcing firms has aggravated labour market segmentation and discrimination. Freeman’s (2000) innovative research on data processing work in the telecommunications sector in the Caribbean reveals that despite the high heels and professional dress that distinguish women informatics workers from factory workers, wage levels are below those in the manufacturing sector. Freeman concludes that “ideal pools of flexible labour” in the Caribbean are “actively created and not simply found” as the recruitment of women workers relies heavily on both local and transnational gendering or feminizing of the work itself. Furthermore, Freeman points out that contrary to popular expectations of technology transfer, the increasingly automated and fragmented organization of work actually prevents workers from developing higher levels of skill. She points out that, “simply working at a computer terminal offers no more in the way of knowledge of transferable skills than working with any other piece of equipment.”

On the other hand, a more hopeful report from the International Labour Organization looks at the growth of outsourcing firms using telecommunications and makes a strong case for the potential benefits of telework provided that mechanisms to ensure workers’ security are also established.³ The use of teleworking⁴ by India’s software development sector is also frequently cited as a positive example of the higher value-added employment made possible by the introduction of telework to rural areas. The ILO report examines the potential of multipurpose telecenters to create employment for women workers in countries such as South Africa, Uganda, Senegal, Mexico and Bangladesh. (See section 5 for additional discussion of telecommuting for employees in the core.)

Evaluating the quality of labour in outsourcing firms is difficult as the location of subcontracted labour leads to confusion regarding its contractual category. Workers contracted by outsourcing or temporary agencies, particularly those providing clerical staff, may work alongside regular employees within an enterprise. In other cases, subcontracted workers are deployed or dispatched to particular sites of production such as call centers (telephone sales divisions) that are located within or close to the enterprise. Outsourcing firms may also employ a combination of workers – directly contracting a core of usually full-time workers and subcontracting the remaining workers through a temporary agency. The intersection and overlap

² Andre Bibby, *World of Work*, 2001.

³ The High Road to Teleworking, www.ilo.org/safework/telework

⁴ In this paper, the distinction is made between *telework* in outsourcing firms by subcontracted (and usually) peripheral workers, and *telecommuting* by direct employees of an enterprise (core workers). This distinction is critical to discussions concerning the common disadvantages of telework including isolation, wage deterioration and labour insecurity also discussed in section 8.

of external labour market forms may provide a range of options for enterprises, but complicates the analysis of their impact and effectiveness.

4.2 Temporary work

Temporary jobs are defined by the OECD as “those forms of dependent employment that do not offer workers the prospect of a long-lasting employment relationship”. In many cases, the temporary nature of the work is apparent, as in cases where workers are hired for specific, time-limited tasks (e.g. to replace a sick worker or to fill a seasonal job). Other cases are less clear-cut. The subcontracting of labour through temporary agencies enables firms to hire, fire and deploy labour quickly.

Workers in both outsourcing and temporary firms are typically hired for fixed terms. Although temporary workers are much more likely to work a part-time schedule than permanent workers, there are also examples of the use of long-term “temporary” workers.⁵ Temporary workers can be hired part-time, full-time or on-call. Temporary work arrangements give enterprises the opportunity to improve the selection of staff by using temporary contracts as a probationary period.⁶ Temporary contracts also allow companies time to resolve decisions regarding staffing levels during periods of uncertainty such as restructuring and/or mergers and acquisitions. They also permit firms to increase employment without making commitments to new hires and to decrease employment without encountering severance penalties. Cost savings may also be gained in cases where the wages of temporary workers are not commensurate with those of permanent or standard workers and in cases where employers are not obliged to provide the same levels of benefits to temporary employees. Section 9.3 includes more examples of legislation to equalize wages and benefits levels for workers in flexible versus standard forms of employment.

In addition to concerns about increasing disparities of wage and benefits between outsourced and temporary workers and permanent (or standard) workers, other questions about these forms of subcontracted labour include whether or not they serve as a bridge to more permanent forms of employment, the degree to which they create or exacerbate labour market segmentation and the availability of education and training to workers employed under such contracts. While temporary work for lower skilled workers typically offers few opportunities for skills acquisition or career development⁷, those agencies catering to high-tech workers have begun to offer training and career assistance in addition to health insurance, vacation and sick pay, and in some cases even stock options.

⁵ See OECD Employment Outlook, 2002.

⁶ Henry Farber 1999. Alternative and Part-Time Employment Arrangements as a Response to Job Loss. *Journal of Economics*. Volume 17:4:142.

⁷ See Box 8.1 regarding temporary employment programs in Bulgaria that do provide training to low-skilled workers.

Box 4.1: Equalizing wages and benefits between temporary and permanent workers

The OECD Employment Outlook for 2002 reports that certain policies and labour market institutions may have the effect of equalizing the wages of temporary and permanent workers who perform equivalent work. Minimum wage legislation, when present, typically covers workers in temporary jobs as well as those in permanent jobs. However, special sub-minimum wages are sometimes established for certain classes of workers likely to be found in temporary jobs (apprentices or youths). Similarly, legislation on equality of opportunity between different groups in the labour market typically applies to temporary workers, at least implicitly. However, collective agreements do not always extend automatically to temporary workers and only a few OECD countries (Belgium, France and Spain) have enacted legislation that explicitly requires temporary workers to be paid the same wages as equivalent permanent workers. ...In some OECD countries, special steps have been taken to prevent workers from losing pension contributions paid into an employer-pension fund upon leaving the employer, for example, through requirement that all pension contributions are reimbursed to the workers. In the United Kingdom new personal pension schemes were recently launched, like the new "Stakeholder" pension plan, which allows temporary workers to maintain their pensions with low (subsidized) contribution levels.

Source: OECD Employment Outlook, 2002.

4.3 Subcontracted small entrepreneurs, self-employed and homeworkers

In the research on *informal employment*, a great deal of attention has focused on the relation of small and micro entrepreneurs to new production networks that include outsourcing firms, self-employed and homeworkers. The formal sector has traditionally relied on the informal sector for raw materials and services precisely because of its flexibility and cost savings. The linkages between the formal and informal sector have intensified, creating stronger and more intricate relationships between profit-oriented enterprises and waged work tied directly or indirectly to formal production processes (Beneria, 2001). Although these forms of employment are not new, the outsourcing of increasingly core parts of the production process to small and micro entrepreneurs (often on the edge of formal/informality) has produced new types of intermediary relationships between firms and employees.

Outsourcing in the trucking industry, for example, has involved the conversion of wage-earning drivers to "self-employed" drivers who are forced into owning or renting their own vehicles in order to retain their employment. The drivers are separated from the enterprise but continue to carry out essentially the same work as before and in a situation of effective dependency. These "self-employed" drivers operate in ways that are indistinguishable from wageworkers as they are supervised and have only one "customer". The cost savings of such arrangements are considerable in cases where employers are not obligated to provide any social security, unemployment benefits or automotive insurance to "self-employed" drivers.⁸

Self-employment can be motivated by either opportunity or necessity. A recent study by Reynolds et al. (2002) finds that, even in developing countries, the majority of individuals who participate in self-employed entrepreneurial activities report that they are doing so in order to take advantage of business opportunities, rather than for mere survival. This survey data must be subjected to analysis of the social and cultural context, however, and compared with income levels and standards of living. The bulk of research on small- and medium-sized enterprises

⁸ Case cited in the technical document of the Meeting of Experts on Workers in Situations Needing Protection (The Employment Relationship: Scope) Geneva, 15-19 May 2000.

remains focused on finding ways to increase economic and social security for the self-employed and the employees of SMEs. Although SMES often supply cheap labour and productive inputs to larger enterprises in the production chain, the precarious and informal nature of the vast majority of SMEs does not guarantee that employment alone will provide a minimal floor of social security.

As discussed in the previous section on subcontracting, the relocation of production processes to the home or to informal workshops is typically motivated by the desire to save on labour costs by avoiding any formal relationship with workers. Homework is typically associated with disguised employee status resulting in long working hours and lack of access to legal protections including work safety provisions and social security benefits (Tomei, 2000). The vast majority of homeworkers in developing countries are women who combine homework with reproductive activities. The level of women in homeworking reaches beyond 80 per cent in some countries (Beneria, 2001). A recent study of subcontracted homeworkers in five Asian countries confirmed the inconsistency of work contracts, low wages and difficult working conditions that characterize homework (Balakrishnan and Huang, 2000). The ILO Convention on Homework, established in 1996, is a significant breakthrough in addressing the precarious nature of homework. The Convention provides a regulatory instrument to make homework more visible and secure. Consistent with the goals of the Convention to improve the quality of homework, new and more innovative forms of *home-based* work are being developed that are distinguished by higher skills and wages and improved working conditions (see Box 4.2 and Lavinias, et al., 2001).

Box 4.2: The high road to homework in Brazil

Several recent case studies in Brazil point to the possibilities for homework to avoid its association with low quality and precarious work and instead, to offer high quality jobs with opportunities for training and advancement. One company in the telecommunications and electro-engineering sector opted for the “high road” in workforce restructuring by implementing a variety of innovative strategies including:

- Total Quality Management Systems that boosted the participation of all employees
- Restructuring of the physical workspace that increased functional flexibility and increased transparency
- Provision of subsidized cafeteria and crèche services (of particular benefit to lower paid workers)
- Employee training initiatives
- Homework options.

