Articles & Commentaries

p-Watch — Europe

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Permanence and Flexibility

In 1998 the German productivity organization, the RKW, was renamed Centre for Innovation and Productivity. The rationale behind the change was that to meet the challenges of globalization, a company or a country cannot content itself solely with continuously striving to be more productive in the use of its existing resources; it must also constantly innovate to anticipate and drive change. We live in a world of Schumpeterian "constructive destruction."

To marry these two forces of continuously improving existing goods or services, as well as the way in which they are produced, and proactively providing completely new goods and services, companies of all sizes must strive relentlessly to reduce their own costs and look for new market niches and opportunities. One of the companies which currently exemplifies how these two thrusts could be combined and, at the same time, bring about employment increase, is Siemens. This company was behind the establishment of the RKW in 1921!

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In the mid-1990s, Siemens was an "old economy" company in a "new economy" business environment. To bring about radical change, it adopted the TOP or "time optimized processes" approach with its three pillars of cost reduction, growth and innovation. This echoes the new style RKW. Of the many profitable experiences with this program, Siemens has found that cutting costs to levels below those of its international competitors has led in some cases to tripling its unit volumes and doubling its annual sales. And rather than bringing about staff reduction, staff strength actually increased. Although the number is relatively small, they comprised highly qualified personnel, like software engineers.

However, most recent European experiences indicate that enterprises (and administrations) still tend to follow the traditional approaches to raising labor productivity, i.e. reducing headcount in order, in the case of private companies, to raise shareholder value or "profits." This has led to some high profile industrial disputes, like the case of British Airways in 1997 and Michelin Tyres in France last year. Such cases are reminders of the need to explain and re-explain the relationships between productivity, profitability and employment, and to inform and involve the workforce before decisions are taken. Without such prior explanation, change is rarely smooth as seen in another infamous case of the late 1990s, the closure of the Renault facility in Belgium.

Staff animosity to change is often exacerbated when the companies concerned maintain so-called "taylorist" approaches to labor productivity improvement: squeezing more outputs from a worker's time through ever narrower tasks that are ever more tightly controlled by ever more technocratic managers -- a likely result of the French government's current attempt to increase employment by reducing standard weekly working hours to 35. It is interesting to note that from the late 1980s, researchers have forecasted the demise of such "taylorist" approaches to raising productivity in favor of' "human-centered" approaches. However, even today, in such "liberated" societies as the Dutch or Swedish, rarely do more than a quarter of all enterprises (low tech and high tech alike) make significant use of "human-centered" or "high road" approaches to raising labor productivity. Why?

It is not because models and examples are lacking. From the 1950s the socio-technical systems approach has enabled workers to be "empowered," working in flexible teams and doing interesting jobs. Indeed, Europe has built up a range of national "humanization of work" programs, demonstrating that the new approaches are not just more human but in fact more productive than the old. Moreover, such empowerment has become ever more economically sensible as the skills required by modern enterprises have decreasingly been those of brawn and increasingly those of brain. It is therefore not surprising that the European Commission recently launched a research study to explore why firms have failed in their attempts or have made no attempts to adopt the "high road" to productivity improvement.

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That European economies are looking healthier now than for a considerable time is because innovation is growing apace. One important reason for this is the pursuit of the various types of "flexibility": flexible workers, able to perform several tasks; flexible work contracts, which do not "burden" business with lifelong employees -- such contracts cover, for instance, one third of the Spanish workforce; "new forms of work organization" where "modulated" and annualized hours place the onus on the worker to meet the demands of the market and employment; and flexible and "learning" organizations with an extended range of outsourcing practices, including R&D activities.

But flexibility also creates its own problems, and not just in the form of negative reactions from trade unions. Research from Britain's Open University indicates that staffing reduction, flexible employment and outsourcing practices are all reducing the direct control and ownership which firms have over their knowledge resources.

One way forward being practiced in the Netherlands is to legislate that "flexible workers" can have "secure" employment contracts. Another (British) approach is to combine more permanence with flexibility. A high commitment to permanent employment contracts for key employees is associated with better innovative performance; to be able to hire and fire other employees more or less at will accelerates business change. Somewhat paradoxically, this is increasingly resulting in companies "insourcing" and further developing themselves some of their formerly outsourced products, services and processes. As a result, firms are having to learn how to manage knowledge across organizational boundaries.

Helping firms in this learning process (albeit without the "hiring and firing" approach of the British labor market) is one of the roles of the RKW and similar partnership bodies throughout Europe. But they also recognize that, to foster innovation, maverick entrepreneurs must always be given the leeway to use their good head for business and, should they want it, managerial support.

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