NATIONAL AND KAPODISTRIAN UNIVERSITY OF ATHENS
SCHOOL OF LETTERS

MSC PROGRAMME IN COUNSELLING AND CAREER GUIDANCE

LABORATORY OF EXPERIMENTAL PEDAGOGY

CENTERS FOR VOCATIONAL GUIDANCE AND COUNSELLING

PROCEEDINGS OF THE 1st INTERNATIONAL CONFERENCE

ATHENS (23-25-1-04)

PROMOTING NEW FORMS OF WORK ORGANIZATION AND OTHER COOPERATIVE ARRANGEMENTS FOR COMPETITIVENESS AND EMPLOYABILITY

With the Support of the European Committee

ATHENS 2004

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FLEXIBILITY AND COMPETITIVENESS[1]

Lena TSIPOURI, Assoc. Professor at the University of Athens

1. Introduction

The target of this paper is to study the issue of labour flexibility with economic considerations, and notably under the light of and constraints put by the need to maintain/increase competitiveness in a global context.

European countries, in particular the E.U member states are in a process of a continuous introduction of new forms and more flexibility into their labour market. Based on certain success indicators of the US, making the labour market more flexible has become a policy orthodoxy adopted by the OECD, the EU open coordination policy for employment and last but not least by individual countries. Trying to improve national performance in the Employment Protection Legislation (EPL) benchmarking exercise is almost becoming an obsession.

There is though a certain divergence appearing in the literature, which takes almost the dimension of a disciplinary debate: psychologists and sociologists on the one side defend the need to respect industrial relations and assure workers satisfaction, which not only improve working conditions but in the long run, due precisely to the satisfaction of the workforce, are expected to lead to better economic performance. Mainstream economists on the other hand believe that cost saving is the most important component and thus increased flexibility automatically leads to improved competitiveness.

So the question that raises for economists is, to what extent this correlation is ubiquitous. One way to deal with it is to accept the US case as a best practice model and try to introduce as much flexibility as possible independently of context. Another approach is to investigate to what extent labour flexibility needs (or does not need) to respects economic structures and path dependencies and derive conclusions on the impact of flexibility, which are not context independent. And then, immediately of course the next question is to what extent does this lead to long-term competitiveness at the firm level, at the regional level, at the national level. More explicitly: does flexibility increase profitability? Always or under which conditions?

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1 The report is based on research undertaken by five research organisations, notably the Centre of Financial Studies of the University of Athens (coordinator), the Greek Employment Observatory, the Technical University of Delft; Trinity College, Dublin, The Research Institute of the Finish Economy and the Technical University of Zurich. The research project “Flexibility for Competitiveness” was supported by the European Commission, under the Key Action "Improving the Socio-economic Knowledge Base" of the 5th Framework Programme.

2. On definitions and methodological problems

Flexibility seems to be a good thing, seems to have a positive connotation and of course functional flexibility in new work organizations, flexible organizations and so on, ideologically trigger a positive reaction. Then why doesn't everybody do it? Partly because of social resistance and partly because it is a concept that is by far relying on a commonly agreed definition.

While there is little doubt that flexibility is a hallmark of competitive advantage, making sense of the debate on flexibility is hindered by the fact that flexibility is conceptualized in different ways, it takes respectively different forms and is related to different outcomes. In the literature reviewed here, flexibility refers to

- forms of employment contracts (e.g. fixed-term contracts),
- forms of labor deployment (e.g. multi-tasking),
- forms of work organization and human resource management (e.g. post-fordist work organization, strategic human resource management),
- and market or institutional forms of social coordination at the national level.

Each form of flexibility, moreover, has been linked to different kinds of outcomes – for the firms that adopt it, the workers subjected to it and the economies where it predominates. Thus when we review the claims about the role of flexibility, it is imperative that we start by distinguishing between the specific forms of flexibility under consideration by each author, the actors for whom the outcomes of flexibility apply, as well as between the levels of analysis that is undertaken.