At the request of employees, the company developed a homework option in which permanent employees with formal contracts (and full labour rights) receive fixed wages, but carry out the production at home. The increased freedom over the production process allowed for homeworkers has fostered a closer collaboration between engineers and workers leading to productivity improvements. Whenever products are modified, homeworkers return to the factory for additional training while they continue to receive their stipulated wage. Homeworkers in this case do not lose any rights or earn any less than standard workers. They remain wage-earning employees. The success of homework can be seen in the holistic approach to workforce restructuring that included mechanisms for worker participation, training, and income security.

Source: Lavinias, Sorj, Linhares and Jorge 2001. *Homework in Brazil: New Contractual Arrangements*. InFocus Programme on Boosting Employment through Small Enterprise Development. ILO. Geneva.

Table 4.1 attempts to sort out some of the contractual differences between outsourcing, temporary, sub-contracted homework, and small- and micro-entrepreneurial suppliers. While temporary agencies and outsourcing firms tend to have a “triangular” relationship with employers and temporary workers, the subcontracting of small entrepreneurs may involve more than one intermediary in the chain of production.

Table 4.1: Forms of employment sub-contracting and external flexibility

Forms of External Contracts	Outsourcing	Temporary	Small or micro entrepreneurs (also self-employed or homeworkers)
Contract	Employment contract with outsourcing firm	Employment contract with temporary firm	Employment contract with intermediary or Sales contract with enterprise
Location of work	Outsourcing firm or within enterprise	Within enterprise, enterprise satellite or outsourcing firm	Workshop or home
Means of production	Provided by employer or enterprise	Provided by employer or enterprise	Provided by self or others
Supervision	Outsourcing firm or enterprise	Enterprise	No direct supervision

Source: Women and Men in the Informal Economy: A Statistical Picture, ILO, 2002.

Three primary concerns arise with regards to subcontracted jobs: 1) whether or not subcontracted work is a preference for workers; 2) how working conditions vary between workers in external and internal employment relations; and 3) fraud. Recent indicators in the OECD countries suggest that temporary jobs, for example, are less desirable than permanent ones due to the monotony of the tasks and the inflexibility of work schedules. (This underscores the fact that flexibility here is associated more with the needs of employers than with those of workers.) Nevertheless, individuals may prefer a temporary job to a permanent one, if they wish to combine work with other activities such as studying or caring for family members. On the other hand, subcontracted employment, even for self-employed or small entrepreneurs, may be a last resort for those unable to find more standard forms of employment. The increased hours and responsibility for income generation associated with self-employment and small entrepreneurship may only be attractive in the face of a scarcity of standard jobs. When compared with jobs in the industrial sector, homework is typically of low quality – offering low wages, benefits or possibilities for training and advancement. Lastly, with regards to fraud, subcontracting agencies operating internationally have raised concerns about instances in which migrant workers are underpaid or exploited (see World Employment Report, 2001, p. 251).

5. Flexibility internal to enterprises

The changing organization of the internal workforce of enterprises is driven by factors discussed in the introduction such as changes in production (flexible specialization), technology (“Just in Time”) or by political opportunities to restructure (given the decreased power of unions and/or the reduction of workers’ protection). The result is a move away from Taylorist techniques and conventional mass production towards strategies of lean production. The goals of workplace restructuring vary considerably ranging from: increased efficiency and productivity of the labour process, increased control over labour processes and workers, increased employee participation, enhanced creativity or employee innovation and cost-savings. Although often reluctant to admit it, cutting labour costs is one of the easiest and quickest ways for enterprises to lower overall costs of production, particularly if the negative social costs can be minimized or ignored. Downsizing is typically the first step in increasing *numerical flexibility* by replacing tenured employees with subcontracted workers who can be more easily hired and fired, for example. Restructuring strategies such as downsizing are usually implemented during crises in the hopes of saving floundering enterprises from going under. In cases where mergers and acquisitions produce workforce redundancy or where acquired firms were previously operating with high inefficiencies, downsizing methods may also be favoured.

Downsizing is, however, only one component of a larger process referred to as Business Process Re-engineering (BPR). Furthermore, BPR is only one of a range of methods including: Employee Involvement (EI), the Socio-Technical Movement and Total Quality Management (TQM). These practices are part of a new philosophy of management practices designed to generate “high-performance workplaces” and “flexible firms” (Kling, 1995). The 1999 OECD Employment Outlook analyzes flexible workplace reorganization practices in terms of how they attempt to: 1) redesign jobs towards greater complexity, higher skill levels and greater use of team working; and/or 2) alter the delegation of decision-making. These practices are all designed to increase other forms of labour flexibility such as *job structure and working time flexibility*. Of all the models reviewed the following emerge as prevailing characteristics:

- job design involving multi-skilling or multi-tasking;
- increased job rotation;
- extensive use of team working;
- reduced hierarchical levels (and elimination of middle management);
- delegation of responsibility to individuals and teams;
- emphasis on lateral communication;
- reduced waste;
- improved customer service; and
- increased employee job satisfaction (job enrichment).

The BPR method, for example, alters the workplace structure from a pyramidal shape to a more concentric design. As mentioned in section 1 this method, also referred to as the core/periphery model, divides the workforce into “core” and “periphery” segments, consisting of a small and stable “core” of upper-level management professional and a much larger, more flexible and lower cost “periphery” of workers including support staff, clerical, sales and operations workers. Increased *wage and numerical flexibility* is gained primarily in the periphery

through the increasing use of part-time, subcontracted, and temporary labour. BPR includes some of the same ideas of TQM, but emphasizes cost savings through “re-engineering” processes.

Flexible workplace models also include a restructuring of the traditional career model of dependency and long-tenure in which the employer ensures the provision of a range of benefits and provides the system through which careers are built. While more traditionally organized firms provided opportunities for workers to enter at the bottom and to work their way up the career ladder in incremental steps, more flexible career structures provide greater horizontal as opposed to vertical career mobility, expanding employee opportunities for work in different areas of a firm (and hence increasing opportunities to acquire new skills), but limiting chances for promotion and wage increases. Although vertical movement may be enhanced between firms, the elimination of administrative and middle-level management may also reduce career opportunities within firms.

Although flexible workplace reorganization is experienced most profoundly by workers in the periphery of the internal workforce, restructuring strategies also aim to increase employment options and functional flexibility for core workers.

5.1 Flexibility in the core

Flexibility is currently a buzzword in the human resource literature particularly with regard to strategies to recruit and retain mid-level and professional employees. The *flexibility of working time* is emphasized, along with the *locational flexibility*. Work schedules are no longer automatically organized on a weekly or annual basis. Patterns of work are also becoming increasingly flexible over the course of the lifecycle (Bosch, 1997) as workers combine periods of paid work with periods of education and training and as workers combine waged work and care work over the course of their careers. Flexibility in the core most commonly takes the form of part-time work, flexible scheduling (including compressed workweeks), job-sharing and flexible work sites (including satellite and home offices).

Part time work and job-sharing are flexible employment forms designed to incorporate workers with family responsibilities, students or other qualified individuals who might not otherwise be available for work. These options are viewed by employers as making maximum use of qualified labour and as a means to acquire and retain talented workers. The savings recognized when a full-time employee, who might otherwise leave the firm, is allowed to work part-time, for example, are twofold. First, the firm saves in lower salary costs for the reduced hours, and second, the firm retains the training invested in the employee. Firms report that workers who reduce their schedules bring increased energy to the job and have lower rates of absenteeism and turnover. While a great deal of attention has been drawn to cases where part-time or reduced work weeks are imposed on workers, flexible working hours and locations in the core are largely voluntary. In the US, for example, workplace initiatives focus on providing flexible work arrangements for employees that meet the needs of changing families (with two wage earning parents, for example). Particularly targeted for professional women workers, on-

site childcare and flexible work schedules are becoming more widely available in many countries.⁹

Adjustable work assignments are also incorporated into many forms of employment in order to increase *functional flexibility*. This strategy involves shifting the duties and responsibilities of workers so they can easily transfer between employment divisions or change job roles as needed and desired. Flexibility in this case is also desired in order to alternate assignments and tasks that may be arduous, challenging, or requiring very different skills. Adjustable work assignments may be used by full-time, part-time, job-sharers or other kinds of employees.

5.1.1 Part-time

Workers qualifying as part-time may work a range of hours, depending on national labour and enterprise level regulations. In many countries, the threshold for part-time occurs between 30 and 35 hours in comparison with full-time. In some cases, the hours are comparable. In Japan, for example, 30% of workers classified as part-time worked the same number of hours per week as full-time workers. In this case, part-time did not refer to lower hours, but to a lower status of employment (Houseman and Osawa, 2000). Some researchers do not categorize part-time work as non-standard as it may share terms and conditions of work closer to those of standard or full-time employees. However, the increasing disparities between part-time and full-time workers and the rise in numbers of part-time workers in many countries demand that it be considered across categories in discussions of non-standard, flexible and informal forms of employment (Carré, 2000). The OECD measure is most easily compared as it calculates part-time as at least one-fifth less than the statutory or conventional number of weekly, monthly or yearly hours.

Industries with a high incidence of part-time workers include retail trade, services, finance, clerical and paraprofessionals. In the US, particular occupations in which part-time workers are prevalent include cashiers, secretaries, nurses, sales clerks (for women) and cooks, cashiers, janitors, stock handlers and truck drivers (for men) (Hudson, 2000).

⁹ See The Families and Work Institute: www.familiesandwork.org and also the Work and Family Connection: www.workfamily.com.

