

SOCIAL EUROPE

FLEXIBILITY AND
WORK ORGANIZATION



EUROPEAN COMMISSION

DIRECTORATE-GENERAL FOR
EMPLOYMENT, INDUSTRIAL
RELATIONS AND SOCIAL AFFAIRS



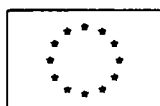
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AND SOCIAL AFFAIRS**

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Directorate General for
Employment, Industrial Relations
and Social Affairs

Follow up to White Paper
Growth, Competitiveness, Employment

Report of Expert Working Group

**FLEXIBILITY AND
WORK ORGANISATION**

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Preliminary remarks

The European Commission appointed a working group of experts from member states to develop proposals on ways to improve the internal and external flexibility of labour markets and the organisation of work in companies within the Community. The task of this working group was described as follows:

"Based on the guidelines set out in the White Paper and the Conclusions of the European Council in Brussels, to examine the action taken or proposed within and outside the European Union, at different levels, on flexibility and work organisation with a view to preparing an evaluation of the extent to which such action might be beneficial for the creation or retention of employment, taking into account implications for competitiveness and productivity, and to make recommendations on practical steps that can be taken to increase employment through improved flexibility and work organisation."

The recommendations should refer to actions to be taken at community, national, industry and company level.

In drawing up the following proposals, consideration was given to two of the White Paper's basic assumptions. Firstly, the White Paper on Growth, Competitiveness and Employment and important follow-up documents (such as the Presidency Conclusions, December 1993) concentrate expressly on medium-term rather than short-term strategies¹, since no sustainable development can be achieved with short-term crisis measures. Secondly, in a new model of European society, attempts are to be made to achieve greater solidarity in order to avoid the burden of change being borne only by those weakest in society².

The following proposals consider what should be done but not, generally speaking, how it should be done or by whom. Since many of the recommendations are for implementation at industry or company level, the social partners have an important role to play in putting them into practice.

The working group met three times in Brussels (April, June and September 1994). At these meetings, the expert reports (see Annex) and the expert working group report were discussed with the Commission services. The expert working group report is based on the individual expert reports but nevertheless represents the author's personal opinion.

1 Therefore "it cannot be expected to yield short-term successes and certainly not to lead to any noticeable reduction in unemployment in a matter of months" (White Paper Follow-Up, Progress report on Employment. Results of Mr Flynn's Tour of Capitals).

2 White Paper Follow-Up, Progress report on Employment. Results of Mr Flynn's Tour of Capitals.

I. Flexibility and work organisation - concepts and problems

1. Following the OECD's Dahrendorf Report (OECD 1986), flexibility can be taken to mean the ability of systems, organisations and individuals to adapt successfully to changed conditions by adopting new structures or patterns of behaviour. This includes not only adjustment to these new conditions (defensive flexibility) but also **proactive strategies**, such as the development of new products and markets or far-sighted training for workforces. Proactive strategies are always to be preferred to defensive adjustment, since it offers a chance of avoiding the undesirable consequences of straight adjustment measures (such as redundancies or wage cuts in the case of low productivity) and of developing more robust structures and patterns of behaviour that are both more likely to survive and to contribute to long-term economic growth.
2. This general definition of flexibility can be construed in very different ways, depending on whether one adopts the point of view of firms or of employees. The interests of the two sides are not necessarily identical. Moreover, the conditions to which they have to adapt are different. Many workers today will very probably have to change jobs and employers several times in their lives; as a result, they cannot depend on remaining with one company but have always to bear in mind their chances in the labour market outside the firm in which they are currently employed. They not only have to adjust to changed economic conditions but must at the same time seek to reconcile the often competing demands of work and family life. Having to react flexibly to the demands of domestic life restricts flexibility in the labour market and is associated with rigidities for firms. This applies to part-time work, for example, the standing of which is by no means determined by firms alone but by social circumstances such as school or nursery hours. In periods of high unemployment, firms may succeed in the short term in one-sidedly asserting their own interests in respect of flexibility. However, if employee satisfaction and motivation are to be guaranteed in the long term, every firm needs to find compromises between the various interests and demands that are acceptable to all parties.
3. The long-term growth and survival of firms depends not only on the flexible deployment of labour but also on its structures along the whole chain of production and innovation. This ranges from research and development and the discovery of new products and markets, through marketing and the organisation of the production process, including the establishment of a supply chain, to the actual production or service activity. If attention is focused exclusively on flexibility in the labour market, there is a risk that the need to adjust in other spheres (as a result of inadequate innovative capacity, for example) will be underestimated and the whole burden of adjustment shifted on to employees. In this situation, firms finish by adopting a purely defensive form of flexibility.
4. By deploying labour more flexibly, firms are pursuing the medium and long-term aims of adapting their organisational structures to rapidly changing markets, products and production processes. In addition, however, they are also making short-term savings in costs. Thus an increase in flexibility is a weapon in the cost and price competition between firms. The direct effect on employment is often negative, since savings are made on personnel. However, like every rationalisation measure adopted by firms, this should not necessarily be viewed negatively if it guarantees the survival of firms, and with them the jobs that remain. However, short and medium-term objectives may come into conflict with each other. If firms rely too heavily on external flexibility for temporary protection against cyclical risks, they may end up

by undermining workers' motivation and willingness to participate that are so important for modern firms and may also, as a result of high labour turnover rates, fail to invest adequately in their training. Internal flexibility makes it easier to resolve this contradiction between short and medium-term objectives. Multiskilling and flexible teams can make work more efficient and at the same time increase adaptability in the medium term.

5. In unregulated market economies, short-term thinking prevails within firms; furthermore, bad and socially unacceptable working practices in individual firms squeeze out higher standards in others. Labour market regulations are responses to massive and pervasive social damage from market failure or uncontrolled economic behaviour (Sengenberger 1994; Bosch 1994c) which become visible in the firm itself, in the wider labour market or at a later point in time. Regulations were devised as guidelines for corrective or preventive action that could avoid damaging outcomes and, furthermore, as instruments to encourage and promote more constructive and socially acceptable practices (Campbell/Sengenberger 1994). Regulations can be divided into three categories: (a) participation: independent social actors are to be enabled to participate in an effective social dialogue; (b) protection: this category includes all regulations intended to protect employees from various risks, such as accidents or loss of earnings in the event of unemployment; (c) promotion: labour productivity is to be increased and adjustments in the labour market are to be facilitated through financial support or services offered (Sengenberger 1994). These regulations can be applied at very different levels, e.g. at firm, regional, industry, state or supranational level. Each Member State has developed a very diverse mixture of levels and types of regulation which is also influenced by social and cultural factors and cannot be transferred *en bloc* to other countries.
6. In order to make labour markets more flexible, changes in labour market regulations in four directions are desirable. Firstly, promotion and participation should increase in significance relative to protection. Since legal standards are increasingly unable to capture the growing complexity of working conditions, more and more divergences from regulations are being authorised if agreed to by the social partners. This should not, however, be a substitute for protection. For example, it is only through the existence of a certain level of stability of employment that firms can be encouraged to invest in training for their employees. Secondly, the scope for decentralised decision-making should be extended in order that account can be taken of varying conditions in different firms and regions. However, decentralisation should not perform the same function as industry-wide and national regulations, but should rather be the expression of a new division of labour between these levels of regulation. Thirdly, inappropriate regulations should be abolished and complicated regulations simplified in so far as they delay decision-making and have undesirable effects as people try to get round the system. Fourthly, new working practices such as part-time work, annualised working hours or teleworking are emerging, all of which require safeguards in order to make them socially respectable and acceptable to employees. It is precisely here that new protective regulations have a particularly important role to play. And last but not least, the various provisional local and firm-level regulations relating to these new working practices should be simplified and harmonised so that flexibilisation does not lead to a lack of transparency in the labour market and increased transaction costs.
7. Thus flexibility - and this applies in particular to internal flexibility - frequently requires less strict and definitive regulations and more social dialogue and negotiated solutions. The major problem here is to **ensure the equality of the social partners** at all levels. If this cannot be done, then the various interests cannot be equalised and no balanced compromises achieved. Under these circumstances, flexibilisation becomes a weapon used by the stronger against the

weaker and is associated with declining social solidarity and considerable risks, particularly for more vulnerable workers, who are unable to articulate their own interests. In such a situation, it remains the duty of the state to lay down minimum standards. The strength of the actors at the various levels of action differs quite considerably in the individual member states, so that current changes are not taking the same form everywhere. As a result, the following proposals for the flexibilisation of labour markets and work organisation must always be placed in the context of each individual country.

