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Partnership for a new organization of work

Green Paper

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Contents

| | |
|--|----|
| Executive summary | 5 |
| Introduction: What are the aims of the Green Paper? | 7 |
| 1: Towards a new organization of work — why and how? | 9 |
| <i>Mass production</i> | 9 |
| <i>Step-by-step improvements</i> | 9 |
| <i>The flexible firm</i> | 9 |
| <i>A new organization of work, a demanding change</i> | 10 |
| <i>A great potential for Europe</i> | 10 |
| <i>Flexibility and security</i> | 11 |
| 2: Policy challenges and new partnerships | 13 |
| <i>The labour market context</i> | 13 |
| <i>Modernizing the legal, contractual and policy framework</i> | 13 |
| Education and training: lifelong learning | 13 |
| Labour law and industrial relations | 14 |
| Wage systems | 15 |
| Working time: a new approach | 15 |
| Taxation | 17 |
| Social security | 17 |
| Health and safety at work | 18 |
| Environmental issues | 18 |
| Mainstreaming equal opportunities policies | 19 |
| Labour market policies | 20 |
| Modernization of the public sector | 20 |
| Telework | 21 |
| <i>Building a partnership for a new organization of work</i> | 22 |
| The challenge to the social partners | 22 |
| The challenge to policy-makers | 22 |
| 3: The consultation process | 24 |

Executive summary

Why a Green Paper?

This Green Paper is about the scope for improving employment and competitiveness through a better organization of work at the workplace, based on high skill, high trust and high quality. It is about the will and ability of management and workers to take initiatives, to improve the quality of goods and services, to make innovations and to develop the production process and consumer relations.

The purpose of the Green Paper is to stimulate a European debate on new forms of organization of work to release this potential. The Green Paper is focused on three questions.

- Why a new organization of work, and how?
- What are the policy challenges of new forms of work organization?
- Is it possible to establish a new partnership for a more productive, participative and learning organization of work?

Towards a new organization of work — why and how?

The traditional organization of work, based on the ideas of industrial mass production, has been questioned more and more during the last 20 to 30 years. A number of organizational changes have been tried in order to improve productivity, quality and working conditions (quality circles, just-in-time systems, team-work).

In parallel with these many different trends there is now a more fundamental change in the organization of work, a shift from fixed systems of production to a flexible, open-ended process of organizational development. This new concept of a process of continuous change is sometimes described as 'the flexible firm' and the workplaces as high trust and high skill workplaces. There is no one model, but an infinite variety of models, which are constantly being adapted to the circumstances of the individual firm and its workers.

The transformation can be explained by three factors representing change: human resources, markets and technology.

There are already a number of case studies demonstrating the potential for productivity and prosperity of a new organization of work. However, the great majority of firms — and public authorities — are still in the traditional form of work organization. The diffusion of new practices seems to be slow.

The policy challenges

The policy challenges could be summarized in one question: how to reconcile security for workers with the flexibility which firms need. This raises a number of issues for the public authorities and the social partners across the spectrum of employment, education and social policy areas:

- how to organize the necessary training and retraining, so that the workforce can meet the increasing needs for skills and competence;
- how to adapt social legislation to take account of new employment trends;
- how to change wage systems along with the organizational structures on which they are based;
- how to adapt working time arrangements in the light of the new situation;
- how to take advantage of the new employment trends with regard to equal opportunities;
- how to develop more flexible organizations in the public services;
- how to provide adequate support to firms, in particular small firms, who wish to change, but lack the resources or expertise to do so.

Building a partnership for a new organization of work

The Green Paper invites the social partners and public authorities to seek to build a partnership for the development of a new framework for the modernization of work. Such a partnership

could make a significant contribution to achieving the objective of a productive, learning and participative organization of work.

The word 'framework' should be given a broad interpretation. It could include everything from the creation of a common understanding of the importance of new forms of work organization, through joint declarations, to binding contractual or legal initiatives. The level and content of such a framework has to

be clarified through discussions in the social dialogue.

The Commission would like all interested parties to develop their views on how these objectives could be reached and how all policies, whether they are public policies or policies for which the social partners are responsible, could be mobilized to create a new framework to modernize work and the economy.

Introduction: What are the aims of the Green Paper?

1. This Green Paper is about the scope for improving employment and competitiveness through a better organization of work at the workplace. This need to improve the employment situation by increasing competitiveness has been at the heart of EU policy and was given added impetus with the publication of the White Paper on growth, competitiveness and employment in 1993. It has been a main theme at all the meetings of the European Council since then and is a central element in the Commission's pact for confidence in employment. In the course of the discussions on the pact, the Commission sent a questionnaire to the social partners and prepared a synthesis of the responses received.¹ More recently, the European Council in Dublin emphasized the importance of adequate benchmarking.

2. This Green Paper has also to be situated in the wider context of the various Community initiatives related to employment, competitiveness and new technologies, for example, the Monti group on taxation, the social security initiatives, initiatives in the area of new technologies, and the Davignon group on workers' involvement in Europe.