Box 5.1: Working time flexibility with positive employment effects

Bosch and Lenderhoff find that studies of collective working time reductions in western European countries over the past twenty years indicate that the conditions under which working-time reductions are likely to generate positive employment effects can be summarized as follows:

- It is useful if the wage compensation for working-time reductions and the increase in hourly rates are negotiated as part of an overall package, possibly one that will remain in force for a long time. Cuts in working time and wage increases can thus be implemented simultaneously, as they were in Germany and the Netherlands, without causing a rise in unit wage costs; this is important not only for international competitiveness but also for domestic demand.
- It is preferable if working-time reductions are combined with the introduction of more flexible working schedules. This makes it easier for firms to improve their work organization and to increase operating hours and adjust them more readily to demand. The State and social partners should encourage the exchange of information on practical experience of new working-time systems, in order to reduce the learning costs associated with the modernization of company structures.
- Only in a functionally flexible labour market where there is also an adequate supply of unemployed skilled workers will reductions in working time not result in shortages of skilled labour over time. Work redistribution policies will therefore be more difficult to implement in countries with an inadequate supply of unemployed skilled workers than in those where the supply of skilled workers is increased by active labour market and training policies.

Source: Gerhard Bosch and Steffen Lenndorff. 1998. Reduction de temps de travail et emploi, in *Travail et Emploi*. 74, pp. 125-142.

5.1.2 Compressed workweeks

In addition to part-time work, *working time flexibility* has been achieved through the introduction of compressed workweeks. Workers not able to participate in telecommuting, but wishing to decrease commute time and increase hours spent at home or gain larger blocks of leisure time, may opt for a compressed workweek wherein the same number of hours (generally 40) are compressed into four days, increasing each workday to ten hours with an extra day off each week, for example. This type of scheduling may be attractive to enterprises that have had to extend their hours of service or production. Some firms utilize a team approach. For example a four ten-hour day team working Monday–Thursday in combination with a Tuesday–Friday or Wednesday–Saturday team can stagger staff to extend coverage without increasing overall employment levels (New Ways to Work, 1997). In addition, the expanded use of equipment and the elimination of start-ups and shutdowns may be important advantages for the use of compressed work schedules by industrial firms utilizing expensive equipment or high priced office space. Some enterprises may go on and off compressed week schedules according to more seasonal production demands. The calculation of benefits and overtime hours is extremely important in the adoption of compressed workweeks as employers may institute changes in the starting time or day of pay periods in order to comply with regulations restricting over-time hours. In other cases, allowances for overtime may be available.

5.1.3 Telecommuting

Within the scope of *working time and locational flexibilization* strategies, attention is also given to the redesign of occupations that can be carried out by telecommuting (teleworkers who work at home with no direct supervision). Telecommuting allows employees to work from a home-based office or satellite office during normal work hours, instead of commuting. The European Commission recently defined telecommuters as “employees or contractors who work at home (instead of traveling to an employers’ or customers’ premises) through the use of information and communications technologies”. Telecommuting is boosted as an environmental initiative to reduce commuter traffic and pollution emissions. Telecommuting is also promoted as a means of increasing job satisfaction (through reduced stress and commute time) and productivity (by eliminating hours previously lost while employees attended to family illnesses, for example).¹⁰ Although some telecommuters may work longer hours than on-site employees, they are less likely to report physical or emotional exhaustion or stress at the end of the day.

A recent study on “off-site” identified five types of telecommuters: 1) regular teleworkers work from home on a regular basis, an average of two days a week; 2) *ad-hoc* teleworkers who work from home about two days a month; 3) remote workers who function full-time from a home location; 4) mobile workers who work from multiple locations including their car, their home, hotels, airports, customer offices and company offices; and 5) customer-site workers located in customer offices (Richman, Noble and Johnson, 2002).

Beyers and Lindahl (1996) studied the emergence of independent contractors dubbed “lone eagles” and “high fliers” in rural producer services in the US. This group of telecommuters is characterized by their high level of education and desire to locate to rural areas for quality of life reasons. Often forming small enterprises, these independent contractors export services to other businesses located outside of the rural areas. The emergence of telecommuters in producer services was found to have made a positive contribution to local economies through multiplier effects.

While telecommuting may also provide productivity benefits for individual workers corresponding to decreased stress and increased ability to manage home and work life, the challenges for employers and workers concern the trade-offs in face to face communication and the need to provide adequate support. The provision of work tools is also crucial to maintaining communication and technological links. Fulton (2002) urges employers to take more responsibility in the provision of such tools in order to ensure high ergonomic standards and to maintain up to date equipment in order to maintain high productivity.

5.1.4 Alternative officing

Alternative officing is an emerging strategy to increase *functional flexibility* (increased changes in job tasks, job rotation and skills). Flexibilizing the traditional workspace of offices can have considerable benefits for both employers and workers. Restructuring offices organized around individualized cubicles into more communal and shared spaces may facilitate teamwork

¹⁰ For telecommuting resources, see the International Telework Association and Council: www.telecommute.org and the Federal Interagency Telework/Telecommuting Site: www.telework.gov.

and problem solving, and save costs on physical infrastructure. Management costs and effectiveness may be reduced as more centralized workspaces shift the focus from “management by oversight” to “management for results”.¹¹ Increased opportunity for communication among employees tends to increase levels of support, lower employee stress and increase productivity. Flexible office spaces are particularly common in the “creative” professions including marketing and software development.

In addition to the options of flexible central offices and work at home, firms may set up intermediary sites or alternative officing structures using star or ring-shaped communications networks to facilitate contact between managers and employees. These satellite offices provide ways to coordinate telecommuters and also to provide technological or human resources that cannot feasibly be distributed to individuals at home. (See Shiri Ahuja, Institute for Integrated Learning Management New Delhi, India, 2001). The flexibilization of workspaces is integrally related to other forms including working time, functional, organizational and job structure flexibility.

5.1.5 Job-sharing

Job-sharing, as a new employment form, achieves both *functional flexibility* as well as *job structure flexibility*. Job sharing is also implemented in cases where working time flexibility is negotiated as a measure to retain employment (see Box 5.2). Typical cases involve two part-time employees who voluntarily share the duties and responsibilities of a full-time position. Teams of job-sharers also fill jobs when the arrangement meets the needs of the employers and the employees. Although examples exist of employees of two different occupational levels sharing a job, it is more common to find job-sharing arrangements made of up team members who have complimentary skills, knowledge, and abilities. The critical factors in all job-shares are compatible work styles and complementary scheduling needs.

Box 5.2: Shorter hours to save jobs: Italian union incorporates working time flexibility into collective bargaining agreement

One means of averting or at least minimizing lay-offs is to introduce flexible working time arrangements. Under this type of scenario, all workers at the enterprise agree to a percentage reduction in working hours, accompanied by certain reductions in pay, rather than laying off an equal percentage of workers. Such an agreement was forged in 1996 at Fiorucci, a well-known food processing company in Italy. Fiorucci planned to reduce its workforce, but following substantial strike action it agreed with the union to promote “vertical” part-time work in order to avoid lay-offs. According to the agreement, workers at all levels of enterprise could voluntarily request that their full-time employment contracts be converted into part-time contracts, with the reduction in hours calculated on a yearly, rather than on a weekly basis. Working hours would be concentrated during the months from July to December, when demand for the company’s product is greatest.

Source: Ozaki, *Negotiating Flexibility*, 2000.

¹¹ New Ways to Work. 1997.

5.1.6 Performance-related pay

One of the most common strategies designed to enhance *wage flexibility* is that of performance-related pay. Under such schemes, managers are given more freedom to reward employees based on superior individual or team-based performance.¹² This strategy is also referred to as performance-based pay and is most strongly associated with efforts to improve worker productivity by utilizing individual or team-based incentives for increased performance. The goal is to promote factors of performance other than simple output, such as quality, cost reduction and adaptability. Flexible pay systems are designed and administered to link pay more directly to firm's financial performance through profit-sharing or gain-sharing schemes.

5.2 Flexibility in the periphery

In the workforce periphery, flexible forms of employment may resemble or overlap with forms that are external to enterprises. As discussed in the section on external labour market restructuring, temporary workers, although not directly contracted by enterprises may work on site, performing the same tasks alongside regular employees. Similarly, subcontracted workers performing housekeeping, security, accounting or computer systems analysis may perform work inside enterprises, despite the fact that they are contracted by an outsourcing firm. Forms of flexible employment such as part-time or telework may appear in both the core and periphery of the internal enterprise workforce as well as outside of it. Critical differences between forms of flexibility in the core and periphery concern the degree of control and choice that workers exercise over the terms and conditions of their labour. Temporary agencies, for example, may demand that temp workers accept whatever assignment is available, regardless of whether it is full or part-time, or for one day or two months.

5.2.1 Key-time staffing

Enterprises attempting to maximize their ability to adjust to fluctuating demands for labour, even within the course of a business day, may utilize "key-time staffing" which allows enterprises to make hourly adjustments in staffing according to fluctuating levels of customer service or production demand. On-call work has been implemented in service industries such as fast food restaurants, supermarkets, and banks. In addition, many temporary agencies contract on-call workers in order to supply enterprises with quick replacements for employees who become ill during the course of the day.

5.2.2 E-working

Enterprises have also experimented with e-working in the periphery. In the financial services, insurance and health care industries, for example, workers directly contracted with the enterprise to perform data-entry have been sent home to work with computers provided by the enterprise. Contracts for e-workers in the periphery are typically changed from salaried or hourly wage labour to piece-work in order to compensate for the lack of direct supervision and in order to set minimum quota levels. The key differences between teleworkers in the core is that the

¹² See the MIT Human Resources Development Initiative 1997 as an example of flexibility options offered to employees.

transfer of work from the enterprise to home in the case of peripheral workers is mandated by the enterprise and not the worker and typically involves less skilled work. Enterprises may opt for this form of *locational and numerical flexibility* in order to save money on non-labour costs such as electricity, office-space and/or office supplies. In addition, despite the decreased capacity for direct supervision, employers may be able to increase productivity, through the setting of higher quotas and by capturing labour previously spent on commuting or socializing with coworkers within the enterprise. In addition, employers may gain increased bargaining power by negotiating pay and workloads with individuals separated from a production team.