II. The flexible firm and new forms of work organisation

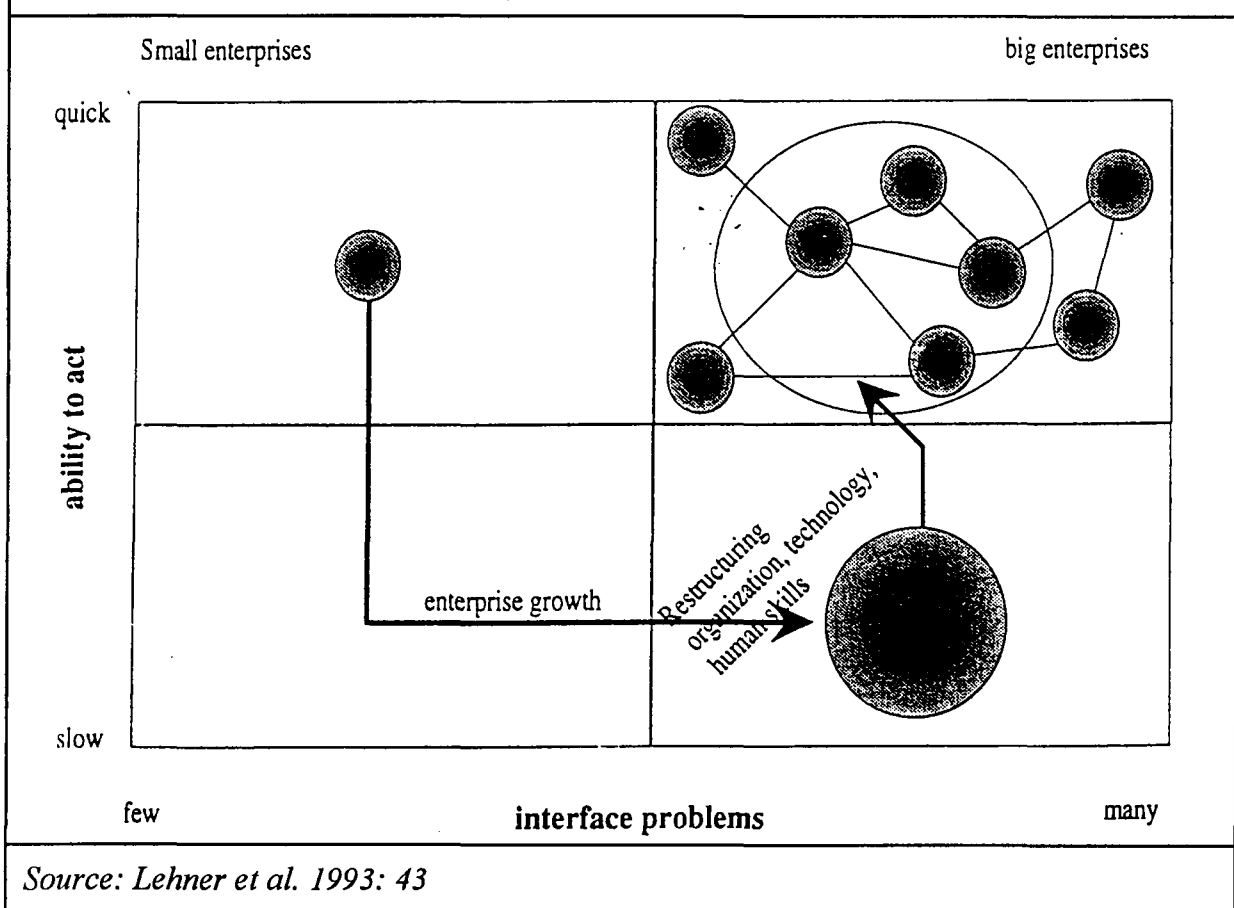
8. According to the White Paper, internal flexibility in firms requires "staff versatility, the integrated organisation of work, flexible working hours and performance-related pay. Tailored to the European company model, it should be central to negotiations within the company" (European Commission, White Paper 1994, Part A7). Internal flexibility in firms cannot be increased simply through isolated modifications to work organisation on the shop floor or to wage systems. These are embedded in the broader structures of the firm, and changes make sense only if they are consistent with the overall context. In past decades, many experiments with the introduction of semi-autonomous groups failed because the technological and organisational environment remained unchanged. Moreover, many European firms have been unable significantly to improve their competitive position, despite considerable investment in the hardware of new technologies, because they were unable to exploit the potential of those technologies to the full because of inadequate work organisation and skill shortages. By ensuring better collaboration between men and machines, Japanese companies succeeded in achieving considerably higher productivity with the same technology. As a result, the technology fixation of many Europeans was called into question and their attention directed much more forcibly to the renewal of organisational structures within the firm. This requires a more holistic approach to company structures.
9. Models for the future shaping of company structures and organisational competence have become one of the determining factors for the future competitive strength of European enterprises. Each model is based implicitly or explicitly on particular views on the use of human resources. Exaggerating somewhat for the purposes of simplification, the traditional model of European and North American firms can be summed up in the key terms **complex organisation** and **simple jobs**. Flexibility is accomplished by designing a complex work organisation with simple jobs with short learning times in which workers can be replaced easily. The complexity of the organisation is grounded in the radical split between "thinking" and "doing". The organisational memory is based on formal procedures, strong hierarchies and a professional elite at the top of the firm. This type of organisation is well suited to mass production in a stable environment. However, if products become more diverse and markets more turbulent, if quality requirements increase and the pace of technological change quickens (see Diagram 1), such organisations lack flexibility. What is required is a **simplified organisation with more complex jobs**. Flexibility can be achieved by the reintegration of tasks and the introduction of teamwork. As a result, a considerable proportion of a firm's coordination and communication problems can be resolved at lower levels of the organisation, with a corresponding reduction in organisational complexity. In order to achieve such a modern **flexible firm**, decentralisation at all levels of the organisation is required. Top-down control in corporate organisation has to be replaced by a continuous dialogue with business units (Diagram 2).
10. The flexible firm means a radical change for companies; it is intended in the short term to safeguard the present core business and offers in the longer term a new perspective on job creation (Lehner et al. 1993). The relevance of the organisational principles on which the flexible firm is based is not restricted to a particular kind of organisation such as large manufacturing plants. They are also emerging in large and small public and private service organisation, as well as in small and medium-sized industrial firms (Diagram 3). Of course there is no one generally applicable patent remedy for all these various types of firm. Any attempt at reorganisation has to be tailored to suit the particular firm in question. In order to

avoid mistakes and disappointments in the process, it would be useful to point out examples of successful restructurings and of possible problems to firms. This applies in particular to small and medium-sized firms that have at their disposal only limited resources for development. In Denmark, where there are only a few large firms, the Confederation of Danish Industries (DI) and the counterpart trade union organisation, the Central Organisation of Industrial Employees (CO) have agreed to issue six small publications providing information on the experience of actual companies with the introduction of organisational change and new wage systems. In other European countries, the state has supported company restructuring through national programmes in which experiences are evaluated and the reports made publicly available. Mention could also be made in this respect of the Swedish LOM programme or the German Humanisation of Work programme (den Hertog/Schröder 1989). Since the problems faced by European companies are comparable, such an exchange of experiences should also take place at supranational level.

Recommendation: *An action plan for organisational innovation should be set up, in which national and regional programmes for research and development in organisational innovation are combined. This programme should raise awareness of the issue, transfer and diffuse knowledge and experience, promote cooperation between national activities and strengthen European organisational research and development.*

Diagram 1: Industry in transition		
Yesterday	Tomorrow	Aims/Potential results
Product strategy: Long series, undifferentiated products Product, price Quality control	Short series, specific products Solutions, services Performance audits	Personalised products Price premium for quality, reliability, performance Equal priority given to design, production, delivery
Manufacturing strategy: Volume, scale Throughput CIM, robotics	Speed, response time Flexibility Logistics, flow dynamics, design	Rapid new product introduction Multi-use equipment Design to reduce handling, movement, transport
Organisational strategy: Complexity Hierarchy	Organisation Autonomy, responsibility	Avoid disturbance, dysfunction, breakdowns Better solution because close to problems
Market entry and direct investment strategy: local, national markets Sub-contracting Low labour-cost suppliers	world markets Partnership Direct investments in key markets	Target and differentiate products, services, markets Spread risks, share gains Directly enter new markets
<i>Source: OECD 1991</i>		© IAT-94

Diagram 2: Interfaces and flexibility in organisations



Source: Lehner et al. 1993: 43

11. Some of the wage systems in use today were developed forty or fifty years ago. Frequently, they provided only for payment for a specific job in a strongly hierarchical organisation with a rigid division of labour. Such wage systems are now proving an obstacle to the introduction of more flexible company structures. They encourage a concern with hierarchical status and hinder cooperation. Moreover, they frequently offend the sense of justice of groups of employees whose work within the company has increased in importance. It is precisely in the most up-to-date companies that traditional pay differentials between manual and white-collar workers, between men and women or between members of the same team are often no longer workable. Wage systems are the financial expression of organisational and status structures within a company and must therefore change as those structures change. Not only firms but also employees have an interest in new payment structures, since it is only in this way that they can develop their skills and improve their long-term chances in the labour market. Consequently, there is a large enough supply of common interests to make negotiations between trade unions and firms and/or employers' associations feasible.

Diagram 3: Examples of flexible firms in Europe

Case 1:

Eight years ago, closure seemed to be the only prospect for a production plant of a large multinational electronics company (1,000 employees). Quality, price and delivery times did not match market requirements. The plant took its last chance and delegated planning and control tasks to operational groups on the shop floor and organised the primary process into "complete task groups". Four years after the start of the change process the plant won the quality award for its division and became no. 2 on the plant productivity list for the division. " We survived because we re-invented the organisation and the responsible worker. People in this area are used to plant closures. It is hard to describe the energies that are released when there is a real prospect of survival".

Case 2:

A large insurance company (2,000 employees) is presently changing its organisational structure. Its functional organisational system based on product differentiation (motor, fire, life etc.) is being replaced by a market and region-oriented structure. Within the regional divisions, insurance workers are now organised in teams dealing with the whole range of insurance policies. "It is clear there will be no future for our firm if we do not succeed in this operation. We were market leader and lived in a luxury situation. Our profits are still good, but we keep losing market share. The only way to turn the tide is to stimulate an entrepreneurial attitude at the lowest possible level".

Case 3:

Competition from the Far East has become the main threat for a small manufacturer of silverware (90 employees). The silverware industry is located in one region in the country. This region has faced a drastic reduction in the silverware industry as a result of this increased international competition. Within a period of two years the firm changed the design of its basic production processes from a functional setup to a flow-oriented setup. This resulted in a flat organisational structure, with simplified control systems and task integration and group work on the shop floor. "Our products were being copied in the Far East, which could have meant the end for us. We had to find a way to survive, to find alternative markets. This meant producing high-quality products to customer specification. With this kind of product we can compete on more than price alone. Our present organisation enables us to do this job".

Case 4:

A computer services firms started 10 years ago as a small recruitment agency for computer operators and system controllers. During this period, the firm developed into a national market leader, employing more than 400 people. This position is based on both the innovative character of the firms and on its policies in respect of organisation and personnel development. The firm is organised into business units of about 100 workers and into local work teams. The firm has developed its own system of skill mapping and personnel guidance. "We have achieved our growth in this "Wild West market" by professionalisation - professionalisation of our core products and professionalisation of our work force".

Source: J.F. den Hertog, The flexible firm - organisational innovation as a key to competitive advantage in Europe, 1994

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12. New wage systems, compatible with the flexible firm, have already been introduced into many firms in Europe and North America, in both manufacturing and services and in large, medium-sized and small firms. The characteristics typical of these new payment systems are broader job descriptions and a corresponding decrease in the number of pay grades, incentives to acquire extra qualifications, higher valuation of new job requirements (such as cooperation, responsibility, decision-making, problem solving, etc.), supplements to the basic wage paid according to results or for continuous improvements, establishment of internal job equity for blue and white-collar employees, for time and piece-rate workers and for part-timers and full-timers and equal pay for men and women. Nor should it be forgotten that the simplification of payment systems, and the consequent reduction in bureaucracy, can also have a positive effect on firms. The Ford Motor Company in Great Britain, for example, reduced the number of job titles from over 500 to around 50.