Perhaps the most influential attempt to classify different types of flexibility is Atkinson's typology (Atkinson 1984). He distinguishes between "numerical" and "functional" flexibility applied to the peripheral and the core staff of a firm, respectively. Numerical flexibility refers to the firm's ability to vary the numbers ("headcount") of its peripheral workers according to the variations in production needs, through the use of temporary work contracts. Functional flexibility refers to the firm's ability to vary the content of labour inputs ("tasks") of its core workforce according to the firm's changing needs, through the use of multi-tasking, continuous training, and team working. "Ideally" firms opt for one or the other flexibility strategy, while in the real world firms utilize both types of flexibility, albeit in different proportions.2

Atkinson's typology has given impetus to a large body of theoretical and empirical research, and has been modified accordingly. Most influential and minimally departing from Atkinson's original typology is a four-fold typology that replaces the categories of "core" and "periphery" with the categories of "internal" and "external" (dubbed as "FINE": functional, internal, numerical, external). Elaborating this typology further, Goudswaard and de Nanteuil (Goudswaard and de Nanteuil, 2000) arrive at another four-fold typology of flexibility, which replaces the categories of numerical and functional flexibility with "quantitative" and "qualitative" flexibility, respectively. In this typology temporal flexibility is a form of "internal-quantitative" flexibility, while Atkinson's "numerical flexibility" is a form of "external-quantitative" flexibility. However, financial flexibility is not included in this typology

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2 For a good analysis of the Swedish labour market along the functional-numerical distinction of flexibility see Arvanitis et al.

or in Atkinson’s, but is rather appended as a special form of flexibility (implicitly likened to numerical or quantitative flexibility).

The debate on flexibility is likely to retain its centrality in political economy, management studies, industrial sociology and labour economics for some time as its vicissitudes are intertwined with the continuing debate on the optimal relationship between capital, labour and public policy.

The different perspectives and different evaluations of flexibility notwithstanding, there is a tacit consensus developing that the choice ahead is not between facilitating internal (functional) or external (contract) flexibility, but in finding the right balance between the two types. Still, finding such balance is likely to be an elusive (if worthwhile) endeavour. This is so not least because of the contradictory properties of the two types of flexibility. The development of a certain type of flexibility hinders the development of another (path dependency). The pursuit of short-term strategies by some erode the foundations for long-term strategies by others (Streek 1997). “A restriction on ‘numerical flexibility is a precondition for ‘functional flexibility” (Wickham 2002)

The research was based on the analysis of country profiles, case studies and econometric evidence from five small European countries, with a differentiated profile as far as flexibility is concerned:

Table 1: Major national characteristics relating flexibility and competitiveness

	The Netherlands	***Ireland***	***Finland***	***Greece***	***Switzerland***
Numerical flexibility	Early introduction High levels	Medium Introduction Medium level	Medium Introduction Medium level	Late introduction Low level	Medium Introduction Medium level
Unemployment	Low	Strongly diminishing	High	Increasing	Low
Growth pattern	Close to EU average	Spectacular	Increasing	Increasing	Low
Production structure	Competitive, knowledge-based economy	Inward investment dominated with increasing local linkages	Mix of big and small high tech indigenous companies	Conventional	Mix of big and small high tech indigenous companies, internationally competitive
Labour productivity	Medium-deteriorating	Medium-improving	High-improving	Low-constant	High-constant

The research methodology was divided into a literature survey, country reports, case studies and econometric evidence, each of which contributed to our understanding as follows:

Table 2: Relevance of each research package for the key themes of the study (in %)

	Understanding and measuring flexibility	Wage flexibility	Issues on numerical flexibility	Issues on functional flexibility and complementarity with NF	Institutional aspects
Literature	60		20	20	25
Country reports	30		20	20	25
Case studies	10		20	60	25
Econometric evidence			40		25

3. The need to review flexibility under the angle of long-term competitiveness

The result of the study was that probably there must be a difference between short-term and long-term effects. When speaking about profitability and competitiveness and it comes as no wander that the literature is actually split in that respect. The fact that sometimes we measure things that appear to be very contradictory with what companies or policy makers do, probably can be explained by the fact that short-term effects are very different from long-term effects.

And the interesting thing then is to see what are the mechanisms, that means, in which case does flexibility increase profitability? In which case does it contribute to national or regional competitiveness? Which mechanisms support short-term profitability or short-term lack of profitability and respectively long-term profitability and competitiveness or long-term lack of profitability and competitiveness?