6. Occupational and individual flexibility

Flexibilization processes have also affected those workers in both the core and periphery who have remained in regular full-time jobs. Occupational reengineering processes have not only created new and more flexible positions, but have also attempted to increase the productivity and efficiency of traditional occupations. The principle flexibilization strategies for occupational redesign include efforts to increase the number of tasks that each worker can perform simultaneously (multi-tasking) and to increase the ability of workers within an enterprise or office to be able to perform tasks other than those associated with their jobs (cross-training). The wider objectives of multi-tasking and cross-training strategies include: 1) increased productivity through the reduction of downtime and the introduction of new supervisory technologies; 2) increased profitability through improved efficiencies and expanded production; 3) cost savings through the elimination of “redundant” staff; and 4) increased functional and temporal flexibility. While some occupational reengineering processes involve expanded on the job training and increased worker autonomy, others are characterized by increased workloads, work speed-up, increased stress and decreased autonomy. Multi-tasking initiatives in peripheral jobs may be accompanied by human resource discourse advising workers to “take charge” of their careers or to take responsibility for their own stress/time management.

6.1 Multi-tasking

Multi-tasking initiatives have been widely implemented in manufacturing, services and retail trade. In public service or administrative occupations, multi-tasking may include word processing, report preparation, answering the telephone, attending to customers, managing shipping and receiving, budgeting, and providing photocopying and other support services to management. The objective of multi-tasking in retail and service jobs may be to increase profitability at the point of sales. Finance firms, for example, have introduced the use of sales protocols to enable bank tellers to promote products in the course of administrative transactions. In addition to managing deposits, withdrawals and other accounts transactions, tellers are also required to “inform” customers of new financial service products. Similar to new cashiering/sales occupations in the retail sector, tellers are frequently expected to make “suggestions” regarding credit card or other promotional schemes. The flexibilization of retail and administrative occupations has resulted in a new hybrid of jobs that include both transaction-oriented skills as well as commercial or sales skills.

6.2 Cross-training

The promotion of cross training among employees within enterprises, along with the multi-tasking of individual jobs, aim to enhance both functional and job structure flexibility. For example, should a worker become involved in a task or problem-solving situation demanding an extraordinary amount of time, cross training allows another worker to step in to temporarily assume the tasks left undone by coworkers.

In addition, such strategies allow workers to “cover” for each other in the case of illness or absence, increasing numerical flexibility by allowing firms to save on hiring temporary replacements.

Flexibilization strategies such as multi-tasking and cross training are typically implemented along with new supervisory technologies that allow employers to more closely monitor worker performance and productivity. While security cameras enable employers to discourage downtime or non-productive activity, other devices allow employers to monitor the rate of sales, the length of customer transactions or the number of computer keystrokes per minute. Supervisory technologies are generally designed to increase the speed and accuracy of the labour of individuals or teams. The intrusiveness of such technologies has restricted their use to workers in the periphery.

Occupational redesign for core workers tends to emphasize ongoing education and skill acquisition including the interpersonal skills needed to participate in TQM or other flexible and cooperative work teams. Cooperative problem solving and a willingness to share information are qualities included in the design of new core occupations. Measures in the core are characterized by a high degree of employer support for cross-training including leave time and compensation. In Japan the achievement of multi-tasking through job rotation and job training is intended to develop broad *enterprise* based skills. In Germany, however, multi-tasking and cross training (also more commonly referred to as job rotation here) are seen as part of the process of skill enhancement for *individual* occupational development.¹³

¹³ Job rotation in this case does not refer to moves in and out of the labour market, but rather moving from job to job under the same employment contract.

7. Trends in flexible forms of employment

In both developed and industrializing countries alike, the composition of labour markets and work arrangements is continually in flux. The diversity of work arrangements is likely far greater than official statistics suggest. Since flexibilization strategies result in changes in labour *processes*, in addition to new employment *forms*, the degree of workforce or occupational flexibility is frequently missed in employment data. Recent research has recognized the need to develop new labour market indicators in order to capture the emergence of non-standard forms of employment. In addition to efforts to better capture the diversity of flexibility and non-standard employment, researchers and policy makers also advocate the development of indicators for gender, income, employment benefits and worker representation in order to begin to study the degree to which, and in what cases, flexibility is associated with other economic indicators and measures of social security.¹⁴

Notwithstanding, flexible forms of employment are *partially* captured by measures of part-time work, non-standard and unprotected employment. Data are most widely available for part-time and temporary work. Telecommuting, teleworking, outsourcing, and on-call work are often lumped together under “non-standard” work. Self-employment data are also included in analyses of non-standard work, although only a portion of self-employment is related to flexibilization strategies, namely those micro to small entrepreneurs subcontracted by enterprises to supply goods or services produced “in house” prior to changes in labour legislation, the organization of production or the workforce restructuring.

¹⁴ The ILO’s Infocus Programme on Socio-Economic Security has developed the Enterprise Labour Flexibility and Security Survey (ELFS) in order to better understand the ways in which workers security is determined by enterprise practices. The ELFS survey aims to contribute to the development of an optimal level of security in work, by conceptualizing firms as places where profitability, dynamic efficiency, flexibility and work related security can be combined and fostered. The surveys examine the process of employment creation, labour utilization, job structure, working conditions, and labour relations at the enterprise level. Specifically, they investigate problems of labour utilization, obstacles to skill formation, recruitment practices, labour segmentation and patterns of labour turnover and mobility. Enterprise Surveys have recently been conducted in many countries including the People’s Republic of China. Analysis is forthcoming.

Table 7.1: Flexible forms of employment as a percentage of total employment

Country	PT'98	PT'00	Temp'98	Temp'00
Austria	15.8	17.0 (+)	6.8	7.9 (+)
Belgium	15.7	20.7 (+)	6.4	9.0 (+)
China*	--	--	4.9	4.4 (-)
Denmark	22.3	21.7 (-)	9.1	10.2 (+)
France	14.7	13.9 (-)	15.1	15.0 (-)
Germany	18.3	19.4 (+)	10.9	12.7 (+)
Ireland	16.7	16.9 (+)	6.1	4.7 (-)
Italy	7.4	8.8 (+)	6.1	10.1 (+)
Japan	18.8	22.2 (+)	13.0	18.0 (+)
Korea	6.8	7.8 (+)	--	17.0 (?)
Netherlands	38.8	41.2 (+)	11.2	14.0 (+)
Spain	8.1	8.2 (+)	25.3	32.1 (+)
Turkey	6.2	7.1 (+)	21.0	21.0 (=)
U.K.	24.9	24.9 (=)	6.1	6.7 (+)
U.S.	13.4	14.0 (+)	5.0	4.0 (-)

Key: PT= Part Time Temp= Temporary

Sources: Eurostat Labour Force Survey 1998 and 2000 (for Austria, Belgium, Denmark, France, Germany, Ireland, Italy, Netherlands, Spain and UK), KILM 2001-2000 (for Japan, Turkey: 1998 and 1999 data, and US), OECD Employment Outlook 2002 (for temporary data on Japan, Korea, and Turkey) and Labour Statistical Yearbook for China (*regards employment in state-owned enterprises only).

7.1 Results for part-time

The data in Table 7.1 illustrates an increase in part-time employment for all countries except Denmark and France which experienced declines of less than one percentage point and the UK where the percentage remained the same. Data from the European Union Labour Force Survey confirms that, in terms of share of employment growth, part-time work accounted for half of the employment growth from 1987 to 1997. The average annual employment growth rate was .8% of which .4% came from part-time employment. In Japan, part-time employment was responsible for the majority of overall employment growth (although low at 1.1%). In the US and in some Scandinavian countries, the share of part-time work is rising, while in other European countries it is now declining. The degree of part-time work also varies considerably. The average number of hours worked by part-timers in the Netherlands is approaching the hours for full-time workers, while the number of hours worked by part-timers in the UK is still quite low.

Women continue to make up the vast majority of part-time workers, although the changing dynamics of paid work between the sexes and the increasing integration of women into full-time work may change this in the future (Bosch, 1999). There is some variation across the OECD countries, but the female share in part-time work is higher than 60% in all countries except Korea where it is 59% and Turkey where it is 50% (OECD, 2000). In terms of employment growth, in both full and part-time work, three quarters of the increase were due to the increase in part-time jobs held by women (Evans and Lippoldt, 2000).

Whether or not part-time work serves as an entry into the labour market and/or a transition to full-time work appears to vary considerably depending on the institutional context. Survey research seeks to determine whether part-time workers would prefer full-time work or not. The duration of part-time work appears to influence such preferences (Galtier, 1998). For

some women, part time work provides a way to temporarily combine wage work with care work. While women tend to remain part-time workers over the long-term in the Netherlands, in Sweden, both women and men move frequently from full-time to part-time work and back again.

Concerns about the gendered segmentation of part-time work are related to those regarding the generally lower quality of part-time work. The median earnings of part-time workers are between 55 and 90% lower than those of full time workers, depending on the country. Part-time jobs are also more likely to be found in lower-paid occupations (such as services and sales) that offer more limited opportunities for career advancement than full-time jobs (OECD, 1999). Part-time workers are more likely to hold temporary jobs and, similar to temporary workers, to have reduced access to benefits and training opportunities.

