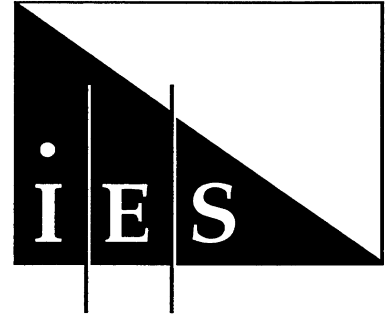


**FLEXIBILITY, UNCERTAINTY  
AND  
MANPOWER MANAGEMENT**

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# **FLEXIBILITY, UNCERTAINTY AND MANPOWER MANAGEMENT**

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# **Flexibility, Uncertainty and Manpower Management**

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## **1 Introduction**

- 1.1 At the 1983 IMS Senior Executives Conference, considerable interest was generated in the opportunities for introducing new ways of organising labour which loosened the contractual bonds between employer and employee; for example, through more extensive use of out-sourcing, short term contracts, teleworking and temporary staff. The advantages, during a period of economic uncertainty, might include reduced overhead costs and greater flexibility in the use of labour over time, but the disadvantages recognised by the conference included questions of control, group identity and security.
- 1.2 Having raised the issue of achieving a more flexible labour force, the conference could itself do nothing to take it forward. However, it was followed up by the establishment of a pilot research project under the auspices of the Co-operative Research Programme. This was intended to serve two purposes; first, to explore the range of issues raised by shifts in labour inputs towards greater flexibility, and thereby to give an initial assessment of the direction of such change, the implications for employers and employees and the potential for further change. Second, the project was to define methodologies for further, more detailed research to be conducted in the future.
- 1.3 This report meets the first of those aims. It presents the findings of the research conducted under the CRP remit, which involved detailed discussions with nine employing organisations. This was supplemented by less detailed discussions with a much larger group of employers and trade unions, with whom the author was involved on other research during 1983, and who may have been surprised to find the interview suddenly turning towards flexibility and the organisation of work. Further discussions were also held with five suppliers of temporary labour, and with academics working in this and related areas.
- 1.4 My thanks are due to all participants in the research, whether willing, unwilling or unaware, but the conclusions are mine alone. They are outlined in the next chapter, and what they suggest is that in the UK we are beginning to witness important changes to orthodox ideas about work organisation and the deployment of labour. As yet such changes cannot be said to add up to new and coherent employment strategies on the part of the employers. But what is unmistakable is a managerial imperative to secure more flexibility

from the labour force, and a readiness to explore new ways of achieving it. A depressed external labour market has provided a favourable arena within which those explorations can take place, but the continuation of recession does not appear to be a necessary condition for these developments to continue. In short, the old meanings that we attach to words like job, employment, career and occupation will increasingly fail to describe the reality of the work situation. The consequences for employer and employee alike will be profound.



## 2 Summary

- 2.1 Under the combined influences of profound economic recession, uncertainty about market growth, technological change in both products and production methods, and reductions in working time, British employers are beginning to introduce novel and unorthodox formations in their deployment of labour. They mark a significant break with the conventional, unitary and hierarchical internal labour markets which dominate manpower management both in theory and in practice. These innovations are intended to secure greater flexibility from the workforce, in terms of its responsiveness both to the level of economic activity (numerical flexibility) and to the nature of that activity (functional flexibility).
- 2.2 In our view such changes are as yet pragmatic and opportunist, rather than driven by a conscious strategy. As a result they are greatly assisted by the current stagnation of the labour market and the resulting industrial relations advantage conferred on most employers. We do not expect such changes to be merely temporary expediences, however, as their perceived advantages to employers are likely to persist beyond the current labour market climate. Because of this, such marginal changes seem to us to be the precursors of a new model for firms' organisation of their labour forces which we can expect to develop more strongly in years to come.
- 2.3 Although there are strong sectoral and company-centred differences in the precise forms favoured, the emerging model is one of horizontal segmentation into a core workforce, which will conduct the organisations' key, firm-specific activities, surrounded by a cluster of peripheral groups. Their twin purpose is to protect the core group from numerical employment fluctuations while conducting the host of non-specific and subsidiary activities which all organisations require and generate. The core group is required to be functionally flexible; the numerical flexibility secured from the use of peripheral groups provides the core group with employment security as the basis of their functional flexibility in the face of change. Peripheral groups may be made up of employees or of workers bought in on a sub-contract basis. The exploitation of a range of alternative contractual and working time arrangements permits firms to secure precisely the number and type of such secondary workers that they might require at any time.
- 2.4 There are strong job-related, technical, institutional and labour market

influences on the deployment of unorthodox manning strategies, but the major influence on the choice is likely to be the chosen business strategy of the organisation. In order to implement such manning strategies firms need to consider the most appropriate formations of core and peripheral groups, and to introduce terms and conditions of employment which reflect and encourage the fulfillment of that strategy within each of the segments. This will require the development of different styles of management for each segment.

- 2.5 The impact on employees is likely to be divisive, with the employment security, promotion prospects and conditions of employment of core group workers differentiating them markedly from peripherals. As trade union organisation among such peripherals is likely to be undermined, this may itself increase the differentiation. We envisage no necessary incompatibility between management and union aims for core group workers, however.
- 2.6 If firms are to take a more proactive stance on the achievement of flexibility in this way, then they will need to be much clearer about their specific aims, and about the precise configuration of groups which is appropriate to them. There is also a need to develop new approaches to recruitment, selection, training and severance, in order to ensure that each segment is appropriately manned. As yet we have found few firms who have begun to address themselves seriously to such questions.