13. Since new payment systems lead to changes in firms' industrial relations structures and there are winners and losers in the new situation, transitional periods are always necessary in the event of major changes. In this way, the losses sustained by individual groups of employees can be rendered acceptable. Thus in the German chemical industry, a single industry-wide pay grade system was introduced for manual and white-collar workers which unified the hitherto separate pay grades for manual workers, white-collar workers, *Meister* and technicians. Long-term compensation payments were agreed for employees who found themselves in a lower grade than before (Tondorf 1993). Because of the high risk of political conflict, negotiations on new wage systems are usually successful only when there is no heavy media attention; particularly at industry level, when hundreds of firms may be involved, they require a high degree of trust between the social partners and shared visions for the future. A good example in this respect is Denmark. The Confederation of Danish Industries (DI) and the Central Organisation of Industrial Employees (CO) have agreed on elements of a wage system for the 1990s that allows wage differentials but at the same time encourages cooperation and helps to achieve common goals such as high quality and productivity and compliance with delivery schedules. The total wage is made up of three components: an undifferentiated basic wage, a qualification component and a supplement paid according to results. The introduction of this new wage system is being evaluated by the social partners and the results will be made available to firms.

Recommendation: *Experiences with new wage systems should be evaluated at the European level and the results made available to the social partners. Good examples can be an important tool in promoting negotiations at industry and company level. Since wage systems are very strongly influenced by the nature of production and size of firm, the evaluation should focus on specific new experiences which can be used by others.*

14. In the White Paper, telecommunications are seen as a prerequisite for the decentralisation of hierarchical structures, which "are gradually giving way to interactive organisations" (European Commission, White Paper 1994: Part A). Telecommunications make it possible to establish direct and immediate communication between individuals and organisations that are often located a very great distance from one another (Bangemann Report 1994) and are thus without doubt a source of increased labour market flexibility. However, teleworking encompasses very different types of work, which can be divided into five broad categories: firstly, the employment of people on remote sites controlled by the employers; secondly, the development of telecottages or telecentres; thirdly, the development of telecommunications

links between organisations; fourthly, entirely home-based teleworking; fifthly, part-time teleworking, in which home-based work is combined with some working time spent on the employer's premises and, sixthly, mobile work, i.e. work at different locations (e.g building sites), in which costings and data gathering and transmission are facilitated by telecommunications and work routines are changed as a result. The economic and social significance of these various forms of teleworking is very heterogeneous. The only common element is the use of computers and telecommunications. Some forms of teleworking can certainly create employment. New forms of cooperation between small and medium-sized firms can be established, and through such telepartnerships (European Commission, White Paper: chapter 5.3; Hunt 1994) firms can achieve synergy effects, reduce costs and offer new products. In this way, jobs can be created in structurally weak regions. Teleworking can enable employees who are unable to travel to work to remain in or obtain work (IDS 1994: 5). However, the problems associated with the transfer of jobs from the primary labour market to homeworkers "with little bargaining power, low wages and no guarantees of work" (Rubery 1994: 106) should not be ignored. Particularly when only "low-skilled repetitive tasks are involved, there remains a continuing danger that the employer can be undercut by competition from parts of the world where labour costs are lower" (Huws 1994).

15. If jobs are to be created by teleworking in the medium term as well, there should not be a return to the classic forms of homeworking, with their poor working conditions, but rather the quality of the goods or services offered by firms will have to be improved as a result. To this end, the medium-term costs and benefits of teleworking have to be weighed against each other. Firms expect part-time home-based teleworking to increase productivity, since employees working at home suffer fewer interruptions; experience also shows that absenteeism falls considerably. The frequently mentioned opportunities for economising on office space are often less crucial, since employees still require space at the company's office. Employees themselves save commuting time and enjoy greater autonomy. It is questionable whether children can be better cared for in this way. In the case of qualitatively high-grade work, one criterion adopted by companies in deciding whether to agree to this form of work is that teleworkers are able to provide "a suitable work area in their home, free from any major distractions" (British Telecommunications Teleworking Guideline for managers, quoted in IDS 1994: 12). The disadvantages of teleworking include employee isolation and inadequate access to further training opportunities and to promotion within the company. In the case of higher-level jobs, these are also disadvantages for companies which, with their new, decentralised organisational structures and cultures, are increasingly reliant on direct personal communication and continuous on-the-job training. For this reason, Digital Equipment UK offers part-time teleworking only to employees who have already worked for several years in the same team and have been socialised there and whose work is individualised and requires long periods without interruption (IDS 1994: 14).
16. Trade unions have modified their hitherto negative attitude towards part-time teleworking. Like the English banking and finance trade union BIFU, they see advantages in it for employees. However, it is impossible to ignore the disadvantages, which include isolation, extra costs for heating and lighting, expenditure on additional living space, the non-payment of supplements for unsocial hours, the circumvention of health and safety guidelines and the involuntary change of status from employee to dependent self-employment. There are numerous examples of such disadvantages, and several trade unions have established guidelines for the protection of teleworkers (Diagram 4). However, some organisations have now drawn up exemplary rules for part-time teleworking (London Borough of Enfield,

Digital Equipment) that organise this form of work in a way that is attractive both to the employees involved and to their often sceptical supervisors, who fear a loss of control.

- Recommendations:**
1. *The Commission should undertake a major study of the different types of teleworking in Europe and their potential for increasing employment and developing services in disadvantaged regions.*
 2. *Examples of best practice should be documented and made available to the social partners, particularly in those sectors where teleworking is expanding most.*
 3. *The Commission should develop a code of good employment practice (including social protection) in relation to teleworking.*

Diagram 4: List of Trade Union demands concerning telework

- 1 Equal pay and benefits.
- 2 Two days a week at the central office.
- 3 Managers visits to homes no more than twice a month.
- 4 Proper equipment and furniture supplied by employers, reimbursement of all costs and union rights to inspect home work stations.
- 5 Equal right to promotion information and opportunities, with union contacts given daily on teleworkers' computer screens.
- 6 Limitation on monitoring of teleworkers.
- 7 No preferential treatment for teleworkers.
- 8 Equal training and extra training .
- 9 Recruitment of teleworkers only from existing personnel - no direct hiring from the job market.
- 10 No change of status from employee to subcontractor or 'out-sourcing supplier'.
- 11 All teleworkers must be volunteers.
- 12 An automatic right to return to the core team.
- 13 Teleworkers' work stations in a separate room in the home.
- 14 Regular meeting between teleworkers and with core team personnel.
- 15 Rights to use equipment to communicate with colleagues (reducing isolation).
- 16 Specified 'mentor' ranger for each teleworker.
- 17 Specific Health and Safety Officer visits and reports with teleworkers represented on Health and Safety committees.
- 18 Union access to teleworkers via electronic networks.
- 19 The setting up of a homeworker inspectorate.
- 20 Legal rights for teleworkers to see levels of pay of core team and other teleworkers.
- 21 Legal right of refusal to work from home.

Source: N. Hodson, *Telework and Employment in Europe, August 1994*

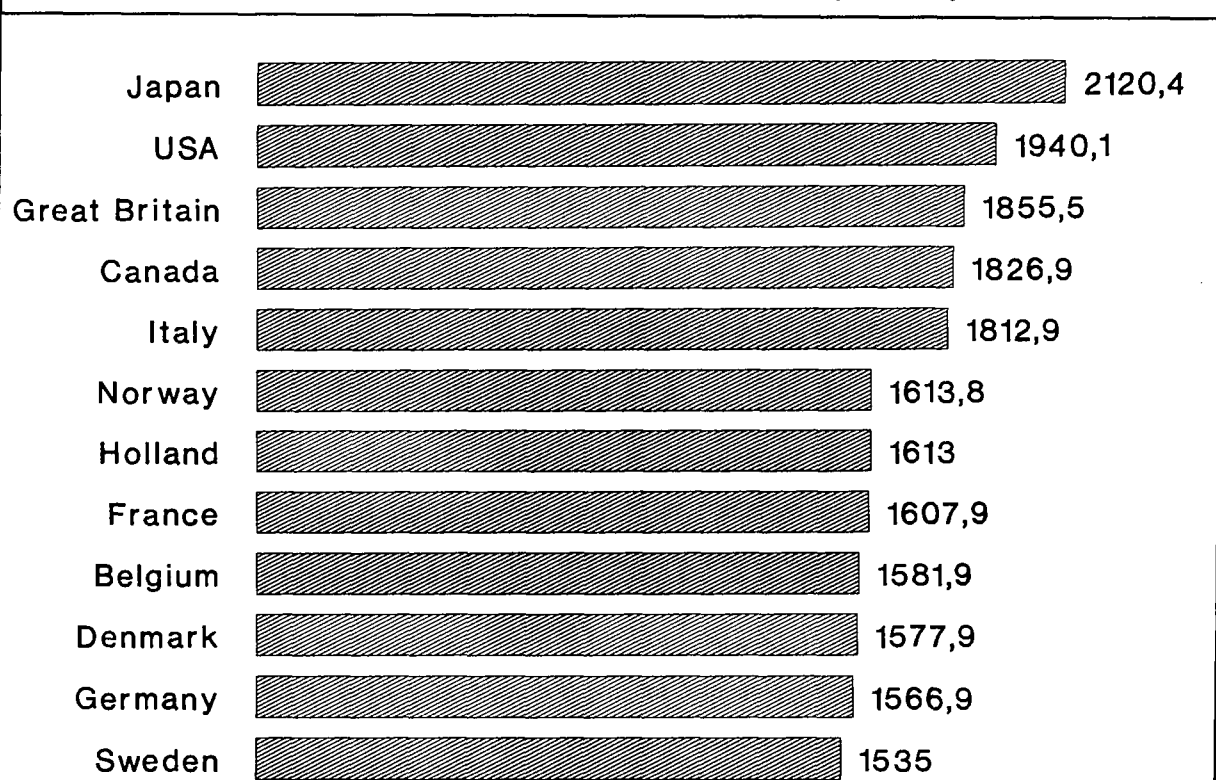
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III. Working time

III.1 Operating hours, shift work and overtime and work-sharing in economic crisis

17. Working time in Western Europe is lower than in its main competitors in the world market (USA, Japan) (Diagram 5). One of the most frequently debated questions is whether European industry can be competitive with such short working time. If operating hours had been reduced along with working time, then problems would indeed have arisen for capital-intensive industries, which are particularly exposed to international competition. As far as their competitiveness is concerned, the extent to which their costly plant and equipment is utilised is more important than reducing wage costs. There is much talk of a shift from variable-cost to fixed-cost competition. By extending operating hours, capital-intensive firms can considerably reduce capital unit costs and amortise capital more rapidly, with a consequent reduction in the risks associated with large-scale investments, which become outdated all too rapidly (Bosch 1991, Van Deelen 1987).