7.2 Results for temporary

Temporary jobs also appear to be an increasingly significant feature of the employment landscape across countries, despite the considerable difference in relative importance. One in every three jobs is temporary in Spain, but fewer than one in twenty in the US. Temporary jobs account for over two-thirds of total employment growth, or grew despite a fall in total employment for seven of the twenty-nine countries included in the OECD 2002 report. Since 1992, the number of temporary agency workers has increased at least five-fold in Denmark, Spain, Italy and Sweden and just under four-fold in Austria (Storrie, 2002 in OECD, 2002, p.136). Despite this rapid growth, the contribution to overall employment is still relatively low.

Temporary workers in Europe are more likely to be male and younger than other workers. The proportion of ethnic minorities is also higher as compared to permanent workers. The relative importance of different contractual types of temporary job is also marked by migrant status as in Mexico and the United States where agricultural workers make up the preponderance of seasonal workers (as opposed to fixed-contract, on-call or agency temporary workers).

The overlap in the categories of part-time and temporary also merits closer investigation. In most OECD countries, for example, temporary workers are more likely than permanent employees to work a part-time schedule. In Ireland and the Netherlands, more than one in two temporary workers are also part-time workers. On the other hand, in countries such as Austria, Germany and Mexico, temporary workers are less likely to work part-time (due to apprenticeship or sectoral employment in agriculture).

The data in Table 7.1 only begins to hint at the complexity of trends in flexible employment, complicating international comparison. The prevalence of a particular form depends on which options employers and employees have at their disposal. Labour market behaviour will vary according to factors such as regulatory frameworks (national labour legislation), government incentives for flexibilization, labour market institutions, the strength of social dialogue, discriminatory practices and the overall health of the economy.

While some researchers focus on the factors explaining the rise of a particular form of flexible employment in a given country, others are more concerned about the degree to which flexibilization strategies contribute to increased productivity or decreased unemployment. The

following sub-section will summarize research analyzing the various factors that explain labour flexibilization trends across countries.

7.3 Factors influencing trends in flexible employment

A series of papers presented at a conference on non-standard work arrangements in August of 2000¹⁵ examined the rise of non-standard work in OECD countries. The results of this research point to the ways in which national labour legislation, and the characteristics of national economies and labour markets, provide either incentives or disincentives for the adoption of particular flexibilization strategies. For example, Françoise Carré in a study comparing non-standard work in France and the US suggests that the regulatory framework in France which mandates wage and benefit parity between regular (or standard) employees and part-time employees provides little incentive for employers to resort to the use of part-time work as a means of cost-savings. In addition, the relatively low growth of non-standard employment in the US may be due to the fact that enterprises can easily adjust labour volumes through dismissal, as legislation does not restrict employers from firing.

Hoffman and Walwei, in the same body of research, compare trends in non-standard work in Denmark and Germany and conclude that the low unemployment rates in Denmark help to explain the smaller increase in non-standard forms of relative to Germany. In Germany, on the other hand, the authors argue that high unemployment has served as a “push factor” towards non-standard work arrangements. In addition the social security system in Germany is financed with greater contributions from employers (than from the State) giving enterprises greater incentive to evade such non-labour costs through recourse to non-standard or informal employment.

In another study conducted by the ILO’s Labour Law and Labour Relations Branch, Ozaki (1999) distinguishes the degree to which countries emphasize flexibility in external labour markets (through subcontracting of outsourcing, temporary workers or informal entrepreneurs), internal flexibility (primarily through part-time work), or both. Countries such as Italy, Spain and the Philippines have experienced a much greater increase in external forms (such as subcontracting) due to several factors. First, the restrictions on temporary work remain high in these countries including requirements that part-time workers receive the same benefits as full-time or standard workers. Thus, employers may have less incentive to hire part-time workers. The high labour surplus and “low skill” and education of the labour force in these countries may also influence the preference of employers for subcontracting practices.¹⁶

In countries such as Germany, Japan, the Netherlands, Norway, Sweden and the US, enterprises resort much more to part-time employment than to temporary employment. Ozaki

¹⁵ This conference was sponsored by the W.E. Upjohn Institute, the Japan Foundation and the Japan Women’s University and was held in Kalamazoo Michigan.

¹⁶ See Standing 2002 for a discussion of the ways in which the concept of “employability” often shifts responsibility for unemployment exclusively onto the shoulders of the unemployed eschewing the responsibility of enterprises and the State to create skilled and meaningful occupations. This discussion also assumes a critique of the “social construction of skill”, or the degree to which the value assigned to skills often depends on the social power of particular groups of workers. This concept leads to the recognition that the capabilities and tacit knowledge of “low-skilled” workers, particularly migrants and rural workers are not typically recognized or valued in urban labour markets. See also Lawson (1999).

proposes that this may be due to the high level of internal labour market flexibility (few restrictions on dismissal, for example) that reduces the need to resort to temporary workers in order to adjust the size of the workforce. The United States is an example of a country with a high percentage of part-time workers and a relatively low percentage of temporary workers. In addition to the ease with which workers may be fired, employers have no obligation to provide part-time workers with wages and benefits commensurate with full-time employees. Therefore, contracting part-time workers allows firms considerable cost-savings.

A third group of countries including Australia, France and Ireland appear to utilize flexibilization strategies in both internal and external labour markets. Recourse to flexibilization strategies has tended to closely follow the re-regulation of employment at the national level. In France, for example, laws reducing social security contributions for enterprises converting full-time to part-time jobs or creating new part-time jobs, significantly increased the prevalence of this form of employment.

Factors such as income distribution and levels of inequality may also explain trends in non-standard employment in terms of working time. Bosch (1999) proposes that short working hours voluntarily accepted by employees are one indicator of a country's prosperity. As incomes rise and basic needs are met, individuals become more interested in distributing productivity gains in the form of shorter working time rather than higher wages. On the other hand, in countries where income inequality has increased and average incomes have fallen, working times have increased, as workers attempt to compensate for lower wages and/or economic crisis.

8. The outcomes of flexibility: Analysis and conclusions

The initial goals of employment flexibilization, as discussed at the beginning of this paper, were to increase the ability of enterprises to adapt to increasing fluctuations in demand and technological innovations in order to enhance their ability to compete in the global marketplace. In addition, employers sought increasing control over labour processes in order to increase productivity and efficiency and, political-economists would argue, in order to maximize profit through redistributive strategies. Other related goals include the desire for economic growth and the hope for employment creation (at least indirectly or in the long term). What have been the outcomes of flexibilization processes? What do these outcomes tell us about the assumptions underlying flexibilization strategies?

8.1 Unemployment

The success of the re-regulation of national labour legislation in raising productivity and lowering unemployment is increasingly contested as growing evidence points to the complex relationship between flexibility, productivity, employment levels, wages and social protections. Cebrian et al. (2000), for example, set out to determine if measures designed to increase flexibility by “breaking the dominant standard model” of employment in Italy and Spain actually produced lower unemployment rates (Cebrian et al.). The results of this study did not demonstrate a causal relationship between deregulation and unemployment.

The re-regulation of hiring and firing practices were assumed by neoclassical economists to have significant impacts on labour market performance. However, recent studies challenge the original assumption of de-regulationists that strict protection of such labour market standards as working time, fixed-term contracts, minimum wages and employee’s representation rights restrict employment growth. The relationship between protective legislation and employment is, in reality, more ambiguous (Nickell, 1997). The results of research on labour market flexibilization in Europe by Rubery and Auer et al. (2001) also underscore the need to reexamine the assumption that “relaxing” labour protections will necessarily alleviate employment problems.

Similarly, Betcherman, Luinistra and Ogawa (2001) find that labour market re-regulation has a much stronger effect on the *composition* of employment, rather than the overall *levels* of employment. In the following quote, the authors summarize the outcome of their research on labour market regulations in 17 countries.

“The impacts [of protective legislation] on employment and unemployment levels are modest and, in the case of unemployment, often statistically insignificant. This suggests that the negative aggregate effect of these rules is less than many economists assume. However, the empirical findings are much stronger for the “dynamic effects” on labour turnover and job tenure, job creation and destruction, and unemployment duration – and on the types of jobs created.” (p. 12)

8.2 Employment growth

Although flexibilization strategies may not have significantly impacted overall *levels* of employment, most likely due to the significant employment losses generated by downsizing processes, they have made a promising contribution to *employment growth*. As the data provided in section 7 indicate, both part-time and temporary employment have contributed significantly to employment generation in many countries. The fast growth of the temporary industry in the US has certainly drawn a great deal of attention.¹⁷ A recent study published in the *Economist* also found that most of the net jobs created in Europe between 1994 and 1998 were either part-time or temporary.¹⁸

8.3 Productivity and labour costs

With regards to the impact of “relaxed” labour protections on productivity, Mayes and Soteri (1994) find that restrictive rules on dismissal can act as a *positive* rigidity that pushes companies to seek alternative adaptation and competitiveness strategies (such as product or labour process innovation) that would be otherwise overlooked if options to dismiss workers were more easily available. Sels and Van Hootegeem (2001) caution that if labour protections on dismissal or fixed-term contracts are simply eliminated, without any corresponding measures to protect labour security, that productivity, mobility and employment levels could be negatively affected.