### 3 A Changing Orthodoxy in Employment Patterns?

- 3.1 It is often useful to discuss employment structures in terms of primary and secondary labour market characteristics. According to conventional usage, primary labour markets are those for employees offering firm-specific skills and experience which firms seek first to generate (through training and development), and then to retain (through offering promotion opportunities, incremental pay systems and attractive terms and conditions). Primary labour markets are therefore usually internal labour markets.
- 3.2 Secondary labour markets are those for employees who have either general, transferable skills or few skills at all. As a result, they involve the employer in little training, and retention is not usually a priority as such workers can fairly easily be recruited. As skills are not firm-specific, there is little need for internal development, and as a result secondary labour markets are usually closely linked to the external labour market.
- 3.3 This general distinction is used throughout this paper, but with an added dimension; in primary jobs the demand for labour is fixed in the short and medium term, whereas in secondary jobs it is variable. What this means is simply that as output declines (or growth rates slow) employers do not lay off their primary workforce as quickly as they do their secondary workers. Of course, many factors can cut across this distinction (union resistance, management culture, the opportunities for less dramatic forms of adjustment etc), but in general terms the relationship persists. Even primary labour will eventually be laid off if recession continues long enough, but for secondary jobs the adjustment is more direct and immediate.
- 3.4 The dichotomy usually established in academic literature is **between** firms; with primary employers (offering job security, career development, firm-specific training and an extensive benefits package) distinguished from secondary employers (hiring and firing directly from the external labour market, for jobs with little training, job security or internal promotion, and poor conditions of employment). In our view, this simple distinction has never truly existed. Rather, the important distinction is between primary and secondary labour markets **within** firms, since in most primary firms, secondary labour markets can also be found. For example, in banking, a stable, career-oriented, male-dominated internal labour market coexists with a clerical labour market which is secondary in most respects (relatively high turnover,

little career progression, restricted training etc). Of course, in the case of the banks, continued growth in the product market has obviated the need for differential approach to severance, and employment security is enjoyed by most secondary workers also.

- 3.5 What this implies is that any changes to firms' manpower strategies are unlikely to be reflected in wholesale shifts from primary to secondary forms of employment, but in a changing balance between such forms within the organisation. We shall therefore begin by considering the factors which determine how such a balance is achieved, and go on to consider how that balance might be altered.

### **Establishing the Orthodoxy**

- 3.6 Research and in-company advisory work conducted by IMS, in addition to the research underpinning this project, would suggest that there are five major factors influencing firms' choices about their manning strategies. They are:

- \* **Technology:** Crude technological determinist theories about manpower systems can readily be undermined by the observed variety of manning practices between firms using similar technologies; for example, one of the firms participating in this study manned its numerically controlled machine tools using Skillcentre-trained semi-skilled operatives, recruited directly from the external labour market; many others use craftsmen, recruited through the apprentice training system to operate exactly similar equipment. But, nevertheless, the technology in use still provides some explanations for manning practices; for example, process industries may require fixed minimum crews irrespective of the level of output, and many industries require minimum maintenance and ancillary functions if they are to operate at all. Such constraints do not generally extend to all employees however, and, as a result, the internal labour market may be designed to supply such key groups, central to the productive activity of the organisation.
- \* **Skill Specificity and Training Costs:** Similarly, manpower systems are strongly influenced by the need to supply and retain firm-specific skills. By definition these are not readily available on the external labour market. The more they are both firm-specific and highly skilled, the stronger will be the pressure to build a primary manpower system to supply them. The more expensive the training involved, the more emphatic

is the employer's need to retain such labour.

- \* **Labour Shortage:** For those occupations which are difficult to recruit for market reasons (such as shortcomings in training provision, unanticipated increase in demand, etc) there are pressures to develop primary systems. The capacity of the firm to reproduce, recruit and retain such scarce skills is therefore enhanced and the danger of shortages, or potential shortages, reduced.
- \* **Institutional Pressures:** Such pressures arise either as a result of employee organisation or through the growth of a strong company-specific employment culture which may become relatively autonomous. Collective agreements over pay, conditions, working practices and job security are strong influences on manning practices, but are not independent of economic circumstances.
- \* **National Training Provisions:** Internal labour markets are heavily structured by entry ports, which themselves are influenced by the output of national education and training programmes and conventions.

3.7 There are obviously more influences on a firm's choice of particular manning strategies; for example, some foreign owned UK firms are more strongly influenced by their parent company ideology than by domestic considerations, while some public sector employers may be obliged to use manning practices stipulated by statute. Nevertheless in most cases, the five pressures identified above represent the ground rules around which manning strategies tend to conform. But the operation of such ground rules is not independent of the product and labour market environment in which they operate, and it is here that we should look for the immediate sources of change.

### **Pressures for Change**

- 3.8 Although there have been some differences between the various sectors of the economy during the recession, some important common experiences and perspectives can be found in most UK firms. They relate to the impact of recession, the impact of new technology and the effects of recent changes in working time patterns, which we shall discuss in turn.
- 3.9 International and domestic **recession**, market stagnation and lower than anticipated growth have led to a tightening of competitiveness in many

product markets, and thus to a managerial priority in increasing company competitiveness. At a time when investment has been curtailed, this has involved reliance on increased labour productivity and reductions in unit labour costs. Allied to this has been a widespread and substantial loss of jobs as firms reduced their employment levels, often by unprecedented amounts. This enforced severance has been as expensive in cash terms as it has been destructive of long term employee morale and commitment. Finally, another result of the severity of this recession has been great uncertainty about the pace and durability of renewed expansion. What these related effects have produced is a reluctance by employers to return to levels of employment which they fear cannot be sustained in even the medium term. As a result they are seeking to find ways of making employment both cheaper and more variable at the margin.

- 3.10 Despite recession and the downturn in investment which has accompanied it, **technological change** has accelerated with the growing implementation of microelectronic and other new technologies in both products and production processes. The continuing reductions in the price of such innovation (plus the increasing competitiveness referred to above) imply that the effect of this and other new technologies on employment will be cumulative and substantial. A divergent effect on job content can be observed; on the one hand the systematisation of many functions as a result of process change has produced the deskilling of a wide range of jobs, primarily among operators of the technology. But at the same time, among design, maintenance and other related support functions the effect of technological change has been to increase the level of skill and sophistication required, and to blur the boundaries between previously separate functions. In adjusting to these technological pressures, firms are moving in their different ways and with varying degrees of speed and success, from differentiated, specialist and hierarchical job structures to flatter, integrated and functionally-based ones. Anticipation of further technological change has led firms to seek a workforce capable of adjusting successfully to as yet unknown forms of deployment, and to attempt to build in this requirement to their manning strategies.
- 3.11 Thirdly, both overt and covert restructuring of **working time** has been practised on a substantial scale in the UK in recent years. As recently as 1971 the conventional pattern of working time among UK male workers was a 44 hour week, for 47.5 weeks each year, for about 48 years - a total of around 100,000 working hours in a lifetime. By 1981, according to NES data, this had been cut to 42 hours per week for 46 weeks a year, for 46 years - a

working lifetime of 88,000 hours - and a 12 per cent reduction in working time in a decade. Although it is impossible to predict how far such pressures for overt reductions in working time will continue, many commentators forecast the evolution of a 37 hour for 37 weeks for 37 years paradigm - which represents exactly half the 100,000 hours noted above. Clearly if employers are to accommodate such reductions then they are only likely on the basis of major restructuring of worked time, often in quite unconventional ways. This is already happening of course; the full time employed worker is already a false image of what work means for many workers. Of the UK's 30 million adults of working age, only about 16 million fall into this conventional mode: 2.5 million are self-employed and this is growing; almost 5 million work part time and this too is growing; the remaining 3.5 million are engaged in unpaid domestic work. The important implication of these changes for firms is that the successful firm will design a manning strategy which incorporates this diversity and turns it to advantage. The remainder are likely to have it forced on them anyway.