Diagram 5: Average annual working hours in manufacturing industry 1990

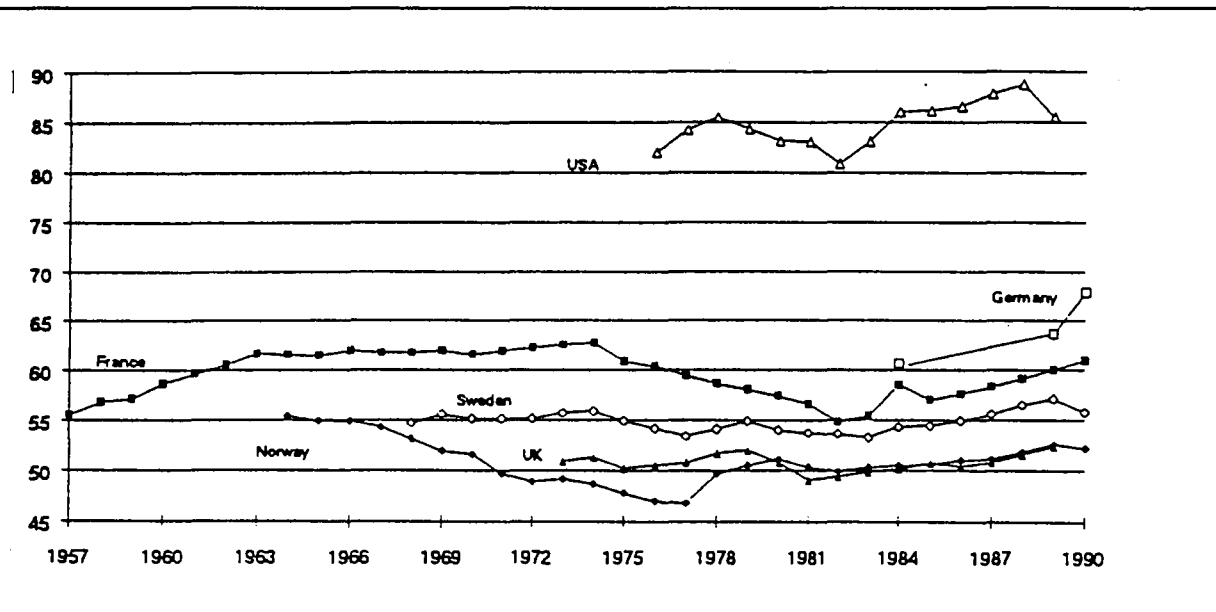


Source: Bureau of Labor Statistics, Office of Productivity and Technology, Washington 1992

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18. The Cecchini Report's predictions of the positive economic effects to be generated by the European single market are based above all on the expectation that larger markets will produce economies of scale. In the econometric scale that underpins the Cecchini Report, the assumptions of constant or even declining economies of scale that were made in earlier calculations were abandoned (Dicke 1989). Such economies of scale can be achieved with unchanged operating hours by producing larger quantities of a smaller number of products or increasing the number of machines in use, or by extending operating hours while maintaining or reducing the product range. In practice, the second case will predominate. The expectation that operating hours in the EU will increase also implicitly underlies the employment policy priorities of the single European market. The case of the USA demonstrates that such increases are possible. As a result of the large domestic market and undoubtedly also of the early introduction of mass production, the long-term trend in operating hours had outstripped European levels. There are signs that operating hours in Europe have risen in recent years (Diagram 6). In countries in which Sunday working for economic reasons was prohibited, restrictions on operating hours (particularly the prohibition on Sunday working) have been relaxed. Since 1987, for example, Sunday working for economic reasons has been permitted in Belgium, provided that a collective agreement on the issue has been concluded. Since 1982, firms in France have been able to introduce supplementary Sunday shifts, subject to the conclusion of firm-level and inter-occupational collective agreements. In 1987, Sunday working for economic reasons was permitted, subject to the conclusion of generally binding collective agreements. The new working-time legislation just passed by the German Bundestag permits Sunday and holiday working if "competitiveness vis-à-vis foreign producers is demonstrably impaired because of longer operating hours or other conditions of work and employment abroad and if employment can be secured by the authorisation of Sunday and holiday working".

Diagram 6: Evolution of weekly plant utilisation time in manufacturing industry (in hours)



Source: Anxo et al. 1994

19. Increases in operating hours go hand in hand with undesirable increases in unsocial working hours (night and weekend working). There is some indication that the time preferences of core workers have changed over time. More and more firms are reporting difficulties in finding adequately skilled workers for non-standard working hours³. Two recent surveys carried out in the EU support the argument that willingness to do regular weekend or night work is very low. A survey representative of 38 million workers in Europe carried out by the European Foundation for the Improvement of Living and Working Conditions in Dublin shows that 38 per cent of the firms surveyed in five European countries (Belgium, Germany, Italy, Spain, United Kingdom) have experienced difficulties in the past in finding workers for Saturday work. Despite high levels of unemployment in some areas, 68 per cent expected to experience such difficulties in the future (Infratest, 1989). A representative survey of employees in the European Community found that only 21 per cent of those questioned were prepared to work on Sundays and 22 per cent to work nights, even for higher pay (European Economy 1991).
20. The considerable reductions in unit costs that occur when operating hours are extended gives capital-intensive firms the option of increasing their returns while at the same time offering employees compensation for unsocial hours. If such a trade-off takes place and attractive new shift systems are introduced, both sides may profit (Taddei 1986). More and more workers are being compensated not only financially but also with reductions in working time or extra time off in lieu of bonus payments. All these new shift systems follow a very simple logic: the working time of shift, night or weekend workers is shorter than standard working time. This makes it possible to introduce new shift systems with more shift crews and thus to create new jobs. And if more shift crews are employed, each individual has to work fewer nights or weekends, which means that the same volume of unsocial hours can be distributed among a greater number of workers. A characteristic example of this logic is the introduction of a fifth crew in continuous production. Workers have to work on average only three Sundays in five instead of three in four in the former system. And if weekend work is done by just two crews working two 12 hours shifts, then each worker will have to work only two Sundays in five. In some European countries, the easing of restrictions on shift and weekend work has been linked in legislation or collective agreements to reductions in working time. In France, Norway and Sweden, permanent shift workers work 35 hours or less (Table 1). Moreover, workers on the special weekend shifts have to work only 24-27 hours per week, since weekend bonuses are almost wholly converted into extra time off. And there are many examples of firms in which extensions of operating hours have been exchanged for shorter working times. Shift work at unsocial hours is also a feature of many service-occupations, e.g. in hospitals, police forces and computer centres. Here too, bonuses for night and weekend working could also be converted into extra time off. In the case of Germany, the authors of the "*Berlin Declaration*"⁴ estimated that the conversion of night and weekend bonuses could create up to 300,000 additional jobs. If all bonuses were converted into extra time off, the total employment effect could be as high as an extra 600,000 jobs. However, they consider it unrealistic, because low-paid workers in particular are dependent on bonuses. In reality, this would apply only if service-sector activities for which bonuses are paid (e.g. in hospitals) were also included (Berliner Erklärung 1994).

³ This does not necessarily apply to employees in atypical employment relationships. Thus it is known that part-timers work evenings or weekends particularly frequently.

⁴ The Berlin Declaration was produced by a working party organised by the Berlin Senate and made up of politicians of various parties, academics, trade unionists and employers' representatives.

21. A reduction in overtime can also be an efficient means of work sharing. In the European car industry, for example, new shift systems requiring a third crew have been introduced in order to achieve annual operating hours in excess of 4,000. Such operating hours are attained in Japan with two crews and an extremely high level of overtime (Tables 2 and 3). The outlines of a European working-time model are beginning to emerge, in which, unlike what is happening in Japan and the USA, working time and operating hours are becoming increasingly decoupled from each other. As a result, increases in operating hours in Europe lead in many cases to additional recruitment, while in the USA and, even more so, in Japan, they are usually associated with an increase in the working time of existing employees. A number of European countries have restricted overtime in the past, in order to distribute the existing volume of work among more people. In France, the annual overtime limit is, in general, 130 hours per employee. The collective agreement covering the French metal industry sets an upper limit of 7.5 hours per week and 94 hours per year. The new working time law of February 1994 will penalise the use of overtime (by increasing the percentage of extra time off to be offered in lieu) and encourage the substitution of financial compensation with extra time off. In Belgium, all overtime actually has to be offset by extra time off. In the metal industry, this extra time off must be taken within six months of being "earned". In Spain, the upper legal limit on overtime is 80 hours per year.

country	legal definition	contract hours	continuous shifts	semi-continuous shifts	discontinuous shifts	weekend shifts
Austria	40	38,5	0	0	0	0
Belgium	40	37,33	33,6	35,33	37,33	26,66
Germany	48	38,5	0	36	0	0
Denmark	0	38	0	35	37	24
France	39	0	33,6	39	39	24
U.K.	0	0	36	37,5	0	24
Greece	40	0	40	0	40	0
Italy	48	38,5	33	35,45	36,2	0
Netherlands	0	38	0	38	0	0
Finland	40	0	36	38	38	24
Sweden	40	40	35	36	38	24

