

Stephen Bevan: The Flexible Firm: Managing the Employment ‘Deal’ With Core & Peripheral Workers

This paper looks at the productivity challenges facing European businesses and explores how the use of the so-called ‘Flexible Firm’ model of labour utilisation can improve workplace productivity without fatally undermining the ‘psychological contract’ with employees.

Why the Productivity Crisis?

Several explanations for the apparent slowdown in productivity in some developed Western economies have been suggested, though each can only offer a partial solution. Among them are:

- Changes in the composition of industry, notably the decline of capital intensive, high productivity, extractive industries such as oil.
- A decline in successful innovation, particularly in industries such as pharmaceuticals. This may contribute to falling productivity in some industries, but it cannot explain the drop in productivity in industries that are less sensitive to innovation.
- Change in the composition of investment, with much investment now taking the form of R&D, design, brand management, reputation, and software development. Over the last 20 years in the UK for example, such ‘intangibles’ have come to represent a far greater proportion than before of the economy’s investment – up from under 10% to 35%.
- A change in the capital to labour ratio brought about by lower real wages. As real wages fell during the recession, firms may have substituted labour for capital, with the hiring of lower productivity workers becoming increasingly worthwhile.
- The hollowing out of labour markets – a process whereby technology has led to the erosion of opportunities for workers with intermediate level skills.
- Underemployment is a phenomenon that has drawn much recent attention, with many workers now being employed for fewer hours than they would like. If the decline in productivity manifested itself only as a fall in output per worker, this might provide a convincing explanation.
- The increase in self-employment has been a significant part of the labour market story in several countries since the crisis. We still know relatively little about the nature of the new cohorts of self-employed workers. If they are concentrated in low productivity occupations, then the rising incidence of this category of work might play a part in explaining the decline in output per unit of labour employed.

These factors have been at play across most of the EU, to a greater or lesser extent, since the economic crisis. For example, between 2007 and 2011 productivity grew by just 1% in France and fell by 1% in Germany and Italy. Allowing for measurement errors, productivity across the major European economies has behaved in much the same way. This in turn helps explain why some of these economies, including the UK, have had much better labour market performance than we might have expected from past experience. In effect, they have kept more people in work over the recession and early years of the recovery by sacrificing productivity growth.

Time to Focus on Workplace Productivity?

It is important to acknowledge that, despite the macro-economic debate about productivity it is only through changes at organisation-level that improvements in productivity can be achieved and sustained.

In the global economy, where the prices of goods and financial and physical capital are increasingly determined and fixed in world markets, the main source of competitive advantage lies in the strategic use of human resources via the connection of workplace practices and productivity. Yet most discussions of productivity have been at the aggregate economy-wide level related to such factors as technological change, the ICT revolution and efficiency gains from trade liberalisation and the education of the workforce. However, it is in the workplace where such productivity related interactions actually take place.

The link between workplace practices and productivity is important for all stakeholders – employers, employees and governments. For employers, productivity is crucial for competitive survival under global competition. For employees it is important for job security and sustained real wage growth. For governments enhanced productivity is important for sustainable growth, reduced unemployment, tax revenue generation and for providing the means for a social safety net and social programmes in general. A focus on workplace work organisation, skills, motivation and labour utilisation strategies allows us to look at what some academics call ‘bundles’ of high-performance work practices which are known to differentiate high-productivity organisations from the ‘also-rans’. Recent analysis in the UK by Keith Sisson¹ has also suggested that a constructive climate of employee relations or social partnership may also make a significant difference to productivity rates.

This paper focuses on two aspects of flexibility. Firstly, how to best align costs with workflow to increase productivity and, secondly, how that flexibility can be achieved equitably. The aim is to realise economic benefits but not at the expense of the decency of working contracts, the creation of unstable hours or to the detriment of the underlying *psychological contract* of work. This approach is the foundation of high productivity cultures.

The need for flexibility starts from how **customers**, and consumers of services, have evolved over the last twenty years. Increasingly both businesses and consumers expect quicker and more flexible access to products and services, more customisation of and increased interactivity with the product service and supplier. Most workers when they are themselves consumers expect, for example, longer retail opening hours, multiple channel (omni-channel) access to suppliers, and opportunities for weekend and evening shopping. In turn, as service suppliers themselves, they face similar pressures from their own customers. As e-commerce grows, consumer demand for more customised fulfilment will grow and the need for greater and greater flexibility in both working hours and functions will be required.