- 3.12 These three important sources of strain on conventional ideas about manpower management are producing a changing emphasis in the employment strategies of firms. Employers are increasingly looking for a workforce which can respond quickly, easily and cheaply to changes in product or process which are as yet unknown; such a workforce will be able to contract as readily as it expands to match market requirements; such a workforce must not result in increased unit labour costs at a time when worked hours are falling; finally, it must be capable of deployment over time to meet the needs of the job exactly through recourse to a range of working time options.
- 3.13 There are also three important factors permitting, rather than enforcing, a shift in manning strategies. These are the reduction of fears about generalised labour shortage, new attitudes to work emerging among the labour force and a shift in the balance of industrial relations power.
- 3.14 In most **external labour markets** high levels of unemployment have produced a situation where employers are less concerned about generalised labour shortages and are experiencing very high levels of retention of employees in most occupations. This is not to say that specific skill shortages may not still be experienced or feared; it is simply to assert that the massive labour surplus available in most occupations and most regions has removed any need whatever for generalised labour hoarding.

- 3.15 Such conditions also affect **job seekers**. High unemployment and the changing composition of the labour force may have depressed the expectations of potential recruits about the employment conditions that they would be prepared to accept. Employers generally believe this to be the case, particularly in small firms, and to such an extent that in some cases they have not limited the offer of poorer conditions to new recruits, but have included existing employees.
- 3.16 Finally, the **industrial relations** scene has witnessed substantial changes as declining membership and reduced bargaining strength have limited trade unions' ability to enforce conditions of employment which are no longer acceptable to employers. This has been particularly acute among unskilled and semi-skilled employees.
- 3.17 To summarise, we have considered three kinds of influence on manning strategies, and in particular on the balance between primary and secondary labour in firms - the ground rules, the pressures to alter the conventional outcome of those ground rules to secure greater flexibility, and the diminished constraints on such an alteration. In the two following chapters we examine what it is precisely that employers are seeking to achieve through flexibility, and how they are going about it. Two important questions which must be asked at this stage are, how far might such changes be merely temporary aberrations from the norm, to which firms will revert in due course? and, how far are firms consciously attempting to achieve new strategies rather than simply taking advantage of temporary labour market conditions? For the moment we can only say that if the ground rules have not changed significantly and if the economic pressures and constraints identified are themselves only temporary, then we should certainly expect conventional manning practices to reassert themselves simply because of the pragmatic and opportunistic stance (rather than a conscious strategy) that most firms are taking on this issue. But none of these conditions can be taken for granted. In particular, firms may well adopt a more proactive stance when they have become more familiar with and confident about the terrain, as will be discussed later in the paper.



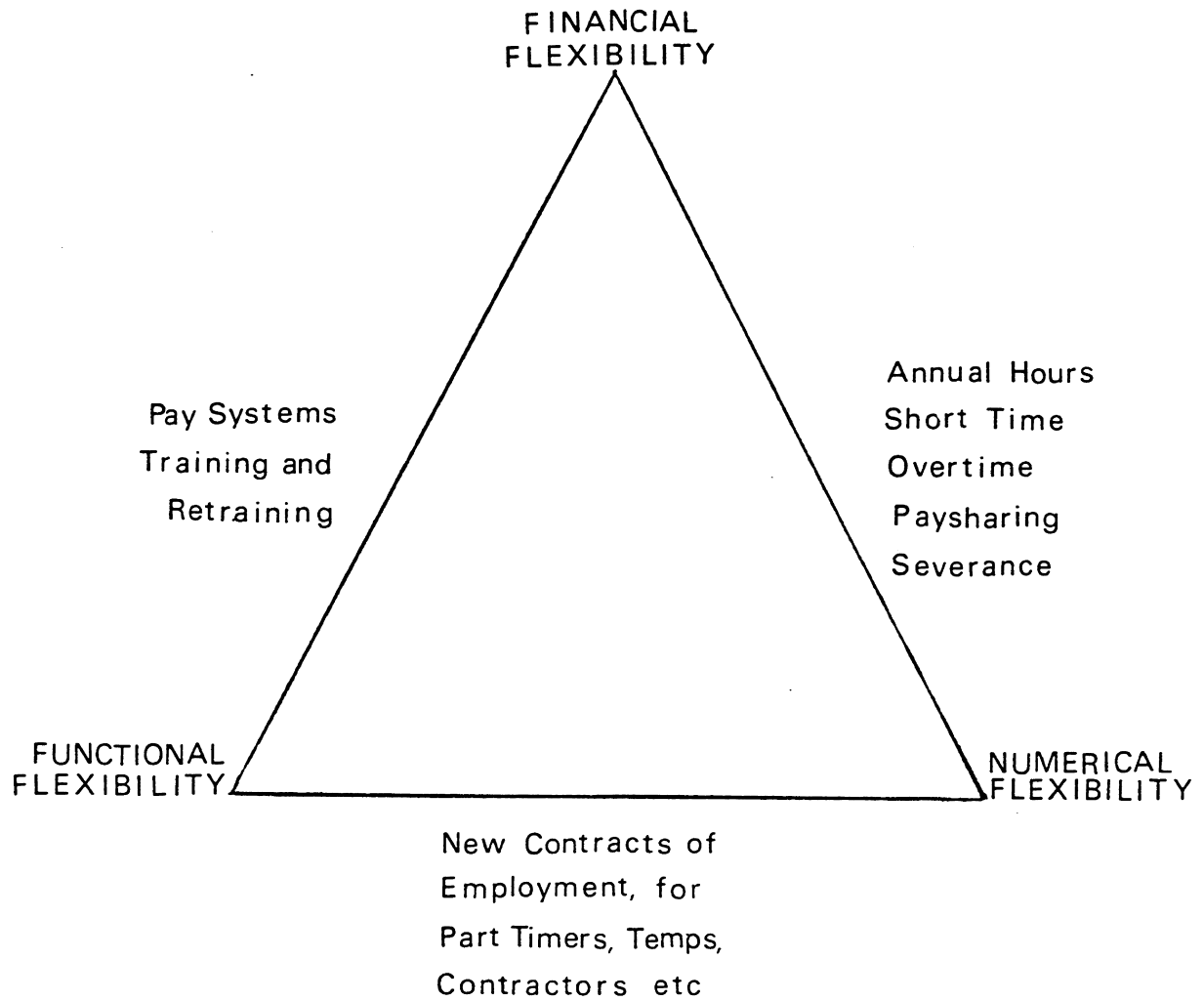
#### 4 What Does Flexibility Mean for Firms?