Source: Costa 1991 © IAT- 94

Table 2: Working time and overtime worked by assembly workers in European and Japanese car factories (per head in 1990)

plant	country	working time / year	overtime / year
Nissan	J	1808	461
Toyota	J	1808	457
Honda	J	1800	112
Mazda	J	1800	496
Mitsubishi	J	1800	513
Ford Dagenham	GB	1778	8
Nissan Sunderland	GB	1778	133 (in 1991)
SEAT Zona Franca	E	1768	20 (with extra time off)
Peugeot Poissy	F	1725	77
Peugeot Sochaux	F	1725	46
General Motors Saragossa	E	1724	49
Ford Valencia	E	1720	31
Ford Genk (from 1993)	B	1702	15 (with extra time off)
Vauxhall Luton	GB	1688	61
Fiat	I	1665	15
Renault Flins (from 1993)	F	1658	30
Opel Rüsselsheim	D	1635	54
BMW Munich	D	1630	-
Ford Cologne	D	1628	-
Opel Bochum	D	1628	15
Volkswagen Brussels	B	1625	-
General Motors Antwerp	B	1624	-
Mercedes Sindelfingen	D	1624	24
Volkswagen Wolfsburg	D	1616	32
Rover Longbridge	GB	1585	-
BMW Regensburg	D	1548	-

Source: Bosch/Lehndorff 1993

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Table 3: Yearly operating hours and number of shift crews in European and Japanese automobile plants (1990)

Plant	Country	Operating hours	Number of shift crews
General Motors Saragossa	E	5434	3
Volkswagen Brussels	B	5267	3
Opel Bochum	D	5220	3
Fiat Casino	I	5175	3
General Motors Antwerp	B	5140	3*
Ford Genk (from 1993)	B	5086	3
Mitsubishi	J	4946	2
Mazda	J	4912	2
Renault Flins (from 1993)	F	4874	3
Nissan	J	4858	2
Toyota	J	4850	2
Rover Longbridge	GB	4765	3
BMW Regensburg	D	4608	3*
Peugeot Poissy	F	4389	2*
Honda	J	4144	2
Mercedes Sindelfingen	D	4032	2
BMW Munich	D	4000	2*
Volkswagen Wolfsburg	D	3964	2 + reduced night shift
Nissan Sunderland	GB	3931 (in 1991)	2
SEAT Zona Franca	E	3672	2
Ford Dagenham	GB	3666	2
Peugeot Sochaux	F	3603	2
Vauxhall Luton	GB	3565	2
Ford Valencia	E	3503	2
Fiat Mirafiori	I	3480	2
Opel Rüsselsheim	D	3467	2
Ford Cologne	D	3405	2

* Two shift systems with shift duration between 8,5 and 10 hours

Source: Lehndorff / Bosch 1993

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22. In the light of the current employment situation, the European working-time model with low basic hours and a low level of overtime has considerable advantages, since the extension of operating hours generates additional jobs. However, its disadvantages for firms in periods of economic downturn cannot be overlooked. If we return to our examples from the car industry, it is clear that Japanese companies are able to reduce capacity by up to 20% by cutting back on overtime without having to dismiss a single employee. In Europe, on the other hand, such a reduction in capacity can be achieved only through redundancies or the non-renewal of fixed-term employment contracts. In view of rising qualificational requirements and increasing investment by firms in their human capital, this is becoming more and more problematic, not only for employees but also for employers, since in periods of economic downturn they run the risk of losing skilled workers.
23. If the introduction of the "flexible firm" and of teamwork is not to lead to an increase in both working time and the level of overtime worked, European companies need socially acceptable mechanisms for reducing capacity in periods of economic crisis that maintain employment relationships while at the same time lowering wage costs. Two options for creating such downward flexibility already exist in some countries. In the first, the state pays short-time allowances to offset the loss of work due to the economic situation. In 1993 in Germany, an average of around 700,000 workers drew the short-term allowance. As a result, more than 200,000 redundancies were avoided. In Belgium, generous short-time regulations have for years made it easier to experiment with new working-time models. In the second, voluntary collective or company agreements on the reduction of working time are concluded in order to avoid redundancies. The best-known example is Volkswagen's reduction of working time to 28 hours without any compensatory increase in pay rates, which has avoided about 30,000 redundancies. In addition, VW did not have to make redundancy payments and won the cooperation of the workforce for its massive rationalisation programmes. The VW model has now been incorporated, albeit in modified form, into several collective agreements in Germany. Gesamtmetall, the metal industry employers' association, has conducted a written survey of some 1259 firms in the metal and electronics industries in Germany. Of these firms, 110 have reduced working time temporarily to a minimum of 30 hours. According to Gesamtmetall, this unused volume of work would be enough, in purely arithmetical terms, to avoid 50,000 redundancies (Handelsblatt 25.8.1994). In France in 1993, work-sharing agreements were concluded in 44 firms as a means of preventing redundancies. Such initiatives have been supported by management, particularly in firms in which skilled workers would otherwise have had to be made redundant. These firms "expect an upturn in 1994 and are basing their hopes of maintaining or winning market shares on their high level of technical capability and productivity ... their workforces have specific skills that employers wish to retain for the next upturn, since training costs for such workers are high" (Bloch-London et al. 1994: 3).
24. Working-time reductions agreed by the social partners as a means of avoiding redundancies are undoubtedly the most attractive from the state's point of view, since the costs are borne solely by employees. Without state support, however, both firms and employees will be somewhat reluctant to reduce working time in periods of economic downturn. Moreover, the state makes considerable financial savings, which can in part be ploughed back. In the case of Volkswagen, the Federal Labour Office would have had to pay out DM 741 million the following year in unemployment benefit for the 30,000 workers who would have been made redundant. Even if all losses of income caused by reduced tax receipts and social security contributions are taken into account, the state still saves DM 367 million (Meinhardt et al. 1993). This saving can at least in part be returned to employees and firms

in very different forms, for example by reducing social security contributions for a fixed period, by paying a collectively agreed subsidy in support of a package negotiated at firm level or by offering employees compensation for their lost working time.

25. One of the arguments frequently deployed against the redistribution of work is that reductions in working time are possible only for unskilled workers. In the case of skilled workers, it is argued that considerable bottlenecks should be expected which would have the effect of reducing growth or dissipating the employment effect because of a rise in the volume of overtime. This objection is well founded in so far as skill bottlenecks can be observed in the labour market. Thus work sharing is easier to implement in countries with active training policies and high skill levels in their labour forces, such as Germany, Denmark or the Netherlands (Table 4). In Germany, for example, high skill levels and the expansion of training in the dual vocational training system meant there were no significant bottlenecks in the labour market in the 1980s, despite the fact that rapid economic growth was accompanied by a simultaneous reduction in working time.

Recommendations:

1. *Intensive utilisation of capital stock is essential for the competitiveness of European industry. The replacement of night and weekend bonuses by extra time off in lieu and special working-time reductions for shift workers would make new shift systems attractive to employees and create additional jobs. Appropriate solutions should also be found for those parts of the service sector in which shift-working is widespread, such as in hospitals and the police force.*
2. *Variable working hours are an important source of flexibility for firms, which they have to use in order to deal with short-term market fluctuations or disruptions. Overtime is a traditional way of coping with such instability. The massive differences in the level of overtime worked between countries and between firms shows that there is considerable scope for the redistribution of work. A strict ban on overtime would be damaging, since it would undermine firms' flexibility. However, it would be sensible to compensate workers for overtime with extra time off in lieu. The best way of doing this would be within the framework of new models of annualised working time.*
3. *Firms making little use of overtime have few reserves of flexibility available to them in crisis situations. They face the risk of having to dismiss skilled workers that they will need urgently as recovery begins. What is required is instruments of downward flexibility. The state and/or unemployment insurance funds benefit considerably from company agreements on working-time reductions that prevent redundancies. The state should therefore offer, for limited periods, financial incentives for such agreements that would increase firms' internal flexibility.*

Table 4: Educational Levels of European Workers (total) in 1991

Country	Educational level				Change in % in the employment share in the period 1988 -1991	
	un-skilled ¹⁾ %	lower skilled ²⁾ %	intermediate skilled ³⁾ %	highly skilled ⁴⁾ %	intermediate skilled workers	highly skilled workers
Belgium	15,3	28,7	30	26	3,5	2,6
Fed. Rep. of Germany	2,1	14,1	55,9	18,8	11,5	2,6
Denmark		27,6	49,7	20,4	-0,1	1,3
Greece	42,9	8,9	23,7	18,5	4,5	1,1
Spain	48,2	21,7	17,6	12,5	3,3	1,5
France						
Ireland	19,8	27	31,4	21,1	0,1	2,6
Luxembourg	37,2	38,6	13,3	9,7	2,8	-4,2
Netherlands	11,1	25,6	41,8	21,3		
Portugal	72,5	12,2	7,1	7,8	2,4	1,5
United Kingdom	0,1	60,5	20	16	1,1	-0,1
European Union	15,1	296	339	171	64	17

1) ISCED 0/1; 2) ISCED 2; 3) ISCED 3; 4) ISCED 5-7

ISCED = International Standard Classification of Education

0 Education preceding the first level

1 Education at the first level

2 Education at the second level, first stage

3 Education at the second level, second stage

5 Education at the third level, first stage of the type that leads to an award not equivalent to a first university degree

6 Education at the third level, first stage, of the type that leads to a first university degree or equivalent

7 Education at the third level, second stage of the type that leads to postgraduate university degree or equivalent

Source: *Hoevenberg, de Grip 1994*

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III.2 Part-time work

26. Part-time work has increased in all EC member states in recent decades, although the rate of increase varies very widely from country to country. This has led to the creation of new jobs, particularly for individuals unable or unwilling to work full time for a variety of reasons: women with caring responsibilities, young people combining part-time employment with education or training (school pupils and students), and individuals eager to accommodate diverse needs. In addition, phased retirement programmes can release jobs for younger employees. For women in particular, part-time work is often the only way to balance the demands of (unpaid) domestic responsibilities with paid employment where inadequate support is given for care arrangements for children or older people (Commission of the European Communities 1994b). Although an increased supply of part-time jobs has led to the creation of new jobs, the labour supply, particularly of women, has increased at the same time, so that (registered) unemployment has not been reduced.