3. The European employment strategy calls for an integrated approach, whereby all the relevant policies, including macroeconomic and structural policies, contribute and support each other in the fight against unemployment. Improvements in flexibility of work have been highlighted as essential elements of this strategy. For example, the European Council, meeting in Essen in 1994, stressed the need to increase the employment intensity of growth, in particular by a 'more flexible organization of work in a way which fulfils both the wishes of employees and the requirements of competition'. But while much has been written about the need for flexibility of the labour market and its regulation, much less has been said about

the need for flexibility and security in the organization of work at the workplace.

4. One of the main aims of this document is to redress this balance by concentrating on this aspect of the wider employment debate. An improved organization of work will not in itself solve the unemployment problem, but it can make a valuable contribution, firstly, to the competitiveness of European firms, and secondly, to the improvement of the quality of working life and the employability of the workforce.

5. Research has demonstrated that a renewal of the organization of work is of fundamental importance for improved productivity. The White Paper on growth, competitiveness and employment² highlighted organizational capacity as one of the key components of a firm's competitiveness. The Commission's first action plan for innovation in Europe³ also stressed the importance of organizational innovation for growth in employment.

6. Work organization itself is a broad subject, including, as it does, most aspects of the way work is organized in and between firms, the relation between the social partners, the organization of the labour market, the relationship between work and the organization of society. There is an intensive debate about the role of work in the future and there are many ongoing research projects that will further improve our understanding of the new working life.

7. In particular, the Commission's Green Paper on living and working in the information society: people first, covered a wide range of issues related to the introduction of new technology and the organization of work, some of which are developed further in this Green Paper. At the same time there are issues dealt with in the present Green Paper, which are not related to

¹ This summary was distributed on the occasion of the round table organized by the Commission with the social partners on 30 April 1996 on the pact for confidence in employment.

² *Growth, competitiveness, employment: The challenges and ways forward into the 21st century*, Chapter 2.3 b, Supplement 6/93 to the *Bulletin of the European Communities*.

³ 'The first action plan for innovation in Europe: Innovation for growth and employment', COM(96) 589 final and Supplement 3/97 to the *Bulletin of the European Union*.

new technologies and the information society, notably those related to the evolution of the workforce and of consumer requirements.

8. The present Green Paper does not seek to cover all aspects of this vast area. Instead it seeks to concentrate on developments in work organization in firms and public bodies in the context of the economic and social environment. Thus, in this paper, work organization is taken to mean the way in which the production of goods and services are organized at the workplace. The focus is on a new organization of work. While there is no one model, this concept implies, in particular, the replacement of hierarchical and rigid structures by more innovative and flexible structures based on high skill, high trust and increased involvement of employees. The focus is emphatically not on short-term cost-cutting measures.

9. It should be emphasized that this Green Paper is concerned with the organization of work in all types of workplace and in all sectors of activity. Though much of the language, much of the experience and many of the examples relate to large firms in manufacturing industry, the new innovative and flexible structures are often just as appropriate in small firms as in large, and in services, including public services such as health, education and environmental services. The development of new forms of work organization in SMEs, in particular, is of central importance, given that they are the main source of new jobs.

10. The modernization of the organization of work can only be achieved by the firms themselves, involving management and workers — and their representatives — and taking into account the diverse nature of the situation in each sector, company or organization and the speed of change.

11. But the new organization of work also poses challenges to policy-makers — whether they be public authorities, social partners or non-governmental organizations — and at all levels: local, national and European. In particular, the challenge is how to develop or adapt policies which support, rather than hinder, fundamental organizational renewal and how to strike a productive balance between the interests of business and the interests of workers, thereby facilitating the modernization of working life. An essential objective is to achieve such a balance between flexibility and security throughout Europe.

12. All Member States are facing similar challenges both with regard to labour productivity, competitiveness and employment and with regard to achieving the right balance between flexibility and security of employment. There is much to learn from progress made in other companies and in other Member States. The Commission hopes that this Green Paper will further stimulate the debate at European and national level on the organization of work among all the actors involved and that the outcome of this debate will be a new framework for the modernization of working life based on partnership.

'A cooperative approach to a different organization of work within the firm will improve industrial relations, allow greater worker participation in decisions and potentially lead to a better product quality. The latter in fact represents an essential component in any strengthening of the competitiveness of the European economy.'
(Ciampi report.)

1: Towards a new organization of work — why and how?

13. For almost a century the organization of work was usually founded on the same basic principle: a hierarchical top-down organization with a high degree of specialization and simple, often repetitive, jobs.

Mass production

14. This type of organization was developed as a tool for the emerging industrial society, the transformation of the economy from handicraft via manufacturing to industrial mass production. Europe can be described as the cradle of the manufacturing society and the USA as the cradle of the mass production system. The ideas were developed originally in the US car industry, which became the role model for successful industries.