- 4.1 The capacity of labour markets to adjust to changes in the structure of final demand, and changes in technology, is widely recognised as a key element in the achievement of economic growth. The sources of such adjustments have principally been thought of as movements of workers between enterprises, sectors, regions and occupations in such a way that the productive potential of the labour force is optimised. As a result, a good deal of emphasis has been placed on the rigidities in local, regional and national labour markets (such as housing, training, social security, pension and labour market intelligence constraints). Rather less attention has been placed on the adaptive capacity of firms' internal labour markets as a source of labour market flexibility.
- 4.2 This is not surprising as public policy makers often take internal labour markets as beyond their capacity to influence, and employers tend not to publicise the changes they are introducing. The research conducted into this area by IMS suggests that employers are really seeking to achieve three kinds of flexibility - functional, numerical and financial.
- 4.3 **Functional Flexibility** is sought so that employees can be redeployed quickly and smoothly between activities and tasks. This might mean the deployment of multi-skilled craftsmen moving between mechanical, electrical and pneumatic jobs; it might mean moving workers between indirect and direct production jobs; or it might mean a complete change of career from, say, draughtsman to technical sales. As products and production methods change, functional flexibility implies that the same labour force changes its activities with them, in both the short and medium term.
- 4.4 **Numerical Flexibility** is sought so that worked hours can be quickly, cheaply and easily increased or decreased in line with even short term changes in the level of demand for labour. The end result would be that at any given time the number of workers deployed exactly matched the number needed. There are two ways that such numerical flexibility could be achieved. On the one hand it may simply require greater freedom for employers to hire and fire at will, which could, for example, be achieved through changing the contractual relationship between worker and employer (towards a fee-for-work-done relationship, towards a temporary contract of employment, or towards the deployment of part time labour outside the scope of the Employment

Protection Act). On the other hand, achieving numerical flexibility need not have such potentially brutal implications for employees, because it may require no more than the deployment of worked time within shift patterns in a more flexible manner - for example, through the use of annual hours contracts, flexible rostering, variable shift lengths, call-out arrangements, etc.

- 4.5 **Financial Flexibility** is sought for two reasons; first, so that pay and other employment costs reflect the state of supply and demand in the external labour market. It is well known that the UK labour force demonstrates a high degree of nominal as well as real wage rigidity, and of course there is little novel in the suggestion that employers wish to hire labour as cheaply as possible. The significance for our purposes lies more in relativities and differentials between groups of worker than in an across-the-board push to reduce wages, and the implications include a continued shift to plant level bargaining and widening differentials between skilled and unskilled worker. Secondly, and probably of greater importance in the long term, financial flexibility means a shift in the structure of pay systems towards pay and remuneration systems that facilitate the operational flexibility sought, such as assessment-based pay systems in place of rate-for-the-job systems, to encourage functional flexibility.
- 4.6 The participants in our research were each seeking to achieve different combinations of these three forms of flexibility. If any pattern emerged it was that the more capital intensive firms placed greater emphasis on securing functional and financial flexibility, while more labour intensive firms were more concerned with numerical and financial flexibility. Our sample is of course far too small to come to any fixed conclusions here; it would be anticipated that the stress placed on each form of flexibility would vary from firm to firm, and from occupation to occupation within the firm. Similarly, the method of implementation would vary considerably, not always through the usual collective bargaining mechanisms.
- 4.7 However, the issues to which they give rise are more consistent, as Figure 1 shows: where firms are looking for greater **functional and numerical flexibility**, the result is often the introduction of new forms of contract of employment - for temporary workers, part timers, sub-contractors etc. Where **financial and functional flexibility** are sought, the result might be the introduction of new pay systems and new training and retraining policies. Attempts to combine **financial and numerical flexibility** lead to new combinations of working time, perhaps based on annual hours contracts,

Figure 1



jobsharing and paysharing etc.