27. New employment forms such as part-time work cannot flourish successfully in the long term unless they offer firms economic advantages and improve their competitiveness, unless there is a social demand for them, i.e. if these new forms of work are actually attractive to workers, and unless conditions in the wider society - particularly the legal system - permit or encourage them to be used positively (Bielinski 1993). These three conditions are more likely to be fulfilled in the case of part-time work than with other non-standard employment forms, thus increasing the probability of overlap between the interests of employers and employees. A survey carried out by the Dublin-based European Foundation for the Improvement of Living and Working Conditions showed that in 41% of establishments the main reason for using part-time work was the needs of the establishment, that in 36% of establishments the main reason was employees' wishes, while in just over 22% of establishments both reasons were equally important. In the case of fixed-term contracts, on the other hand, employees' wishes were the decisive factor in only 2.3% of establishments (Delsen/Huijgen 1994). If part-time work is to increase still further - which would be desirable from the employment policy perspective - measures must be taken to reconcile the interests of the various parties to a considerably greater extent.

28. For firms, the major advantages of part-time work are said to be higher productivity as a result of lower absenteeism and greater work intensity, greater flexibility in coping with fluctuations in demand and lower wage and non-wage costs. According to an empirical research study conducted in Germany by the McKinsey consultancy company, part-time employment is cost-effective for companies. After an initial increase in costs, companies can save between 2 and 4% of their labour costs due to better motivation and less absence from work due to illness (EURI 1994b). However, such sweeping conclusions need to be heavily qualified. These economic benefits do not apply equally to all firms or to all jobs. Part-time work can be considered particularly positively when the work concerned is unskilled or semi-skilled in nature, when full-time jobs are topped up by additional hours of work outside normal hours (e.g. evening or Saturday work), when firms have to cope with numerous short-term fluctuations in demand (such as in the retail trade), when capable part-timers are available in the labour market and when firms themselves have already had good experiences with part-time employment and have learnt how to manage this form of work. The disadvantages of part-time work include, among other things, higher organisational costs, reduced ability to exert control, poorer communications and higher labour turnover. These disadvantages apply particularly to more demanding jobs in which communication is

essential and to those situations in which there is a less than adequate supply of well-trained, highly motivated part-timers (Bielinski et al. 1992).

29. Part-time employment brings with it disadvantages for many employees in most member states. They are frequently paid proportionally less than their full-time counterparts and total compensation per part-timer is also often lower because of minimum thresholds for social security contributions and benefits. The lack of career opportunities and of job security also rank very high when employees are asked for their opinions. The long-term effects of reduced earnings, as reflected in lower pension entitlements, are not generally accurately assessed by those affected (Joshi/Davies 1992).
30. Considerable progress has been made in many countries in the last ten years in the organisation of part-time work (Diagram 7). In Belgium, the regulatory framework governing part-time work is now neutral: there is no hours threshold below which an employer is not obliged to pay social security contributions, part-timers are paid pro rata, receive holiday pay, bonuses and social benefits and have priority when full-time posts become vacant at their workplace. There is a minimum duration of part-time work, equal to one third of full-time working hours. Exceptions to this rule exist for small and medium-sized firms and can be obtained through collective agreement or by royal decree. In Great Britain, most employers now pay part-timers a pro rata hourly rate similar to that for full-timers (McGregor/Sproull 1992). Young people and female returners in Germany have for several years been able to combine publicly-funded further training with part-time employment. In several countries, unemployed people are encouraged to accept part-time employment. In Belgium and Denmark they receive part-time unemployment benefit. In Germany they retain their entitlement to full unemployment benefit, and clauses discriminating against part-timers have been removed from many collective agreements. However, these changes - some of which are very considerable - have been unable to alter the fact that part-time work is concentrated in low-skilled jobs (Table 5) and that there is a clear division within many firms between full-time and part-time employees. Many full-timers who would like to work shorter hours fear that the changeover to part-time work would lower their profile within the firm and lead eventually to marginalisation and poorer career prospects. Thus in response to the German federal government's part-time campaign, Bayer Leverkusen this year offered its employees a reduction in their regular working time; however, the number of workers taking up the offer was disappointingly low. In other companies, on the other hand, employers do not offer their more highly skilled workers any opportunity for part-time work, since they fear that in so doing they will merely incur additional costs.

Table 5: Part-time employment by qualification level ¹⁾

country	unskilled manual	skilled manual	clerical low	clerical high	proportion of part-time in total employment
Belgium	22.6	5.5	52.4	21.2	4.8
Denmark	25.5	3.2	46.7	24.6	9.2
Germany	31.6	3.9	43.5	19.6	8.2
Ireland	48.7	10.0	35.6	5.7	2.8
Italy	19.5	5.5	37.1	37.9	2.0
Netherlands	32.8	3.9	49.1	14.2	12.6
Spain	40.1	8.6	17.4	32.9	1.1
United Kingdom	34.8	6.9	44.5	13.9	5.4
EUR 8	30.6	5.0	43.2	21.2	5.8

1) Survey conducted by the European Foundation for the Improvement of Living and Working Conditions among managers and employee representatives from 3200 establishments with at least 10 employees in 8 European countries

Source: Delsen/Huijgen 1994:17

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31. Obviously one of the major problems is putting into practice the wishes of core workers for shorter working time. Experience would suggest that their fear of marginalisation is significantly less when the part-time work is temporary, as is the case, for example, with phased retirement programmes, temporary reductions in working time combined with initial or further training, parental leave or sabbaticals intended to avoid redundancies. Young people accept part-time work when it constitutes a pathway into full employment. Since mid-1992, Denmark has been the testing ground for various models of special leave and rotation schemes. Educational leave provides adults over 25 years with a continuous work history with an opportunity to attend an officially approved educational course. Childcare leave offers an opportunity for all persons with a child in the age group 0-8 years to take care of the child for a period of 13-52 weeks. Since 1994, sabbatical leave may be given to employed persons over 25. The period of leave and the date of return have to be agreed with the employer. All these forms of leave attract allowances of 80% of the maximum unemployment benefit. In the case of sabbaticals, the allowance is paid only if the vacancy is filled by an unemployed person. The leave programme is intended to give unemployed people new opportunities for short-term employment. In total, 120,000 persons - corresponding to 50,000 full-timers - are expected to be on leave in 1994.
32. It would also seem promising, with the introduction of annualised working time, to offer working times only slightly lower than that of full-time employees and significantly higher than normal part-time hours and organised in a variety of different ways so as to offer, for example, a 4-day week or blocks of time off distributed over the year. In this way, employees would remain integrated into the company's communication channels and losses of income and reductions in pension entitlement could still be calculated. The working time legislation recently introduced in France makes provision for the annualisation of working time as well as for protective regulations, such as a maximum daily working time during busy periods of 10 hours and a maximum weekly working time of 48 hours. If additional

employees are hired, the state pays part of their social security contributions. Only if such schemes are not a new form of unprotected seasonal work and entry into them is voluntary and not confined to certain groups of employees, such as production workers or unskilled and semi-skilled workers, will their reputation among core workers rise and further dualisation of the labour market be avoided.

Recommendations:

1. *In order to make part-time work attractive, part-time workers should not be treated less favourably than full-time workers; in particular, steps need to be taken to abolish discrimination against part-time workers in areas such as unfair dismissals, redundancy pay, pension schemes, access to training, social protection, career promotion etc. The most unacceptable forms of part-time work, such as "zero-hour" contracts and very small job packages should be avoided.*
2. *Unemployed people should be offered incentives to accept part-time employment. Such incentives could involve the payment of a part-time unemployment allowance, a combination of further training and part-time work as well as guaranteed entitlement in the future to (full-time) unemployment benefit if a part-time job is accepted and subsequently lost. State unemployment benefit should be used to bind people to work, e.g. on a part-time basis, rather than to withdraw claimants totally from employment.*
3. *Employees should be given rights to training and childcare leave as well as to sabbaticals. Incentives should be introduced to encourage unemployed people to fill the vacancies thus created.*
4. *In order to make part-time work more attractive even to core workers who to date have not regarded it as an option, new models of annualised working times should be introduced. Minimum conditions should be laid down for such working time models, including the strictly voluntary nature of any reduction in working time, minimum notice periods in the event of any change in working time, rights to return to full-time employment and upper limits for daily and weekly working time.*

Diagram 7: Legal position of part-time employment

	legal basis	form of contract	pay	overtime provision	dismissal protection	including worker representation threshold	information and consultation	right to full-time work
Belgium	law of 30.3.1990	written	○	employee has to agree	○	includes those working less than 75% of normal hours counted as half	annual report by employer to works council on employment situation	no legal provision
Denmark	no statutory provisions	≤ 15 hours contract	no legal provision	no legal provision	< 15 hours weekly	○	no legal obligation to consult works council	no legal provision
France	specific law defining part-time as less than 4/5 of normal hours	written	○	premiums after > full-time hours	○	included pro rata	no provision	priority in recruitment
Germany	empl. prom. art. 1985	no specific form	○	> full-time hours	○	○	obligation to inform, co-determination right	employer must take account of employee wishes to work full-time
Greece	no specific provision	no specific form	○	> full-time hours	○	○	no specific provision	○
Ireland	law of 1990	> 18 hours weekly written contract	no requirement for proportional pay	> full-time hours	< 8 hours weekly and service of 13 weeks	not included	no specific provision	priority right to full-time vacancies
Italy	no specific legal provision	written	○	forbidden	○	not laid down	obligation to consult enterprises with 20 or more employees	priority for new recruitment
Luxembourg	no specific legal provision	no specific form	○	> normal	○	fully those working ≥ 24 hours: otherwise not included	employer may not refuse to bargain with the worker representative	no legal provision
Netherlands	no specific legal provision	no specific form	○	> full-time hours	domestic workers working less than 3 hours weekly	includes only those working more than 1/3 of normal hours	obligation to inform works council	no legal provision
Portugal	no specific legal provision	no specific form	○	○	○	○	obligation to consult and negotiate with employer representation	priority for new recruitment
Spain	no specific legal provision	written	○	○	○	included pro rata	obligation to consult works council	no legal provision
United Kingdom	no specific legal provision	< 16 hours written evidence	no requirement for proportional pay	no provision	< 8 hours weekly 16 hours for less than 5 years	○	no specific provision	no legal provision

- difference with full-time employment

○ no difference with full-time employment

Source: Delsen, Huijgen 1994: 39

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IV. Stability of employment and minimum wages