In fact, increasing attention is being drawn to the long-term drawbacks of enterprise flexibilization measures in terms of productivity and transaction costs. A recent meeting of labour experts highlighted the fact that high employee turnover, and resultant decreases in levels of employee morale, can hamper enterprise productivity in the long run.¹⁹ Thus job uncertainty may also produce risks for employers in the form of unexpected costs arising from absenteeism, lack of commitment and loyalty (Delsen, 1995). Employers are beginning to recognize the limits to the advantages of flexible employment forms. The start of this trend is associated with the decision by the Ford Motor Company in 1996 to reverse its policy and to limit the number of non-standard workers to no more than 15 per cent of the workforce, after realizing that such workers can be a hindrance in operations that demand a flexible, well-trained workforce. Thus, flexible workers may save the enterprise money in the short run, but their lack of skills and experience may prove quite costly in the long run (Ozaki, 1999). In fact, job security (protected by strict employment regulation) may have a positive impact on the willingness of *standard* workers to perform and to continually adapt to changes in production. Sels et al. (2000) suggest that counter to prevailing beliefs regarding the relationship between flexible employment and productivity, job security may be the key to ensuring that employees adopt flexible attitudes.

¹⁷ See *The Economist*, 29 January 2000.

¹⁸ Study on the growth of temporary and part-time work in Europe conducted by Morgan Stanley Dean Witter published in *The Economist*, 10 June 2000.

¹⁹ Meeting of Experts on Workers in Situation Needing Protection. The Employment Relationship: Scope. Basic Technical Document. Geneva. 15-19 May 2000.

Lastly, other researchers caution that flexibilization may lead to productivity *losses* if firms are unable to retain the best workers in the face of tight labour market competition.²⁰

The long-term costs of narrowly focused flexibility policies can also undermine productivity and efficiency in cases where workers lose representation and avenues for dispute resolution. Labour friction over contract regulation is then transferred to the legal system. In cases where workers and workers' organizations are not able to negotiate flexibility measures through collective bargaining or social concertation, workers may take disputes over unfair dismissals, for example, to the courts where employers may end up incurring higher, rather than lower dismissal costs (Sels and Van Hootegeem, 2001).

The fact that legislative protections or "rigidities" may have more positive than negative effects on employment levels and productivity underscores the importance of shifting the goal of employment flexibilization measures from completely eliminating legislative protections to seeking *appropriate regulatory flexibility* that ensures enough labour security to avoid negative repercussions. For example, Sels and Van Hootegeem (2001) describe this model of *flexicurity* in the Netherlands where social security and transitional mechanisms (that provide a bridge from temporary to long-term employment) have accompanied the relaxation of rules on dismissal and fixed-term contracts.

8.4 Social and political costs

In addition to pointing out the negative productive and transaction costs of less balanced legislative and enterprise reforms, a voluminous literature has demonstrated that the outcomes of flexibilization strategies (as a part of wider restructuring processes) have frequently led to high *social costs*, particularly in industrializing countries (see Antunes, 2000; Beneria and Feldman, 1992; Fernandez-Kelly, 1983; Green, 1995; Lawson, 1995; Ould-Mey, 1996; Ong, 1986; and Standing, 1999 among many others). Beneria (2001) describes the deteriorating working conditions accompanying the increasing flexibilization of work processes for low income and women workers in both developed and industrializing countries. The increasing peripheralization and informalization of work, increasing economic insecurity and growing income polarization top the list of negative outcomes.

Van Eyck (2002), for example, documents the ways in which flexible restructuring strategies in the financial services sector aggravated the increasing inequality, alienation and insecurity of the Colombian banking workforce. Following massive layoffs in the Colombian banking sector demands on remaining workers significantly increased. Workers expressed concern that the increasing intensity of their jobs and the extension of the workday negatively affected their ability to maintain relationships with coworkers, clients, families and communities. Women workers and unionists in the sector pointed out the disproportionate number of women workers who moved into unprotected and unorganized jobs. Individuals hired through temporary and/or subcontracted contracts reported being treated like "second class citizens". Increasing labour market alienation and inequality exacerbated a crisis of economic and political insecurity surrounding the liberalization of Colombia's labour markets.

²⁰ Schellhardt, "Talent Pool is Shallow as Corporations Seek Executives for Top Jobs". *Wall Street Journal*. 26 June 1997.

In addition to economic and social costs, concerns about the *political costs* of unprotected labour market flexibilization (and undemocratic forms of globalization) are increasing (Studwell, 2002; Khan and Riskin, 2001). Soon Ben and Chew (1999) argue that growing wage disparities and increasing labour market segmentation lead to social unrest, particularly in situations where workers have little or no opportunity to negotiate distributive policies. Furthermore, Diamond (2002) points out that in transitioning economies policies have been designed to *purposely* increase inequality in order to force competition among sectors of the population. Diamond cautions that the credibility of such policies (and political regimes) cannot be sustained without balancing competition with equity. He joins Studwell in recommending that investment and labour policies be democratized in order to achieve this balance. A recent report of the ILO titled “Your Voice at Work” also underscores the relationship between the democratic participation of workers in policy making and long-term political-economic security and vitality. (See section 9 for further discussion of political insecurity and labour market restructuring.)

8.5 Conclusions

In sum, research on the outcomes of flexibility for both enterprises and workers challenges easy assumptions that flexibility measures alone will reduce unemployment, increase productivity or lower labour costs. Although flexibilization strategies such as downsizing or outsourcing may save money for larger enterprises in the short term – the costs of such strategies are, in the long run, born by both workers and employers. If the growth of non-standard employment is to create decent work that contributes to economic security and productivity, it must be accompanied by efforts to ensure workers’ rights and protection. New legislative measures must be developed to cover workers in flexible forms of employment and to guarantee minimum wages, safety standards, social insurance and representation. (See Box 4.1 for an example of legislative attempts to equalize wages between flexible and standard forms of employment.)

Flexible forms of employment such as part-time or temporary work *do* offer potential sources of quality employment generation and need not be associated with precarious or insecure forms of work. (See Box 4.2 for an example of innovative forms of high quality homework being developed in Brazil.) In cases where labour legislation provides flex-workers with adequate social protection, flexible employment may serve as a bridge to long-term employment or as a complement to other productive and reproductive activities. (See Box 8.2 regarding efforts to bridge flexible and standard employment.)

Rather than a narrow focus on increasing the number of part-time, temporary or subcontracted jobs, however, the whole range of flexible employment strategies should be kept in mind in developing flexible labour policies and practices. Efforts to improve the *functional* and *job structure flexibility* of firms may enhance productivity enough to avoid the need for more costly strategies to increase *organizational* or *numerical flexibility* through downsizing or outsourcing.

Although employment flexibility alone does not offer a magic bullet for the creation of decent work – in combination with measures to develop institutional flexibility, social dialogue and security protections – the potential is far greater (Ozaki, 1999; Auer, 2001). In order to ensure that flexibilization strategies are implemented in ways that enhance competitiveness,

productivity and security, section 9 will focus on three areas of policy recommendations. The first examines the importance of institutional flexibility, the second addresses the role of collective bargaining and the third proposes mechanisms to increase income security.

Box 8.1: Democratization of industrial relations and employment programmes in Bulgaria

Since 1989, the gradual democratization of the political system has positively affected labour relations in Bulgaria. The Bulgarian parliament passed the final act on the ratification procedure of the European Social Charter and ratified the core ILO Conventions. The most significant change has been the increased independence of trade unions from the State along with their increased responsibilities and roles in collective bargaining. Although the power of trade unions is diminishing due to their declining numbers and the overall economic crisis, nevertheless, progress in social concertation offers hope for trade union revival. A tripartite system of negotiation has been adopted at four levels: national, regional, branch and firm. Trade unions were consulted on recent amendments to the Labour Code regarding tripartite cooperation, fixed-term contracts and grounds for employment termination, for example. In addition, agreements were reached on labour market policies concerning severance payments, unemployment benefits and the regulation of intermediary employment agencies.

A variety of employment programmes have also been developed/strengthened through social concertation. Public works temporary employment schemes, business start-up assistance and employment promotion through international projects (such as Beautiful Bulgaria in cooperation with UNDP) have also been developed in recent years. The National Programme for Temporary Employment is the most popular programme. Legislation provides incentives (subsidies) for employers to hire long-term unemployed. The employers are paid a subsidy equal to the minimum wage (plus tax and social security contributions) for each hired employee for a period not exceeding three months, on the condition that the contract will extend at least six months. Other employment programmes offer subsidies to employers willing to hire youth or part-time workers. All the social partners in Bulgaria agree that the cooperative development of such programmes will ensure that labour market flexibility will begin a new phase of employment growth.

Source: Beleva, Iskra and Tzanov, Vasil, 2001. *Labour Market Flexibility and Employment Security: Bulgaria*. Employment Sector. ILO, Geneva.

Box 8.2: Building bridges from flexible to standard employment in the Netherlands

In order to increase the chances that temporary jobs will serve as “stepping stones” into more permanent jobs, the Dutch government has instituted the a piece of labour legislation titled the Flexibility and Security Law (January 1999). The law provided for increasing flexibility with regards to dismissal notice and the regulation of fixed-term contracts. At the same time the legal position and security of standby (on-call) and temporary agency workers was strengthened. The provisions are as follows:

- After three years a temporary contract is automatically converted to a permanent one.
- In the period ranging from six to thirty six months, temporary workers enter into progressively more permanent contracts with the temporary agency (this means that after a period of time the temping agency has to continue payment of wages in case of temporary inactivity).
- Depending on the number of assignments during a six- to eight-month period, employment agencies are obliged to offer (temporary) labour agreements to their temporary employees: contracts including fixed salaries, pension rights, schooling and training. In due course, temps are entitled to labour agreements for an unlimited period of time.