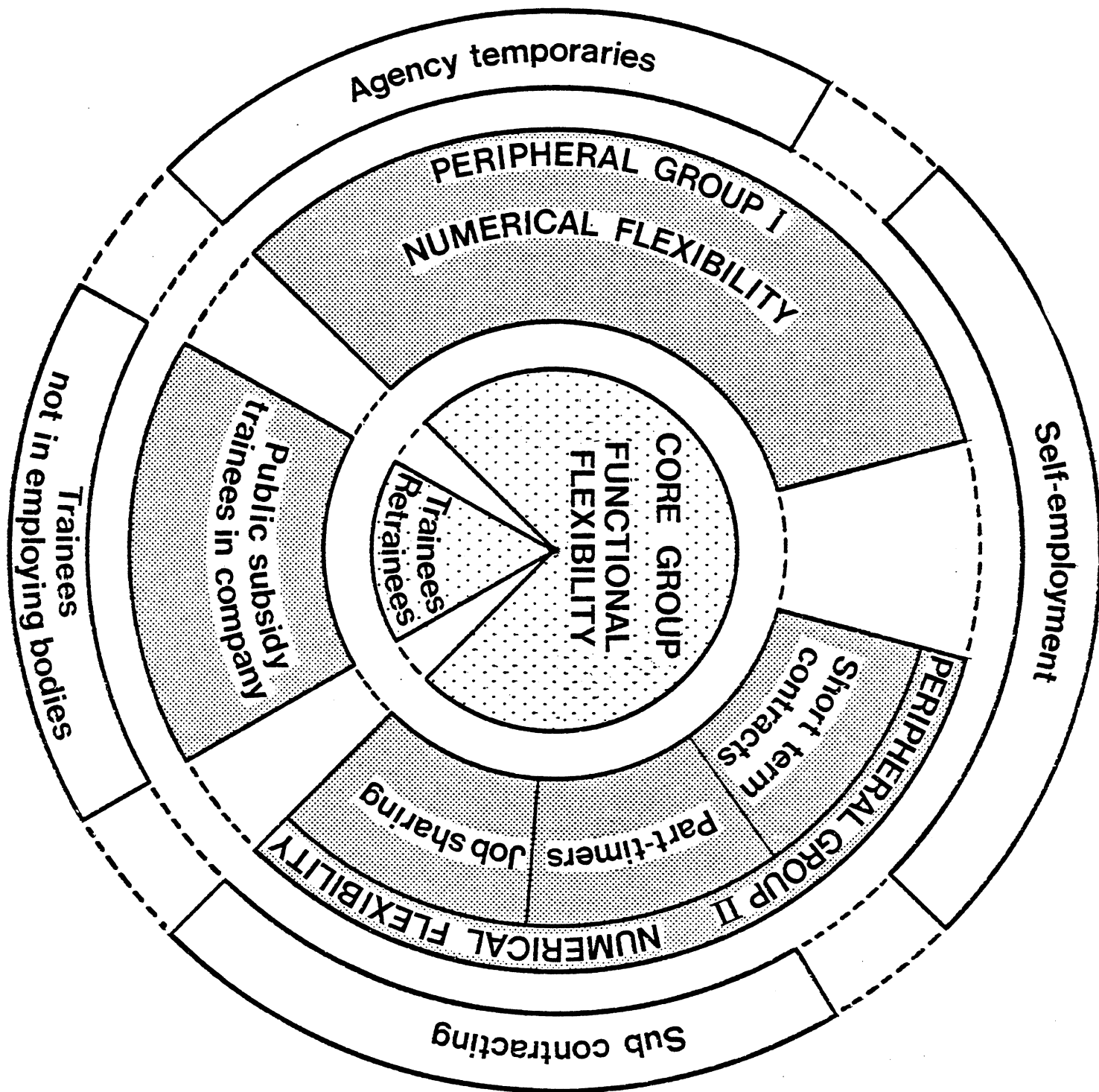
- 4.8 In themselves, there is little that is new in any of these management aspirations, but what is new is for firms explicitly to seek all three forms of flexibility consistently, and as part of a basic manning strategy, rather than an 'additional extra' received through a productivity deal. Our research suggests that this is now happening on a wide scale, and that 'flexibility' is beginning to replace 'rationalisation' as the main aim of management thinking about manpower. How this is being translated into practice is discussed in the following section.

## **5 The Flexible Firm**

- 5.1 For many employers, a change in the organisation of work is seen as the best way of achieving greater flexibility from the workforce. As a result a new employment model is beginning to emerge which makes it much easier for employers to secure the three kinds of flexibility discussed in section 4.
- 5.2 The new model involves the break up of the orthodox hierarchical structure of the firm in such a way that radically different employment policies can be pursued for different groups of worker. The new divisions are much less likely to be based on blue or white collar distinctions, but rather on the separation of jobs which are specific to a particular firm, from those involving only general skills. Such firm-specific skills might range from production manager to maintenance occupations, and the non-specific from systems analyst to driver. Both can be found at virtually any level of skill, status or earnings in a company. Firms seeking to maximise flexibility will increasingly try to separate jobs on such grounds.
- 5.3 The result of such a process is shown in Figure 2; it represents the organisational structure which many UK firms are now moving towards. The new structure involves the break-up of the labour force into increasingly peripheral, and therefore numerically flexible, groups of workers, clustered about a numerically stable core group which will conduct the organisations' key, firm-specific activities. At the core, the emphasis is on functional flexibility; shifting to the periphery, numerical flexibility becomes more important. As the market grows, the periphery expands to take up slack; as growth slows, the periphery contracts. At the core, only tasks and responsibilities change; the workers here are insulated from medium term fluctuations of the market, whereas those in the periphery are more exposed to them.

### **Core Group**

- 5.4 Workers here are full time permanent career employees; for example, managers, designers, technical sales staff, quality control staff, technicians and craftsmen. Their employment security is won at the cost of accepting functional flexibility both in the short term (involving cross-trade working, reduced demarcation, and multi-discipline project teams) as well as in the longer term (changing career, retraining etc). Terms and conditions of



employment are designed to promote functional flexibility through single status, assessment-based pay systems and so on. But the central characteristic of this group is that they possess skills and experience specific to the firm, which cannot readily be bought-in. The firm is therefore seeking to separate them from a wider labour market.

### **First Peripheral Group**

- 5.5 These workers are also full time employees, but enjoying less job security or access to career opportunities. In effect they are offered a job, not a career. They might have clerical supervisory, component assembly and testing occupations and their jobs are unlikely to be either highly skilled or specific to the firm. As the jobs are de-skilled and not firm-specific, little training or retraining is needed and functional flexibility is not required. As their link with the external labour market is direct, both numerical and financial flexibility are more easily achieved. Lack of career prospects, and systematisation of job content around a narrow range of tasks, together with a recruitment strategy directed particularly at women, encourage a relatively high level of labour turnover, which itself facilitates easy and rapid numerical adjustment to product market uncertainty.

### **Second Peripheral Group**

- 5.6 If the firm needs to supplement the numerical flexibility of the first peripheral group with some functional flexibility, then a second peripheral group can be distinguished. They are on contracts of employment designed to combine the two. Part time working is probably the best example of this - the jobs having all the characteristics of those in the first peripheral group, with their deployment often structured to match changing business needs - twilight shifts, overlaid shifts or peak manning etc. Jobsharing, short term contracts, public subsidy trainees and recruitment through temporary contracts all perform a similar function - maximising flexibility while minimising commitment to the worker, job security and career development.

### **External Groups**

- 5.7 Where jobs are not at all firm-specific - because, for example they are very specialised (eg systems analysis) or very mundane (eg office cleaning) - the firm is increasingly likely to resource them outside, through the use of sub-contracting, self-employed jobbers, temporary help agencies etc. This not

only permits great numerical flexibility (the firm deciding precisely how much of a particular service it may need at any time), but it also encourages greater functional flexibility than direct employment (as a result of the greater commitment of the self-employed to getting the job done, the greater specialisation of sub-contractors, or the relative powerlessness of the worker in this context, according to your taste). Privatisation in public sector agencies is perhaps the most well known aspect of this trend to the use of outsourcing, just as the development of networking and teleworking is perhaps the most radical break with past practices, but both are only part of a much broader externalisation of functions across broad areas of the UK labour market.