33. An excessively high level of protection against dismissal is frequently seen as a significant obstacle to new recruitment. Opponents of dismissal protection regulations point out that, when (anticipated) employment costs are high, willingness to recruit new workers falls. With general upward pressure being exerted on labour costs, firms will tend to adopt a cautious recruitment policy. Advocates of dismissal protection tend to base their arguments mainly on notions drawn from human capital theory. When contractual relationships are more durable, firms are more willing to invest in their personnel; when employment relationships are more precarious, employee motivation and willingness to cooperate are likely to be lower, with negative consequences for firms' productivity. In this context, reference should also be made to new concepts of work organisation (the flexible firm). Such concepts require more highly skilled personnel and investment in human capital becomes increasingly important. Less durable employment relationships, on the other hand, concentrate above all on employees with lower skill levels. Fixed-term employment accounts on average for a high share of employment relationships at the unskilled manual and lower clerical levels. Exceptions are the United Kingdom and Ireland, where it is relatively high at the higher clerical level, and Spain, where it is high at skilled manual level (Table 6).

country	unskilled manual	skilled manual	clerical low	clerical high	proportion of fixed term employment in total employment
Belgium	41.1	8.7	34.8	15.4	2.1
Denmark	23.5	16.2	33.2	27.1	1.3
Germany	42.0	17.0	23.1	17.9	2.5
Ireland	38.5	15.6	14.6	31.2	2.0
Italy	44.4	7.4	31.7	16.5	7.0
The Netherlands	47.3	4.0	30.4	18.3	6.6
Spain	42.5	21.3	16.3	19.8	12.5
United Kingdom	18.4	16.1	25.0	40.5	0.9
EUR 8	41.4	13.0	26.2	19.4	2.9

1) Survey conducted by the European Foundation for the Improvement of Living and Working Conditions among managers and employee representatives from 3200 establishments with at least 10 employees in 8 European countries

Source: Delsen/Huijgen 1994: 23 © IAT-94

34. European countries offer varying levels of protection against dismissal. Both subjective surveys and statistical estimates (based on labour turnover data and estimates of firing costs) produce similar results. Italy, France, Belgium and Spain are the countries with the highest level of protection (Diagram 8). Recent years have seen the partial deregulation of dismissal protection in a number of European countries. The paths towards deregulation differ from country to country: the conclusion of fixed-term contracts has been made easier, particularly in Spain but also in Germany, and the scope for derogation has been extended. Thus in Germany, small firms, newly founded firms and workers employed for short periods are no longer covered by the regulations on dismissal protection. In Great Britain, the qualifying periods for protection have been lengthened in respect of most dismissals (exceptions: asserting statutory rights, pregnancy, sex and race discrimination). In France, it is no longer necessary to obtain official permission for mass redundancies. However, the employment effects of these changes are limited. Bentonila/Bertola (1990: 396) observed only slight quantitative employment effects arising out of changes in dismissal costs in four European countries in the period since 1975, particularly in Great Britain. Changes in dismissal costs tended rather to influence the adjustment measures adopted by firms in structural crises (1991/81) but had virtually no effect on firms' recruitment behaviour. Firms in France, which prior to 1986 had been critical of the need to obtain official permission for mass redundancies, showed virtually no change in their recruitment patterns in the year following the deregulation of 1986: "... after a transitory acceleration of dismissals (in 1986/87) their patterns recovered their previous dynamics" (Boyer 1990; 43). A moderate reduction in the arithmetic costs of dismissal had scarcely any effect on recruitment. This was all the more true since increasing skill requirements increased recruitment costs at the same time. A comparison of dismissal protection across the whole of the EU comes to the conclusion that "The employment effects of the deregulatory measures taken to date in Europe have been less than the advocates of those measures expected. The obviously slight employment effects of the deregulatory measures introduced during the 1980s suggest that varying elements of national employment systems cannot be exchanged without additional transaction costs. In Europe, unlike in the USA, more extensive deregulation of labour law would probably lead to higher political and economic conflict costs (Harden 1993: 101).

Diagram 8: A ranking of national dismissal protection regulations

Position	EC company surveys		Assessment of statistical data		
	1989	1985 ¹	Emerson 1988 b Bertola 1990 ²	Bentolila / Bertola 1990	Lazear 1990 ³
1	IT	IT	IT	(1) IT	IT
2	NL	FR	BE		ES
3	ES	(ES)	FR	(2) FR	FR
4	FR	BE	(SW)		PO
5	BE	GR	DE	(3) DE	BE
6	DE	(PO)	(JA)		DE
7	PO	DE	UK	(4) UK	GR
8	GR	NL	NL		DK
9	UK	UK	DK		(NL)
10			(US)		(UK)

Key: BE = Belgium, DE = Germany, DK = Denmark, ES = Spain, FR = France,
GR = Greece, IT = Italy, JA = Japan, NL = Netherlands, PO = Portugal,
SW = Sweden, UK =United Kingdom, US = USA
¹ (): 1989 positions given, since these countries were not included in the 1985 surveys
² (): Non-EC countries included in surveys
³ (): Substitute criterion: Period of notice

Source: Hades 1993: 89 © IAT-94

35. Changes in dismissal protection are, however, more clearly reflected in the adjustment measures taken by firms in periods of economic crisis. Employment is noticeably more volatile, reacting more sensitively to cyclical fluctuations. In Spain, the rate of labour turnover rose from 20% in 1982 to 54% in 1992. In Great Britain, it looked for a while as though the strategy of reducing the risks attached to hiring had been rewarded. Employment did grow from 1983 onwards, but then fell back very sharply between 1990 and 1993. Thus the British expert report questions "whether the apparent reduction in the attachment of some employers to their employees in the name of flexibility actually increases the ability of companies to respond to changes in circumstances. What is clear is that companies need workforces which are adaptable and which can learn new skills. This requires a high degree of internal flexibility. It may be more difficult to secure internal flexibility without at least an implicit commitment by the employer that people are perceived to be a valuable resource".
36. This increasing volatility of employment bears the risk that the investment in human capital required for long-term growth and competitiveness will not take place. This makes it necessary to look for alternatives. We have already outlined proposals for worksharing in economic crisis that are intended to prevent redundancies. The core idea in these proposals

is **volatility of hours not volatility of employment**. These proposals for quantitative adjustment should be complemented by proposals for qualitative adjustment. It seems to us necessary to use the temporary reduction in working time for training programmes. Too much potential working time remains unused during cyclical fluctuations. Germany has taken a step in this direction in recent years. The traditional distinction between passive short-time working and active further training measures has been removed and further training programmes may now be organised during periods of short-time working. The training system itself has to date proved to be a bottleneck, thwarting attempts to use the new regulations. It is heavily oriented towards longer-term, uninterrupted training programmes and would have to be made more flexible through modularisation in order to accommodate programmes organised during periods of short-time working. In the same way, employees temporarily working a four-day week could also be offered training courses on the fifth day.

37. Even if all the opportunities for internal adjustment are exploited, there will still be dismissals during structural crises. Employees threatened by unemployment all too frequently have lower skill levels or skills that are not easily transferable to another industry, so that they experience difficulty in finding alternative employment. Passive adjustment measures continue to prevail in all EU countries. Some employees are paid considerable amounts of redundancy pay, which are soon used up, however, if they remain unemployed for a long time. Massive structural change in France in the 1980s was cushioned by so-called "reconversion" measures. Workers threatened by unemployment were offered a place on a training programme and/or active assistance in finding a new job. Purely compensatory budgets (redundancy pay, unemployment benefits) were converted into active measures. The exhaustive research that accompanied these measures suggested that, given the same labour market conditions and the same occupational profiles, it had been possible to place a larger share of workers in alternative employment with the aid of reconversion measures than by simply terminating contracts in the traditional way (Bosch 1992; Villeval 1992). There have been similar positive experiences in Germany with the so-called "employment or retraining plans" that have been established particularly in the steel, mining, shipbuilding and consumer electronics industries. The EU supports a number of comparable measures in the form of programmes financed by the Social Fund.

Recommendations:

1. *Opportunities should be created and incentives offered for training programmes to be organised in the working hours lost during periods of short-time working and temporary reductions in working time in periods of recession.*
 2. *Employees made redundant should be offered training opportunities and/or active assistance in finding alternative employment. Resources such as redundancy pay and unemployment benefits, hitherto largely passive, should be combined to finance such measures.*
38. In 1993, the Commission adopted an opinion which reaffirmed the right of all workers to an equitable wage, which means that all workers should receive a reward for work done which, in the context of the society in which they live and work, is fair and sufficient to enable them to have a decent standard of living (Commission of the European Communities 1993). A minimum wage can play an important role in promoting a more equitable income distribution

by protecting from poverty groups of workers who have little if any bargaining power in the labour market. On the other hand, the statutory minimum wages that exist in a number of member states are often very heavily criticised since they are presumed to set unrealistically high prices, particularly for unskilled and younger workers, thus preventing many of those workers from finding a job. The question is whether the social objectives being pursued through minimum wages conflict with the economic objective of raising employment levels and increasing growth and competitiveness. These issues have been extensively researched, both theoretically and empirically, and several different models and tests have been developed. In general, looking at minimum wages strictly from the point of view of efficiency, it seems at first sight plausible that an increase in the price of labour will lead to a fall in demand. However, looked at from a dynamic perspective, this conclusion seems less certain, since the long-term effects on motivation, on willingness to invest in skills and on productivity have to be investigated. However, whenever motivation and willingness to invest in training are mentioned, cultural and institutional factors are also brought into play, so that it is difficult to offer general answers. As plausible arguments can be offered both for and against minimum wages, their employment effects cannot be unequivocally established theoretically but must be ascertained empirically.