In addition, **businesses** require flexibility by matching contracted hours to work flow and by maximising capital assets. This is seen, in some sectors, in daily, weekly, seasonal, and annual variation in customer demand and underutilised capital assets. For many businesses, improving productivity in a fixed cost environment brings many challenges, especially if there is rigidity in the firm’s ability to deploy its labour in an agile way. There is the need to view flexibility from the **employee perspective**. This can broadly be defined as the ability of a company to enable an employee to balance work and life at different times in their lifecycle. However, in some circumstances, these three perspectives on flexibility are, to some extent, in conflict: the challenge is to find ways of designing jobs and contracting arrangements that allows an equitable compromise between these competing pressures. In the context of these requirements, many businesses require four basic types of flexibility:

- **Numerical Flexibility** – Short term contracts, part time, casuals, shift patterns, overtime.
- **Functional Flexibility** – Variable tasks, multi skilled employees, teams, engagement to process.

¹ Sisson, K. (2014). *The UK Productivity Puzzle – is employment relations the missing piece?* Acas Policy Discussion Paper.

- **Organisational Flexibility** – Sub-contracting, franchising, linking costs to pay and transfer of risk.
- **Pay Flexibility** – Increase variable components based on business success parameters and changed pension commitments.

Some of these approaches can pose significant industrial relations challenges though these can be overcome through a variety of approaches. In broad terms these include:

- Purposeful but gradual changes to the labour contract over time, perhaps tied to business results.
- Labour recruitment from different labour pools to fit new types of jobs and consistent with the existing distribution of labour.
- Increased use of part time labour.
- Change processes grounded in the economic pre-requisites but which create work life balance through-out the working life cycle.

In terms of practical implementation, many of these strategies will be running in parallel. However – and depending on how these changes are implemented - this more diverse array of contractual arrangements can create uncertainty and distrust between employers and employees. Indeed, if a business is making a clear commitment to high employee value propositions on one hand but on the other is recruiting against fixed term or zero hours contracts, the industrial relations climate is likely to worsen. Any productivity gain arising from functional flexibility will be reduced as workers slow the adoption of new technologies or ‘game the system’. Short-term business behaviour which is judged to be in conflict with wider aims to promote an engaging and employee-centric work environment risks undermining the climate of industrial relations.

One example is the recent radical move to part time working models in the Dutch postal system (PostNL). Postal delivery work has been broken up into two-hour shifts, mail processing has been moved to largely part time and casual workforce, or split shifts between morning and evening work. Whilst this has met the need for numerical flexibility and wage-bill flexibility, it carries with it an inherent risk of conflict. In practice, it has changed the relationship between the employer and the employee, potentially weakening the underlying psychological contract and its potential to deliver higher productivity. It also requires the gradual migration of the labour pool to a part-time and freelance one and management has now realised that this now requires more effort in quality control processes and has resulted in higher labour turnover. In response to the need to match variable and unpredictable demand from customers, PostNL has, in effect, decided to transfer the bulk of the resulting risk to the workforce. By introducing an employer-centric approach to workforce flexibility it has signalled that its [psychological contract](#) with its workforce is now a predominantly ‘transactional’ one which places little or no value on employee morale or engagement. An excess of labour supply (with ample recruits able to take the place of those who do not want to work in such an environment) can often embolden businesses to adopt such practices to deliver short-term results, but often to the detriment of medium-term sustainability.