## Training Groups

- 5.8 Within each of the groups identified above there is a requirement for training; among core group workers a substantial proportion are likely to be engaged in training and retraining at any one time, in order for their functional flexibility to be achieved. Among peripheral and external groups, the rationale for training is somewhat different and unlikely to be given such high priority by the firm itself. As a result, we would expect such training to rely more heavily on public or individual, rather than corporate, initiative. This may concur with the organisation of the internal labour market along concentric lines however; for example, trainees sponsored under YTS or the Adult Training Strategy may form one segment of the peripheral group - training within the firm, yet not fully part of it, their eventual placement can be postponed until the completion of training. Clearly the firm's main training interest is unlikely to extend much beyond the core group, and this can lead to training deficiencies, particularly among the external groups. The model outlined above shows retraining taking place here, but this represents much more of an identified need than an observed practice.

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- 5.9 Not all firms are seeking to develop exactly this sort of model, of course. Rather than systematically moving in this direction many firms are simply taking advantage of a depressed labour market and implementing some aspects of the model opportunistically without any long term strategy. At the same time, differences between sectors are leading to big differences in the balance between the four groups which firms are seeking. For example, in **Construction**, with the growth of management contracting, the emerging



model is for a very small core group allied to a wholly external labour force, made up of self-employed and other sub-contractors; in the **Electronic Engineering** sector, by contrast, all four groups are clearly developing. In the **Financial Services** sector, there are no external groups, but the emerging pattern is based on a static core, a small and fairly stable first peripheral group and considerable growth of part time employment in the second peripheral group. The pattern is very much the same in **Retail Distribution** and in many of the **Personal Service** industries.

- 5.10 Any superficial similarities between these developments and the Japanese approach to employment may be misleading. The Japanese have responded to economic uncertainty by expanding their core group of lifetime employees, seeking to limit the extent of hire and fire; the British approach seems to be to restrict the size of the core group. The Japanese have achieved systematic redeployment of labour within the core; the British are too often still striving to achieve even enforced redeployment.

## 6 Implementing Flexibility

- 6.1 The extent to which firms are able to implement changes to their employment strategies, and the precise combinations of such innovations, are severely constrained in the short term. Probably the most important such constraint is a strong preference for gradualism, particularly where no opportunities for 'a fresh start', such as the opening of new plants, can readily be exploited. The corollary of this is that such changes cannot readily be undone - therefore managers need to have some confidence about the likely duration of changes, particularly to labour market conditions, before they are prepared to commit themselves.
- 6.2 Two distinct problems confronted the managers with whom we discussed the implementation of such a reorganisation of work. First, there was an evident need to decide which functions and activities would be manned in which way, and second, there was the need to devise appropriate styles of management for each group. We examine these in turn below.

### Determinants of Change

- 6.3 Few of the firms with whom we spoke had been able to establish clear criteria for allocating functions to particular segments. In many of them there appeared to be considerable conflict between a 'suck-it-and-see' school and a 'put-everything-out-to-contract' school. Nevertheless certain determinants of, and constraints on, reorganisation can be identified.

#### 1) Job Centred Factors

- 6.4 Many jobs cannot readily be relegated to peripheral or external status. Those jobs which can easily be relegated appear to have the following characteristics:
- \* **Restricted training requirements:** the cost and duration of training places a major constraint on firms' readiness to consider new approaches to manning. Speed of training may be particularly important if the anticipated tenure of peripheral workers is low. Even highly-skilled jobs can have low training requirements provided that educational output is (a) appropriate and (b) exploited. Public training (such as YTS) designed to produce transferable skills may reduce the costs and duration of initial

training in the firm, and hence extend the likely constituency of secondary jobs.

- \* **Internal jobs:** firms generally prefer to retain jobs involving contact with the public, customers, suppliers, associates and outside bodies, within the core group.
- \* **Prescribed and defined tasks:** jobs with little autonomy or cumulative decision-making aspects might be organised in the peripheral group, while those involving tasks which cannot readily be systematised, or with cumulative and unpredictable decision-making aspects are not widely believed to be suitable for secondary status. Job definition is of course an even more necessary aspect of external labour sources - eg the use of self-employed or sub-contract employees.

## **2) Technical/Production Related Factors**

- 6.5 Highly fragmented production processes can often be manned using peripheral workers in some or all functions. Ancillary functions not related to the main production process are often readily separable into the periphery; catering, cleaning, portering and security represent some fairly unskilled areas which have been externalised by many UK firms in recent years. Technical design, toolmaking, financial and legal activities represent some more skilled support activities which may also be sub-contracted. In recent years there has been a considerable expansion of the scope of temporary-help agencies into such fields to take advantage of employers seeking to man such activities on a secondary basis. The central activities of firms, around which orthodox, unitary internal labour markets are designed, are less susceptible to reorganisation on this basis, because of the firm-specific nature of the jobs and the requirement for a committed and motivated workforce in such posts. However, one effect of new technology has been to de-skill jobs by introducing systematic and rational decision-making rules. This shift of the ground rules may offer further potential for movement from core to periphery.

## **3) Institutional Factors**

- 6.6 Our research suggests that more important than the technical possibilities for reorganisation is the inertia resulting from employers' caution and their concern about the industrial relations consequences of change.

In practice, firms who were more familiar with secondary and external forms of employment were more prepared to explore extensions and additions to these forms of employment structures. But the deadweight of conventional practices should not be underestimated. Among unionised firms, 'custom and practice' as well as collective agreements limit the ability of employers to deploy secondary labour at will.

#### **4) Supply Side Factors**

6.7 There are two main constraints here - not all employees are prepared to accept secondary conditions of employment, and managers often express concern about shortcomings in the quality of such workers.