39. The abundant literature on minimum wages reaches the conclusion that the (negative) employment effects of a change in minimum wages are, at the most, small. In many cases, the impact is negligible, with some studies even showing a positive correlation. Thus Ehrenberg (1992), in summarising a number of studies, concludes "that it is significant that none of the studies suggests that at the current relative values of minimum wages, large disemployment effects would result from modest future increases in minimum wages". Brown (1988: 144) reaches the same conclusion when he states that "the case against the minimum wage seems to me to rest more upon aversion than on the demonstrated severity of any harm done to those directly affected". Even if we consider only the effects on the employment of young workers, they still seem very slight. A 10% increase in (real) minimum wages is likely to reduce teenage employment by around 3%. The models used to investigate these effects all assume that adjustment takes place within a single period and neglect long-term effects. Moreover, they are partial analyses that ignore other aspects that are important for employment, such as workers' morale and training and further training. It can certainly be justifiably argued here that minimum wages can have positive effects because they increase worker motivation. Nor should the positive effects of minimum wages on innovation in firms be ignored; in the case of price competition based on low wages "firms can avoid more radical remedies such as the restructuring of production, managerial reorganization and the replacing of obsolete equipment with new technology" (Wilkinson 1994: 71).
40. Thus the results of the exhaustive research are extremely disappointing for opponents of minimum wages and do not justify the removal of existing regulations. Although the effects of eliminating minimum wages cannot be directly extrapolated from the studies surveyed, since such a move heralds a change of regime, it seems reasonable to conclude that its potential short-term effects on employment levels would be negligible. The social tension and protest that would ensue from the removal of minimum wage regulation would very likely outweigh any possible positive effects that such a measure might have. **Thus the results of the exhaustive research do no justify the removal of existing regulations.**

41. Nobody disputes that there cannot be a single level of minimum wage in all member states; rather, the level must vary in accordance with differences in productivity and the disparate social and cultural conditions that prevail in individual countries. In general, however, it is true that a safe method of avoiding possible undesirable effects of minimum wages is to invest in the skills of the workforce. In this connection, it is frequently suggested that minimum wages could act as a disincentive to invest in training, since on the one hand young people can very quickly reach a high wage level and will not therefore be prepared to invest in training, while on the other firms are unwilling to bear all training costs themselves. However, the German example shows that young employees are happy to accept training in the dual system, even if they receive a training allowance lower than the entry wage, since only by completing a course of training can they gain entry to skilled and well-paid jobs. Excessively high wages are not the cause of high youth unemployment in the EU; the blame lies rather in the scarcity of opportunities for entering paid employment because of the lack of apprenticeship schemes. Remedying this is where the thrust of future policy should lie. The negative effects of a minimum wage are exaggerated: the main effect is on income distribution rather than efficiency or flexibility.

V. Summary and conclusions

42. *The key messages of the Working Group on Flexibility and Work Organisation are:*

- *Flexibility denotes the ability of social systems, organisations and individuals to adapt successfully to changed conditions by adopting new structures or patterns of behaviour. This includes not only adjustments to those new conditions (defensive flexibility) but also proactive strategies, such as the development of new products and markets or forward-looking training for workforces.*
- *Proactive strategies are always to be preferred to defensive adjustment, since they offer a chance of avoiding the undesirable consequences of straight adjustment measures (such as redundancies or wage cuts in the case of low productivity) and of developing more robust patterns of behaviour that are both more likely to survive and to contribute to long-term economic growth.*
- *More flexibility - and this applies particularly to internal flexibility - frequently requires less strict and definitive regulations and more social dialogue and negotiated solutions. The major problem here is to ensure the equality of the social partners at all levels. If this cannot be done, then the various interests cannot be equalised and no balanced compromises achieved. Under these circumstances, flexibilisation becomes a weapon for the strong against the weak and is associated with declining social solidarity.*
- *The recommendations put forward in this paper, if implemented, could create jobs in two ways. On the one hand, firms will be more competitive; their costs will be reduced in the short term and they will thus gain a certain amount of scope to invest; moreover, firms' long-term adaptability will be improved through the introduction of structures and forms of work organisation more conducive to innovation. On the other hand, new forms of work organisation and work-sharing will lead to a wider distribution of jobs (European Commission, White Paper 1994: chapter 8.7).*
- *The main focus of our proposals lies in increasing firms' internal flexibility. The ways firms are organised, the organisation of work and the general organisation of production and innovation are crucial for the exploitation of opportunities offered by scientific knowledge and new technologies. New organisational forms (the flexible firm) and pay structures must be introduced in order to increase the organisational effectiveness of European industries and services. A certain degree of stability in employment is also required. This will encourage firms to invest in training for their workforces. Proposals for the deregulation of dismissal protection tend to increase the volatility of employment and may have a negative effect on skill levels and decrease internal flexibility. Out-of-date and overcomplicated regulations can also have a negative effect on employment.*
- *The proposals in this paper refer not only to actions to be taken at Community or national level. Firms' internal flexibility and work organisation cannot be improved unless account is taken of the particular conditions in individual industries and firms. The social partners have an important role to play in implementing these recommendations, therefore, since it is up to them to find appropriate solutions at these levels.*

- *To be competitive, we need adequate levels of capital stock utilisation.* A decoupling of working and operating hours makes it possible to combine short standard working times and low levels of overtime with long operating hours. New forms of downward flexibility (short-term work, temporary working-time reductions in periods of recession) must be developed in order to minimise redundancies and at the same time offer firms enough flexibility over the economic cycle.
- *There is considerable, as yet underutilised employment potential in the extension of part-time work.* In order to make part-time work more attractive, part-timers should not be treated less favourably than their full-time colleagues. Part-time work is concentrated primarily among workers with poor qualifications and few career prospects. In conjunction with the introduction of annualised working times, voluntary part-time jobs should also be created for core workers.
- Even if all the opportunities for internal adjustment are exploited, there will still be dismissals during structural crises. Employees threatened by unemployment all too frequently have lower skill levels or skills that are not transferable to another industry. For these workers, external mobility is associated with particular risks. Thus *redundant workers should be offered training opportunities and/or active assistance in finding alternative employment.*
- *Teleworking can in certain cases increase the flexibility and productivity of firms.* It can make it possible for people unable to travel to remain in or to obtain work. It can create new employment opportunities in areas with few available jobs. At the same time, it is important to ensure that the workers concerned enjoy adequate levels of protection and appropriate regulation of working conditions.
- The extensive international literature shows that *minimum wages have only a slight (negative) effect on employment levels in the short term and can have positive effects because they increase worker motivation.* A safe method of avoiding possible undesirable effects of minimum wages is to invest in the skills of the workforce, since this increases their productivity.
- *The theme that runs through all the analysis presented above is training and human resource management.* The flexible firm requires multiskilled workers and new pay structures should encourage training. Work-sharing is possible in the long term only if there is an adequate supply of skilled workers to prevent the development of skill bottlenecks. The successful reintegration of redundant workers requires training. Possible negative effects of minimum wages can be avoided by investing in the skills of the workforce. Thus training is "the catalyst of a changing society", as the White Paper states (chapter 7.1).

Recommendations

The flexible firm

1. An action plan for organisational innovation should be set up, in which national and regional programmes for research and development in organisational innovation are combined. This programme should raise awareness of the issue, transfer and diffuse knowledge and experience, promote cooperation between national activities and strengthen European organisational research and development.

Wage systems

2. Experiences with new wage systems should be evaluated at the European level and the results made available to the social partners. Good examples can be an important tool in promoting negotiations at industry and company level. Since wage systems are very strongly influenced by the nature of production and size of firm, the evaluation should focus on specific new experiences which can be used by others.

Telework

3. The Commission should undertake a major study of the different types of teleworking in Europe and their potential for increasing employment and developing services in disadvantaged regions.
4. Examples of best practice should be documented and made available to the social partners, particularly in those sectors where teleworking is expanding most.
5. The Commission should develop a code of good employment practice (including social protection) in relation to teleworking.

Working time

6. Intensive utilisation of capital stock is essential for the competitiveness of European industry. The replacement of night and weekend bonuses by extra time off in lieu and special working-time reductions for shift workers would make new shift systems attractive to employees and create additional jobs. Appropriate solutions should also be found for those parts of the service sector in which shift-working is widespread, such as in hospitals and the police force.
7. Variable working hours are an important source of flexibility for firms, which they have to use in order to deal with short-term market fluctuations or disruptions. Overtime is a traditional way of coping with such instability. The massive differences in the level of overtime worked between countries and between firms shows that there is considerable scope for the redistribution of work. A strict ban on overtime would be damaging, since it would undermine firms' flexibility. However, it would be sensible to compensate workers for overtime with extra time off in lieu. The best way of doing this would be within the framework of new models of annualised working time.

8. Firms making little use of overtime have few reserves of flexibility available to them in crisis situations. They face the risk of having to dismiss skilled workers that they will need urgently as recovery begins. What is required is instruments of downward flexibility. The state and/or unemployment insurance funds benefit considerably from company agreements on working-time reductions that prevent redundancies. The state should therefore offer, for limited periods, financial incentives for such agreements that would increase firms' internal flexibility.

Part-time

9. In order to make part-time work attractive, part-time workers should not be treated less favourably than full-time workers; in particular, steps need to be taken to abolish discrimination against part-time workers in areas such as unfair dismissals, redundancy pay, pension schemes, access to training, social protection, career promotion etc. The most unacceptable forms of part-time work, such as "zero-hour" contracts and very small job packages should be avoided.
10. Unemployed people should be offered incentives to accept part-time employment. Such incentives could involve the payment of a part-time unemployment allowance, a combination of further training and part-time work as well as guaranteed entitlement in the future to (full-time) unemployment benefit if a part-time job is accepted and subsequently lost. State unemployment benefit should be used to bind people to work, e.g. on a part-time basis, rather than to withdraw claimants totally from employment.
11. Employees should be given rights to training and childcare leave as well as to sabbaticals. Incentives should be introduced to encourage unemployed people to fill the vacancies thus created.
12. In order to make part-time work more attractive even to core workers who to date have not regarded it as an option, new models of annualised working times should be introduced. Minimum conditions should be laid down for such working time models, including the strictly voluntary nature of any reduction in working time, minimum notice periods in the event of any change in working time, rights to return to full-time employment and upper limits for daily and weekly working time.

Retraining, short-time and redundancy

13. Opportunities should be created and incentives offered for training programmes to be organised in the working hours lost during periods of short-time working and temporary reductions in working time in periods of recession.
14. Employees made redundant should be offered training opportunities and/or active assistance in finding alternative employment. Resources such as redundancy pay and unemployment benefits, hitherto largely passive, should be combined to finance such measures.

List of Expert Reports

Jean-Marc Béraud,

Eléments du système français de flexibilité du travail

Jean-Marc Béraud,

Droit du travail, emploi et compétitivité des entreprises

Gerhard Bosch,

Operating hours, shift work, overtime and annual working hours

Alberto Castro,

Wage regulation, job creation, and unemployment:

The case of minimum wages

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