To avoid these issues and conflicts there is likely to be an advantage in adopting what might be called an explicit core-periphery model of labour engagement within a Flexible Firm². The fundamental feature of the model is that the business recognises three categories of employee: core, intermediary, and periphery. Here both employer and employee have different expectations and commitments to each of the three

²Atkinson, J, Manpower strategies for flexible organisations, Personnel Management, August 1984, pp 28-31.

groups³. Further, different types of flexibility are required from each group. The core features of the model are summarised in Table 1 below:

Table 1: Core & Periphery Model

	Core	Intermediary	Peripheral
Features	<ul style="list-style-type: none"> • Full time • Secure conditions • Career path • Training 	<ul style="list-style-type: none"> • Part time • Clear conditions • Committed relationship • Defined hours/task 	<ul style="list-style-type: none"> • Fixed short term • Basic contract
Flexibility Requirement	<ul style="list-style-type: none"> • Variable work task • Weekly hours • Limited overtime • Pay-performance 	<ul style="list-style-type: none"> • Part time hours • Committed 	<ul style="list-style-type: none"> • Flexible and limited commitment on hours • Short term change
Labour Pool and Aspiration	<ul style="list-style-type: none"> • Traditional full time worker • Job progression stability loyalty 	<ul style="list-style-type: none"> • Retirees/Carers • Outsourced contractors • Planning work life balance 	<ul style="list-style-type: none"> • Starter jobs • Students • Transactional income

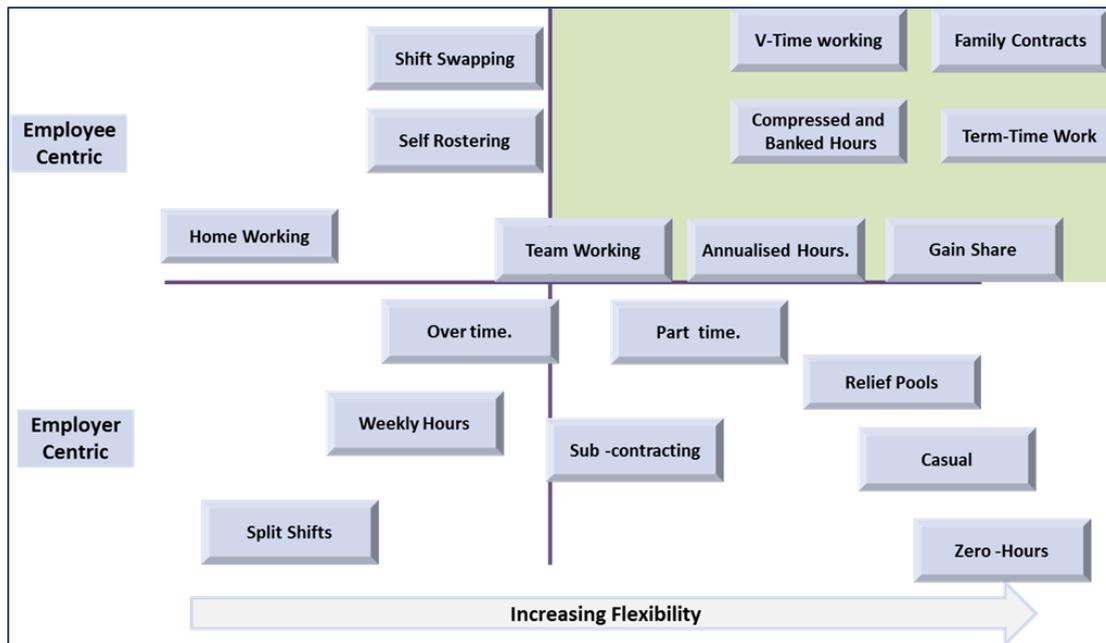
This labour model has the advantage of requiring specific types of flexibility for specific commitments and reinforces this by seeking to recruit from labour pools whose own aspirations align with the value proposition on offer. However for the model to have credibility with core workers the balance of total employment cannot be too far to the business extreme as it will be seen as a long-term attack on employment benefits and rights. It must also be clear how workers who aspire to move from a more ‘contingent’ labour pool into one where there is more security – thus the boundaries between these categories must, where possible, have a degree of permeability.

Companies need to reconcile the requirements for the various forms of flexibility, the complexities of industrial relations environments, and the need to build alignment between employee commitment and the organisation’s goals. Exploring the opportunities created by employee-centric thinking is one new and creative way of potentially meeting these objectives.

As Figure 1 below illustrates we can broadly categorise these ideas firstly as either employer- or employee-centric and secondly by the degree of flexibility they give in terms of aligning workload to working hours.

³Reilly, P, *Flexibility at Work: Balancing the interests of employees and employers*, Aldershot: Gower Publishing, 2001.