- \* Quantitative aspects: insofar as the supply of secondary workers is predicated on a high level of unemployment, firms in more buoyant, or potentially buoyant, labour markets are concerned about the future supply of such employees. Insofar as it is predicated on changing working preferences (for self-employment, temporary work, part time work, etc), or on recruiting from different sources (most often women rather than men, but also young workers rather than prime age group employees) then constraints on the future supply of secondary workers may be less of a concern.
- \* Qualitative aspects: given that most secondary jobs must require little training before recruits become productive, then quality considerations in terms of skill/experience are of relatively little concern to employers - but considerations of reliability, time-keeping, etc remain important. They seem to be most readily secured again through changing recruitment sources.

#### **New Styles of Management?**

6.8 To put it simply, two sorts of change in work organisation seem to be under way; first, the gap between the conditions of employment of these different groups of worker is widening. At the core, job security, single status conditions and performance-related pay systems contrast with the relatively poor conditions, insecurity and pay levels driven down by competition in the labour market, which are likely to be found among peripheral and external groups. Second, the numerical balance between these groups appears to be

changing, with some managers anxious to push as many jobs as possible into peripheral or external categories.

6.9 The obvious implication is that a single approach to manpower management is unlikely to be appropriate to both groups. Nor can it be assumed that conventional forms of management can simply be grafted into any of the emerging groups. Very few of the firms involved with this work had introduced new management structures, but there was a widespread recognition that changes in emphasis were needed.

6.10 Table 1 shows how those changes might be structured. For simplicity it concentrates on the opposing ends of the organised spectrum - the core group and the externals. The approach to the two peripheral groups is likely to involve elements of both. It can be seen that the focus of the managerial system is quite different for each group; for the core group, the focus is the employee, for the externals the focus is the job. Similarly, the principal form of management control is facilitating the effective deployment of core group workers, as opposed to monitoring delivery of the job against specification for the externals. This might well involve a participative approach to core group management, compared with a more directive approach to externals.

**Table 1: Managing the Flexible Firm**

	CORE GROUP	EXTERNALS
Focus for Management	Employee	Job
Instrument of Control	Effecting Deployment	Delivery against Specification
Management Style	Participative	Directive
Remuneration System	Wage for Time Worked	Fee for Work Done
Motivation/Incentive System	Performance	Time
Supply	Training/ Recruitment	Competitive Tender/ Severance

6.11 The table also shows that these divergent approaches to management need to be supported by different rationales for personnel policy. The basis of

employment shifts, from a salary based on time worked to a fee for work done (among external groups). Incentive payments vary from performance-related at the core to time-related among externals (eg bonus for early delivery, penalty payment for late delivery). Labour supply at the core is assured through the recruitment of potential and the provision of extensive training and retraining facilities; among externals it may be assured through competitive tender, or through the establishment of ex-employees on a new contractual basis.

- 6.12 The management of unorthodox manpower systems is clearly an issue requiring a good deal more research than we have been able to devote to it. One thing is clear however; the relegation of some parts of a firm's activities to a peripheral or external status does not solve the problem of managerial shortcomings. If the solution to the problem of low productivity among maintenance engineers is seen solely as pushing regular maintenance work out to contract, and making it, 'Somebody else's problem', then one might be forgiven for doubting the potential of work reorganisation to solve problems of manpower management. Reorganisation for flexibility does not remove the need for effective management, although it may simply reproduce that need on a more favourable terrain.

## **7 Flexibility and the Employee**

- 7.1 It is difficult to avoid the conclusion that the fragmentation of the internal labour market in the way described is likely to have a divisive impact on the labour force. The clear implication for employees is that one man's pay, security and career opportunities will increasingly be secured at the expense of the employment conditions of others, often women, more of whom will find themselves permanently relegated in dead end, insecure and low paid jobs. To the extent that these changes are not simply created by recession, they are likely to persist; and if employers find that substantial benefits can be won in this way, they are likely to spread. The implications for workers are therefore serious and likely to have a lasting impact on the experience of work.

### **Job and Employment Security**

- 7.2 Within the core group, employees will increasingly enjoy security of employment provided they are both capable of and willing to retrain. Outside it, employment security is reduced, and retraining costs are unlikely to be borne by employers - hence secondary workers are likely to become more job specific at a time when technology is changing the content of many such jobs. In the external group, some workers, notably the self-employed sub-contractors, will find themselves without job or employment security, and with the entire responsibility for providing business support and training for themselves.

### **Promotion and Careers**

- 7.3 In the core group promotion prospects are favourable. Career development will increasingly involve mastering and deploying new skills, however. Career movement for secondary workers is likely to involve movement between employers and will therefore be more restricted. Movement between secondary and primary groups is likely to be restricted, except for cases of delayed recruitment (probation) and public subsidy trainees.

### **Training**

- 7.4 Within firms, new training structures for sustaining a supply of key employees in the core group may need to be developed, as internal career paths which existed in a unitary internal labour market will no longer be available. As

already suggested, although modest, the training needs of secondary workers are not likely to be met from current training structures.

### **Conditions of Employment**

- 7.5 For secondary employees (particularly in the second peripheral group), conditions of employment seem likely to deteriorate substantially - payments for non-worked time (holidays, sickness and pension) are likely to be most badly affected. Among primary workers, conditions are likely to improve, with the twin aim of creating a homogeneous group of employees and encouraging retention.

### **Pay**

- 7.6 For all groups, the relationship between pay and time worked is likely to change. For core workers pay will be increasingly determined by individual performance, rather than through collective agreement. For the peripheral groups pay is likely to vary more explicitly with hours worked, as employers try to match their labour inputs more precisely to their needs over time. For the externals, pay is likely to be influenced by performance, but in this case, more akin to a 'fee-for-work-done' rather than hours attended. An across-the-board approach to rates for any job is therefore likely to become more difficult to sustain.

### **Unionisation**

- 7.7 Union strength in the workplace is likely to be undermined by the fragmentation of the workforce and by the conditions of employment associated with secondary employment. This implies that unions will need to develop new approaches to collective bargaining and to collective representation. Our discussions suggest that as yet the unions are far from formulating such a response, but that as it is developed it is likely to cohere around four main themes, as follows:

- \* the establishment of union membership agreements to cover all core group employees. Employers might be willing to concede a closed shop in return for flexibility, but they would probably want a single union agreement;



- \* the establishment of significantly improved pay and conditions agreements for core workers in exchange for functional flexibility;
- \* the extension of those agreed rates and conditions to peripheral and external groups where common or comparable jobs can be defined. This would also represent a safeguard for core workers, so that their jobs might not be threatened by cheaper, external labour;
- \* the extension of membership agreements to all peripheral and external groups.