Temporary Work Agencies (TWAs) play a major role in the training of the temporary workers in order to increase the chances that they will be transition into permanent employment. TWAs provide not only temporary labour, but also human resource management services such as screening, recruiting, selecting and monitoring.

Source: Netherlands Foreign Investment Agency. www.nfia.com

9. Institutional flexibility: Recommendations

In order to understand when and under what conditions flexibilization strategies lead to employment creation and increased productivity, recent research on long-term labour market outcomes has focused not only on specific labour legislation, but also on the broader nexus of social and economic institutions. Due to the varying degree of internal and external labour flexibility from country to country, it is difficult to single out particular labour laws that have contributed to positive economic outcomes. Rather, attention has shifted to the combined effects of particular national policies on trade, labour and social issues. In order to address the ways in which political, economic and social systems are integrated, new programmes introduce a more holistic approach to labour market regulation.

Auer (2001) asserts that it is important for policy makers to recognize that labour markets, as social institutions, are always mediated by a variety of entities such as government (un)employment and social protection agencies, educational and training institutions, private employment intermediaries such as temporary agencies and placement firms, community development organizations, workers' organizations and enterprises. Therefore, in order to develop flexibilization in the continued regulation of labour markets, institutional flexibility must be fostered within and between public and private institutions.

“Seen from the institutional angle, modern industrialized economies require institutions that exist alongside firms, supporting them in their adjustment process, while also constraining their behaviour and protecting jobs and workers. For example, negotiated adjustment within the institutions of collective bargaining, employment security...and active labour market policy can provide firms in the developed world with a mix of flexibility and security conducive to the creation of decent work and, ultimately, to corporate profitability.” (Auer, 2001, p. 2).

In addition to increasing institutional integration and coordination, Auer also stresses that long-term approaches as opposed to “quick fix solutions” have much greater chances of establishing a flexibility/security nexus. More carefully planned approaches range from the introduction of new labour legislation (covering workers in non-standard employment) and social protections (such as unemployment insurance or minimum income schemes) to socially responsible company restructuring initiatives²¹ to active labour market policies (such as vocational training, job counseling, community employment programmes, public works projects and small business creation).

Thus, more holistic approaches to labour market flexibility emphasize coordinated, long-range planning with both public/private and economic/social institutions. Lastly, *preventative* strategies are highlighted as key to laying the foundation for institutional cooperation and flexibility. The remainder of section 9 focuses on four different facets of holistic and flexible

²¹ The EU Commission for Employment and Social Affairs has developed a comprehensive package on socially responsible corporate restructuring that proposes advanced information and consultation and incentives for businesses to restructure early and effectively. The proposal develops the notion of corporate responsibility for the social consequences of restructuring. See also Hansen, 2002.

institutional approaches: labour market intermediaries, social concertation, collective bargaining and minimum income schemes.

9.1 Labour market intermediaries

Before going on to discuss programmes developed in other countries, it must first be stated that the re-employment initiatives of the Shanghai municipal government are exemplary of innovative efforts to develop public and private employment intermediaries. The provision of social insurance, training opportunities and micro-enterprise development assistance is particularly noteworthy. As Jinhong et al. (2000) caution, however, such programmes must be supported over the long term and given budgetary priority. Furthermore, these authors stress that both unemployed migrant workers and laid-off workers must be incorporated into the development of initiatives in order to ensure their success. This incorporation in the form of voice security or participation in decision-making processes must be based on a positive view of unemployed, informal or flexible workers as potential contributors to economic growth and not merely as “difficult” or “backward” segments of the labour market. Both work training programmes and temporary agencies must first recognize the skills and creativity of all groups of unemployed in order to develop their full potential and more closely match individuals with particular programme components. This point becomes especially critical in programmes where unemployed workers are placed in private firms.

9.1.1 Work-training programmes

A great number of work-training schemes have been developed in countries undergoing structural adjustments and subsequent labour market flexibilization resulting in large-scale layoffs. Worker displacement has been a particular concern in the US, in EU countries and in transitioning or formerly planned economies. Recent research in Turkey reveals that, as part of an integrated programme of both passive and active strategies, work-training programmes may increase acceptance of redundancies, contribute to the adjustment flexibility of restructured firms, and provide more employment security to workers (Auer and Popova, forthcoming). In order to relieve overburdened government employment services from the sole responsibility of attending to laid-off workers, the design of new programmes seeks to combine public and private initiatives.

Although these strategies primarily concern programmes designed for displaced workers, research on training and social equity points out that such programmes should be closely integrated with other education and vocational training programmes for apprentices, youth and unemployed workers in order to avoid stigmatization for any particular group of participants (Rubery, 2001). In this way too, efforts should be made to expand the range of occupations and sectors included in training programmes in order to avoid reliance on traditional labour market segmentation based on gender, race, age or ethnicity (as in cases where women workers are channeled into low-paying service jobs, for example).²² Programmes that allow individuals to

²² Efforts to strengthen equal employment *and* occupational opportunities for women, migrants and ethnic minorities meet with the objectives of the Memorandum of Understanding for cooperation between the Ministry of Labour and Social Security of the People’s Republic of China and the International Labour Office (30 April 2001).

move between different strands of education and training and that make it easier to combine work with education will also increase the number of opportunities for workers to upgrade their skills.

Box 9.1: Flexibilizing employment services through telecommunications

The growth of high-tech service delivery channels in employment services is consistent with a broader shift from passive to active labour market policies. Integrated data bases, expert systems, call centers and on-line services enable public and private employment agencies to offer more customized services and to give increasing responsibility to job seekers. Call centers enable clients to access services by telephone rather than queuing in employment offices, for example, increasing locational flexibility and generating considerable cost-savings. Telecommunications technology can also improve numerical labour market flexibility by making speedier and more appropriate matches between unemployed workers and jobs.

The Turkish Public Employment Service, for example, has developed an integrated database to support its 117 job centers. The intent of the system is to provide more closely integrated services and increased administrative efficiency. The project involves eleven software applications and facilitates such processes as: job application and referral, document tracking and retrieval, job counseling and unemployment benefits calculation.

In the US, the process for registering unemployment claims has been transformed by the introduction of call-center and on-line technology. Individuals access the internet or answer a series of yes/no questions using a touch-tone telephone in order to process their requests for unemployment insurance. Some states have also linked interactive voice systems to their electronic job bank systems. The digital navigation of information is combined with in-person services in job-search assistance.

As part of the overall growth in temporary agencies in the Netherlands, several *private* agencies have launched virtual temping services consisting of an online database and matching system where jobseekers can offer their services and where employers can order them online. The system is fully automated, supported only by a specialized center. One limitation is that it handles only a relatively narrow range of standard job profiles, chiefly administrative and industrial jobs. This form of employment embodies several forms of flexibility (subcontracted temp work and on-call work, e.g.) adding to the diversity of online employment opportunities.

Source: Taken from the World Employment Report 2002. *Life at Work in the Information System*.

Box 9.2: Active labour market employment programmes

Auer and Popova (forthcoming) make the following suggestions with regards to the design of work-training and re-employment programmes for laid-off workers:

- Provide information regarding post-dismissal options to workers early on in the restructuring process;
- Develop screening and assessment mechanisms (“profiling”) to better match more skilled and adaptable workers with re/training programmes and less skilled and less adaptable workers with temporary public works programmes;
- Continue early retirement, tide-over compensation packages and severance plans for older workers, or others less agreeable to retraining or active labour market schemes;
- Actively recruit younger workers and others affected by discriminatory practices/structural features of labour markets;
- Increase decision-making flexibility to local employment offices in order to avoid top-down approaches that do not meet local needs;
- Direct resources to both public and private employment intermediaries in order to improve training programmes and service delivery;
- Outsource employment services to special labour market intermediaries when appropriate;
- Integrate a range of employment and social services (in a “bundled” or “one-stop shop” design) in order to enhance programme effectiveness and efficiency as well as convenience for workers;
- Introduce goal attainment premiums, incentives and special investment grants to job training providers to encourage a virtuous cycle of efficient service delivery;
- Pay attention to cultural factors and preferences that contribute to workers’ acceptance of training programmes;
- Implement a holistic evaluation of public works programmes that considers both the social and economic value of services provided (care work, environmental clean-up, etc.) such as enhanced worker self-esteem, the maintenance of social cohesion and economic multiplier effects;
- Experiment with public/private partnerships wherein, for example, workers in temporary public works programmes receiving vocational training or set up the infrastructure necessary for small firms that could take on workers at the end of the subsidized period; and
- Expand work-training approaches to include cooperative/team strategies for dislocated workers.

9.1.2 Temporary agencies

Boxes 9.1 and 9.2 make reference to the idea that training programmes and employment services be more closely linked with public and private employment intermediaries such as temporary agencies. The key here is to facilitate the movement from unemployment to temporary, and eventually more permanent, employment. In the Netherlands, for example, workers employed by temporary agencies for more than two years are automatically awarded permanent contracts. In addition, the continuity of social security is key to this transition. In Germany, public and private temporary agencies are beginning to offer workers social protections previously provided exclusively by public (un)employment or training programmes. As suggested in Box 9.1, the use of telecommunications may facilitate the coordination of employment placement and social security services. As long as workers do not become trapped in extremely low-skilled, low-wage or dead-end jobs, temporary employment can be an important step towards more permanent labour market attachment. The necessity for a long-term approach to labour market intermediaries, however, cannot be understated.