Figure 1 Employer & Employee-Centric Forms of Flexibility



Source: Bevan, King and Toime, *The Productivity Imperative: Towards a 21st Century Model of Postal Service Delivery*, London: The Work Foundation, 2015

Employer-Centric Flexibility

These initiatives were the first to be deployed in sectors where productivity growth and cost controls were the primary consideration, especially if productivity gains from technology have already been achieved. They have become increasingly common and have increased during the recent economic recession and with the growth of competition and uncertainty over the strength of consumer demand. These employer-centric productivity tools are effective at creating both time and remuneration flexibility. They allow worker deployment, shift scheduling and pay rates that match new efficiency oriented workflow designs and the need to vary the cost base of the business with fluctuating (and sometimes falling) demand.

However, these techniques also present new risks that may adversely affect productivity. For example, they can de-skilled job, reduced employee commitment, increased employee turnover, and undermined the quality of service. In addition, they present significant industrial relations issues and implementation challenges which may not be in keeping with the publicly stated employee value propositions of many companies. Whilst they can be an effective part of achieving productivity and profitability ambitions in the short term, if they come to dominate the contractual mix they can create longer term adverse quality and productivity implications.

This discussion of employer-centric flexibility measures illustrates that, while they have a role in creating more flexible contracting and work alignment, if used uncritically or in a draconian way they can be self-defeating in terms of creating long term productivity, real wage growth, customer loyalty, and employment commitment and purposefulness.

Whilst recognising the absolute productivity imperative and requirement for operational flexibility and cost to work alignment, a number of companies are also developing a range of employee-centric flexibility tools which seek to meet the business imperatives but do so within the context of social partnership and sustainable employee value propositions.

Employee-Centric Flexibility

Employee-centric labour arrangements are measures that take into account employee aspirations in terms of work life balance and time ‘sovereignty’. This can be achieved either through contracting formats or job design. They seek to create time flexibility that matches attended hours to work flow but also enable workers to ‘flex’ their working time to fit into wider family or lifestyle commitments. The aim is to increase productivity for the employer and obtain greater employee engagement by offering employees the opportunity to contribute ways to achieve this. Employee-centric job designs are essentially practices that seek to enrich the employees working day and to create degrees of autonomy for groups of workers to manage tasks and meet business targets within clearly defined objectives, standards and processes. The aim is to maximise employee engagement through enhanced psychological commitment to work and so to drive sustained productivity growth.

This is not to say all forms are appropriate to all organisations at all times. Indeed the appropriateness of the flexibility ‘tool kit’ is contingent on both the macro business environment at a given time, the business challenges the organisation faces and the maturity of the employee and industrial relations culture. The key issues to be considered include in becoming more ‘employee-centric’ include:

- **Business perspectives:** effect on productivity, absenteeism, and recruitment.
- **Work flow balance:** customer demands and automated work environments required in some sectors mean that many work processes are not limited to in standard ‘9-5’ hours work schedules. The question is how to optimise both productivity improvement and work life balance.
- **Labour legislation and regulations:** these may constrain (or legitimise) flexibility options.
- **Industrial relations environment:** does this allow a mutually constructive debate on balancing employer and employee flexibility requirements? If not, how can employer led initiatives offering more employee flexibility start to create the environment of constructive dialogue around common business objectives?
- **Labour market ‘buoyancy’:** conditions vary across the economic cycle and across different regions and countries. What subsets of labour pools exist that may suit flexibility and workload flows, such as desirability for part time work, and is it a buyer or seller labour market?

Workplace initiatives to improve labour productivity – especially in ‘knowledge-businesses’ – can no longer rely on an approach based on the idea of ‘sweating the assets’ of the organisation. The new productivity agenda has, in addition, to look at employee-centric work practices and organisational development. There is no dispute that productivity – output per hour worked – has to be a business priority. However, for an employment proposition to be attractive to workers it must encompass appealing features and deliver high quality as well as greater output. A productivity strategy that opportunistically erodes working conditions and undermines real wages in a period of labour surpluses cannot be a long term business success. The more employee-centric alternative promoted here searches for ways to ensure a well-paid, high skill, and high productivity workforce and to deliver a sustainable, ‘win:win’ solution based on mutual advantage.