The economic literature suggests that numerical flexibility is not necessarily so bad. There are cases where employees want to be numerically flexible. They want to be part-time. There are benefits in voluntary part-time. And there are cases where functional flexibility may not be as profitable as one ideally would think. Case studies and econometric analysis at a macro level indicated positive correlation between functional flexibility and profitability in certain cases, but not always. There is apparently no universal truth, it is not like the law of gravity. External flexibility is sometimes positively related to profitability and to productivity. Internal flexibility though, functional and qualitative, we have indications that it is more likely to be positively related but again, it is not like the law of gravity. If it was, we could impose it. The estimates of the benefits for performance of flexible workplace practices do not exist on an economy of sector-wide basis. They are limited to the company level. This is something we know. Companies who have done it well, they did profit out of that.

There are studies from the literature which focus on the performance impact of a single flexible work practice rather than a set or system of practices. And there we have a danger because if you find out that something works, one specific case, teleworking in the software industry, that does not mean that any kind of flexibility works for any kind of industry. And it is difficult to take into account the length of time needed to let organizational change take root and bring measurable results. The one intervention I would have made, if there was a discussion with the last speaker is that this very important psychological aspect which is called “resistance to change” has to be taken into consideration somehow.

The results of the Flexcom project suggest that when we speak about flexibility, we tend to look at a new orthodoxy, which like every orthodoxy, can be very misleading. Using the benchmarks for protection legislation (EPL) may be one of these sources of problem: there are now benchmarks which tell you which country has a flexible labour market and which country does not have one. And it is taken often by multinational companies as an indicator to whether they want to invest in this country or not. It has very – very serious economic consequences. Taking the five countries studied into consideration we see that there are extreme differences within Europe and within the European member states ranging from 4% of the labour force in Greece, up to 42% in the Netherlands. Finland and Ireland are rather low, closer to Greece. Switzerland, which is not a European Union member state, is closer to the Netherlands. The Netherlands is the most flexible country and Greece the less flexible one. If using fixed-term the picture changes slightly. But a further investigation suggests a distortion because there is one single indicator of what is a flexible labour market and this is the informal sector. There is nothing more flexible in the labour market than hiring and firing people illegally, without paying social security, without declaring them to the tax authorities and so on. Using this as a benchmark Greece suddenly becomes the second most flexible in Europe. And this is the real world.

The econometric results suggest that in the short-term profitability can increase but we did have serious evidence that this, in the medium to long-term can lead to deteriorating economic performance and reduced capacity to innovate.

From the case studies, it was very clear that retail, for instance, benefits very much from part-time. The agricultural sector benefits very much from fixed term. In some cases –in most cases actually- in Europe, this counts also for the tourism sector.

4. Policy conclusions

In terms of policy conclusions: if one tries to set the formal rules to adopt legislation of a general nature, then inevitably some sectors benefit and some other sectors pay for the cost. We have a negative externalization that is usually not documented and most probably not even measured.

The effort to increasing flexibility leads policy makers to adopt legislation for more formal flexibility, more numerical flexibility, because this is what is easier to regulate. Functional flexibility can hardly be introduced by law. But introducing numerical flexibility one supports retail, tourism and agriculture not necessarily the manufacturing sector, which is a sector that needs a more long term, dedicated workforce.

So, flexibility should not be an orthodoxy, and should not be faced as a general case but it should be studied on a case by case basis, relating types of flexibility and the structure of each economy trying to become more flexible.

Besides, labour market flexibility (as all institutional reforms) is not necessarily influenced by the introduction of legislation. One may be introducing as many pieces of legislation as possible, that does not mean that the market will react. The Flexcom results suggest that the number of formal legal acts passed in a country are not at all related with its degree of flexibility. Some acts were not used at all. It is labour relations and informal rules that help adopt or not what legislation enables.

And the final and most important conclusion, is that apparently there is a problem of a kind of an innovation reservoir. There is strong macro- and micro-economic evidence that flexibility may hamper long term productivity growth. When you introduce financial flexibility in the long term companies will not invest in technology (they will not need labour saving substitution because labour is cheap), innovation will be reduced and this will erode the competitive advantage of companies regions and countries.

If this applies to advanced countries, where we studied it, it risks to be even worse for cohesion and accession countries, they have no innovation tradition or reservoir.

So in a condenses way the conclusions are that flexibility needs to be introduced carefully and effectively, taking into consideration how it affects the sectors, what the mechanisms are, how the informal rules are going to react to this legislation. If not there is a risk of doing a lot more harm than good.

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