9.2 Social concertation

Research on the four countries typically held up as examples of successful flexibility (Austria, Denmark, Ireland and the Netherlands) underscores that the development of social concertation is key to increasing the positive outcomes of flexibilization (Auer, 2001). In all four countries systems of governance have been developed such as social partnership, concertation or “neo-corporatism”. These institutionalized systems of interest representation are based on structural relations of cooperation in which information is shared and expectations are formulated. As Visser (in the same volume edited by Auer) explains, “*concertation or social dialogue is not the same as bargaining, but provides a setting for more efficient bargaining...*” In this way, solutions can be devised before engaging in “hard bargaining” over distributional aspects, for example. This institutional framework for developing labour market policies is distinct from a confrontational system characterized by mistrust, lack of information sharing, and volatility. The institutional fabric of these four European countries (the existence of bipartite and tripartite institutions, for example) has increased long-term commitments to social dialogue allowing for flexibility to be continually negotiated over time. Although the time-consuming nature of institutionalized consultation may cause delays in adapting to changing circumstances, it also increases the chances of learning and change.

The ILO’s 1998 Declaration on the Fundamental Principles and Rights at Work also emphasizes that involving those who will be affected by employment restructuring in the decision-making process is a vital way to secure commitment to change. Social concertation is a preventative strategy that helps to avoid labour disputes and provide a competitive advantage through increased productivity.

9.3 Collective bargaining

In addition to institutions providing education and training, social welfare and regional/community development, trade unions and workers’ organizations remain critical institutions in promoting labour market flexibility. Despite the declining power and presence of unions worldwide, new processes of collective bargaining offer hope for the development of more collaborative labour relations and hence, more effective flexibilization policies. Particularly in cases where trade unions have attempted to block flexibilization measures through confrontational tactics, governments and enterprises may be highly motivated to consider emerging models of collective bargaining in order to avoid conflict *and* sustain economic growth rates at the same time.²³ A recent ILO study looks at the introduction of labour market flexibility in 22 countries covering both developed and industrializing countries across Western Europe, North and South America, and Asia. The authors emphasize that collective bargaining has undergone profound transformation in many countries alongside, or in response to, changing relations between labour, capital, international financial institutions and the State.²⁴ They provide

²³ Soon Beng and Chew (1999) argue that in several Asian countries over the past two decades, initial conditions of low wages and suppression of unions, lead to short-term growth in output. However, they argue that once that output growth was achieved, workers demanded freedom of expression and higher wages. They conclude that the continued suppression of trade unions following initial periods of economic growth does not lead to higher-skilled production, as this requires a more cooperative workforce.

²⁴ See Lee and Kuruvilla (2001) for a discussion of the role of both the IMF and the World Bank in negotiating labour market flexibility in Asian countries.

evidence of cases in which the collective bargaining process has greatly enhanced the introduction and effectiveness of flexibility measures.

“Collective bargaining, if well conducted, remains the most effective means of striking a balance between economic efficiency and the protection of workers’ interests. Moreover, the participatory nature of collective bargaining has the capacity to enroll workers’ support in the drive for greater flexibility.” (Ozaki, 2000, p. 3).

The inclusion of flexibilization strategies in labour agreements has been clearly linked to the increasing involvement of workers’ organizations in decision-making processes, particularly at the enterprise level. The 1999 OECD Employment Outlook confirms that enterprises with some form of worker representation (union, work councils, etc.) are more likely to have taken initiatives in the area of flexible work organization practices. For example, case studies show that performance-related pay is more likely to succeed if workers are periodically involved in review processes and if they are consulted on performance measures and rewards. Ozaki (2000) points out that in Australia, the participation of the Government, industrial relations groups and workers’ organizations in formulating performance-related pay schemes has resulted in their increasing inclusion in collective bargaining agreements. In France as well, government provision of fiscal incentives for performance-related pay, negotiated through collective bargaining, is generally regarded as one of the main instruments for achieving wage flexibility.

Trade unions have begun to take a lead on issues of training to achieve functional flexibility. The Communications, Energy and Paperworkers’ Union in Canada recently negotiated collective agreements focused on reducing barriers and increasing cooperation between workers in various skilled trades. In the interest of creating a multi-skilled, cross-trained workforce, the proportion of collective agreements including provisions for training jumped from 19 to 49 per cent between 1994 and 1995 (Ozaki, 2000). The National Skills Development Funds in Malaysia and Singapore have also developed industry-specific training courses established through tripartite collaboration. In countries such as India and Brazil, other initiatives to enhance occupational flexibility have focused on designating multi-skilled trades in order to overcome occupational demarcations. Keen to preserve jobs or to create new ones, trade unions have adopted an increasingly favorable attitude with regards to flexibilization measures that are introduced through negotiation and consultation.

The shift from confrontational and defensive industrial relations styles to a more collaborative and pragmatic stance on the part of both employers and workers’ organizations has greatly increased the success of introducing flexible employment strategies. The right combination of centralized and decentralized union structures is key to increasing the role of unions in enhancing enterprise flexibility. In turn, the inclusion of flexibilization measures in coordinated collective bargaining agreements is highly correlated with corresponding increases in productivity and employment (Traxler and Kittel, 1997).

Box 9.3: An early case of innovative collective bargaining in New South Wales

In 1989, The ICI Chemical Plant in Botany New South Wales implemented a collective bargaining agreement designed to increase both labour flexibility and productivity. During a period of frequent disputes and falling productivity in the early 1980s, workers launched a two-week strike and initiated legal action against the company causing losses estimated at 24 million. Referred to as a turning point in industrial relations, the resultant agreement between management and unions was negotiated over a six-month period. Some of the main provisions included:

- Annualized salaries which included all other payments such as shift allowances, average overtime and meal allowances
- Improved quality of work and social life through rosters designed by the workers themselves
- Training, access to career paths and payment for skills acquired and used
- Simple status employment which has given workers entry to a much better superannuation scheme
- Unlimited sick leave in genuine circumstances
- Formalized worker participation and self-management.

Source: Wailes and Lansbury, 1999.

9.4 Income security

A growing number of analysts have begun to examine the relationship between income security and economic growth (Auer, 2001; Standing, 1999; Tan, 1999; Lee and Kuruvilla, 2001 among others). Standing (1999) begins by recognizing how different forms of insecurity are produced or aggravated by the flexibilization of labour markets. He identifies seven prevalent forms of labour insecurity including: labour markets insecurity, employment insecurity, job insecurity, work insecurity, skill reproduction insecurity, income insecurity and representation insecurity. Standing argues that while a certain degree of employment or job insecurity may foster growth and productivity, that income insecurity has much higher social, political and economic costs. Therefore, in order to reverse the trend and to increase the potential for flexibility and security to go hand in hand, a range of new policies and mechanisms have been developed. As opposed to short-term “social safety nets”, these policy measures aim to systematically provide increased security for the whole of the population and not just “targeted” groups. These security measures include minimum wage or living wage schemes, stakeholder pension plans, communal profit sharing, expanded social security systems and citizenship-based minimum income plans.

Box 9.4: Minimum income schemes in Brazil

In addition to workfare programmes, several Brazilian municipalities have experimented with minimum income schemes linked to primary school attendance. Designed to complement other public programmes such as basic health and sanitation services, minimum income programmes aimed to remedy child labour and to prevent poverty through increased education. Qualifying families with children between the ages of seven and fourteen and with incomes falling well below the poverty line receive a monthly stipend. Despite the adverse conditions participants faced in accessing labour markets, evaluation of such programmes indicates that a minimum stipend allowed families to also increase non-stipend family income.

Minimum-income programmes are illustrative of the emergence of new conceptual frameworks for social welfare policies that are not tied to “pay-in” or employment-based plans. Rather, such redistributive efforts are seen as a way to improve the overall social *and* economic security of communities. By extension, increasing the ability of parents and their children to take control of their circumstances and to plan for the future is argued to generate more innovative and creative solutions to poverty and unemployment.

Sources: Lavinias et al., 2001 and Rocha, 2001. Infocus Programme on Socio-Economic Security, ILO, Geneva.

In the case of Denmark, citizenship-based minimum-income scheme has allowed labour flexibility to proceed without significant social costs. Hoffman and Walwei (2000) point out that because the social security system in Denmark is not tied to employment, individuals have increased freedom to move in and out of the labour market as they are guaranteed a minimum level of income. Financed largely by the State, with relatively low contributions from employers, the citizen pension scheme provides unemployed workers a basic income while returning to school to upgrade their vocational skills.

Public pensions in the majority of countries, however, have been under mounting pressure due to the rising percentage of the retirement age population, rising unemployment and trends in the privatization of public services. However, in the face of considerable policy moves to completely dissolve state welfare schemes, calls for a re-examination of social security systems can be heard. Standing (1999), for example, proposes a guaranteed income that provides a minimum floor to all citizens (regardless of employment status), minimizes administrative costs to government and employers and facilitates more flexible work and lifestyles. Such a system would avoid the pitfalls of conditional or “means-tested” plans wherein distinctions between the “deserving” and the “undeserving” poor become problematic. Although providing a basic income strikes many as too costly, estimates in Ireland and the UK indicate that financing could be provided by average tax rates of between 35 and 40 per cent (see Standing, 1999, pp. 211-212). Under such schemes, considerable savings are actually *gained* from reductions in government contributions to unemployment programmes. In addition, Standing proposes that a citizen income would have a positive effect on labour markets by encouraging mobility and expanding the variability of employment options including part-time jobs, own-account work and periods of training interspersed with periods of labour market participation. As part of a diverse and holistic income security programme, profit sharing schemes such as “stakeholder capitalism” and employee ownership would increase the voice and participation of workers, and in turn, encourage functional flexibility and boost dynamic efficiency.

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