7.8 This approach is not without its dangers for the unions. Heavy dependence on shop steward and establishment level organisation has made UK unions vulnerable to managements who wish to isolate the union representatives in a kind of de facto enterprise unionism, particularly in the private sector. By further severing the job content and career mobility of core workers from the external labour market, this trend would be accentuated. Single union closed shops have also given this development some impetus.

7.9 Not all peripheral and external workers may be prepared to accept union membership (particularly the self-employed, sub-contracting external groups) and they would certainly be more difficult to organise than core groups. In the absence of a closed shop extended to these groups, local organisation would be the only way of bringing them into membership, yet not all unions have a sufficiently well developed local representation to ensure this. Nevertheless, using the organisational strength of core workers to enforce standards and representation outside the core seems to represent the most likely form of reaction.

7.10 The question arises, how far is such a response likely to conflict with the priorities and aims of management in initiating such a reorganisation? It would be speculative and premature to attempt a full answer at this stage, yet our initial discussions suggest that it is not necessarily incompatible with management aims, particularly as they relate to the deployment of the core group. The potential for improving the conditions of employment and job satisfaction of this group is enormous, and corresponds to a major union priority. We have already noted the need for a change in management style to promote the potential of this group. It seems likely that this extends to collective bargaining style also and will require a new approach from the

trade unions, particularly concerning flexibility in the deployment of core group workers between changing tasks. As yet most such mobility agreements have been one-off and specific; what is sought here is a much more open-ended commitment. The more likely source of friction was judged by our respondents to be the use of secondary peripheral employees, particularly where the unions might interpret their deployment as cheap labour. This raises the question of management motivation in using such forms of employment, and it is to this that we turn in the next section.

## **8 From Drift to Drive: The Way Ahead**

- 8.1 It has already been suggested in this report that UK managers are beginning to look for ways of achieving greater flexibility in their deployment of labour, and that such a search has been hampered by lack of experience, by a readiness to drift rather than consciously hammer out new strategies, and by a preference for gradualism. In this section we consider some guidelines for managers in approaching the question of flexibility.

### **A Rationale for Flexibility**

- 8.2 Our research showed that many managers were unclear precisely why they sought greater flexibility. We found at least three rationales, two of which might be regarded with some suspicion and which appear unlikely to provide a long term basis for a manpower strategy.
- 8.3 The 'let's-put-it-all-out-to-contract' school of management, which holds that there is necessarily some intrinsic advantage in externalising business activities was frequently encountered on this research. What such managers were attempting to achieve through outsourcing was not numerical flexibility but functional flexibility - the classic example here would be privatisation among local authority direct works or refuse collection departments, where the aim of externalisation is not to allow for unpredictable fluctuations in workload, but to achieve new working practices and higher productivity. This succeeds in 'making it somebody else's problem' but begs the question of why contractors should be any better at deploying labour than the organisation itself. Exporting an industrial relations problem may be attractive in the short term, but it is unlikely to represent a long term solution to low productivity. The externalisation of activities should be determined according to the necessary attributes of the job in question, rather than contingent attributes.
- 8.4 A second rationale, favoured by some of our respondents, was that reorganisation into peripheral and external groups permitted the reduction of labour costs - particularly through the use of labour with lower on-costs (pension contributions, sick pay, etc) such as part time females or casual staff. Once again, while this may be an apparently attractive proposition to employers, we found some doubts on this score. The use of cheap labour was widely interpreted by our union respondents as a possible threat to core group workers through undercutting and displacing them. There was some danger

here that the use of cheap labour in the periphery might therefore undermine the co-operation of core group workers in change rather than help to provide it. As a result we would have some doubts on the utility of cheap labour strategies, particularly while labour costs can nevertheless be cut through numerical flexibility. If there is a rationale to be found here then it is in the cheap use of labour (ie using only as much labour as required), rather than the use of cheap labour.

- 8.5 Of course, the most important rationale is that reorganisation for flexibility permits and promotes the development of a high productivity, high co-operation and highly flexible core group, which is both capable of and willing to respond positively to change. There may be other rationales for peripheral and external groups, but their main role lies in creating the conditions (of employment security and mutual commitment) required for effective core operations. Therefore the main orientation of any manpower strategy aimed at achieving greater flexibility should begin from defining, developing and facilitating the effective deployment of the core group.

### **Combination of the Groups**

- 8.6 The diversity of practices between different sectors in their deployment of the different groups has already been referred to. Further, our research suggests that manpower strategies may well differ between otherwise apparently similar firms. The key to inter-firm variation appears to be the different business strategies of the firms in question. For example, one insurance firm interviewed was rapidly expanding its employment of external commission-only salesmen as a means of achieving wide market coverage for its off-the-peg life assurance policies; a second similar firm, concentrating on long term relationships with its clients through custom-built policies, was concentrating on a salaried core group salesforce to achieve its business plans. Environmental differences can also be important considerations; for example, a national transport organisation which contributed to this work was faced with quite different manning strategies for its repair and maintenance activities in urban conurbations and commuter suburbs than those which it favoured for geographically remote and disparate areas. Their decisions must be based solely on what is appropriate for their current and anticipated activities. In short, what is required is the creative integration of manpower and business strategies.

## Manning Up

- 8.7 Allocation of activities to particular groups is likely to be on the basis of the characteristics of the posts rather than of the postholders. Yet for the core group worker it is the individual employee's characteristics (versatility, adaption, commitment to the aims of the firm, etc) which are of greater importance than those of the job (indeed, the very idea of functional flexibility precludes any fixed notion of job definition). The problem faced by firms is therefore how to ensure that jobs (particularly in the core) are filled by the right sort of worker.
- 8.8 Some of them already will be, of course; but for those which are not there is an evident need for a new approach to recruitment, selection and training (to get the right ones in) and a more selective approach to severance (to get the wrong ones out). Our research has not been sufficient to do more than identify these needs. We are not therefore in a position to indicate of what such new approaches might consist. It is possible to make some statements - such as, 'recruitment to the core via peripheral jobs is likely to be a better method of selection than direct recruitment', and 'training policies will need to centre less on how to do it than on how to find out how to do it', and 'selective severance policies will need to concentrate more on non-financial assistance and compensation than they have in the past if they are to be successful', and so on; but essentially such new policies need to be developed by employers before they can be adequately researched. It must be sufficient at this stage to identify the need for them.