15. During the 20th century, this type of work organization spread all over the industrialized world. The rebuilding of European industry during the post-war period was based on the concept of the mass production system. This production system contributed for several decades to an unprecedented growth in productivity and prosperity.

Step-by-step improvements

16. However, during the last 20 to 30 years, the limitations of this way of organizing work have become evident. One major problem has been that under the traditional system the work is split up into narrow functions with short, repetitive work cycles. The way work is done is prescribed in detail. The system does not give sufficient room for a process of upgrading and innovation. For continuous improvement to be possible, it is important to involve the workers themselves and in order to be involved they must have the possibility of exercising judgement, developing social contacts and learning. These are the points where the traditional mass production system becomes too much of a hindrance. The workplace has to be opened up: to flows of ideas, to suggestions, to learning, to

improvement. Initially, this was done through the introduction of a parallel development organization, such as quality circles. The idea was to make step-by-step improvements, day by day, to get visible results over time, instead of waiting for a crisis to occur.

17. The need for such improvements has been more apparent the more the service sector has grown and the more services are integrated into the traditional production of goods. As a consequence, both management and workers have been looking for new ways of improving productivity and working conditions. We have seen a number of efforts and experiments: new forms of teamwork, just-in-time production systems, lean production, 'kaizen' (continuous improvement), total quality management, eco-management, benchmarking, etc.

The flexible firm

18. Both the traditional form of organization and that based on step-by-step improvements still exist and will continue to do so for many years. But in parallel, a more fundamental change in the organization of work is emerging, a shift from fixed systems of production to a flexible, open-ended process of organizational development, a process that offers new opportunities for learning, innovation, improvement and thereby increased productivity.

19. This new concept of a process of continuous change is sometimes described as 'the flexible firm' and the workplaces as high trust and high skill workplaces. There is no one model, but an infinite variety of models, which are constantly being adapted to the circumstances of the individual firm and its workers. The transformation can be explained by three factors representing change: human resources, markets and technology.

□ **Human resources.** In traditional economic thinking, labour is a factor of production similar to land and capital — a cost to be reduced. In a knowledge-based economy, however, people represent a key resource. Organizations are valued not only on the basis of their products

or machines but primarily on the knowledge-creating capacity of the workforce, the people who work for them, how they work, and what work means to them. The rate of innovation and change in products and technologies is so rapid that the competitive advantages of companies and countries will be the capacity of the workforce to create knowledge. The European workforce of the 1990s, especially the younger age group, is much better educated and trained than any earlier generation. About 70% of this young European workforce have an upper secondary level education and about 20% have a university degree.

□ **Markets.** Consumers are more demanding than ever before and they do not accept simple standardized products. They look for innovation, for variety and novelty, for high quality, both in goods and services. Competition in the marketplace forces firms to organize production in such a way that changing consumer preferences can be met. That creates demand for close links between market and production, capacity for continuous innovation and improvement, and a high degree of flexibility in production. Competitiveness and success will be based more and more on the innovative capacity and adaptability of firms, and less and less on the traditional concept of producing more of the same at low prices. The most innovative and flexible firms are more likely to survive and expand.

□ **Technology.** During the last 20 to 30 years a new technological revolution has begun, based on the introduction of information and communication technologies (ICTs). One of the main effects of the new ICTs has been a dramatic reduction in the cost and time of storing, processing and transmitting information. Such changes have a fundamental effect on the way we organize the production and distribution of goods and services, and thereby, on work itself. At the beginning of this technological revolution, the economic result of the introduction of new information systems was rather poor in terms of productivity growth. But, more recently there is a growing number of examples where the introduction of ICTs has met the highest expectations. The main message from these examples is the need for an integrated approach, linking the introduction of ICTs with the education and training of the workforce and with organizational renewal.

A new organization of work, a demanding change

20. These three factors — human resources, markets and technology — can have a fundamental impact on the way workplaces are organized.

21. The new flexible firm is a demanding form of organization of work. That goes for the introduction of a new organization, as well as for the requirements of skills and competence and the development of industrial relations. In the new decentralized and network-oriented organizations, workers perform a range of tasks, rather than pass the job on from one to another. The skill structure is changing. Good skills in numeracy and literacy as well as with computers, the ability to interact with new technology and with environmental requirements, are becoming more and more important. There is a need not only for higher skills but also for broader skills. That is why continuous learning, the updating and upgrading of skills and competencies, as well as investment in human capital, are of crucial importance for the improvement of the competitiveness and productivity of the European economy.

22. Furthermore, as workers develop a wider range of skills and become more adaptable, the new organization of work will further facilitate geographical mobility. This in turn will enable workers to exploit their potential more fully and exercise their rights in this respect.

23. The new organization of work will challenge industrial relations. The old organization is characterized by specialization of tasks and skills and the separation of design from the production phase. Industrial relations will need, in a new organization of work, to be built on a basis of cooperation and common interest. Therefore, new forms of industrial relations have to be developed, including, for example, greater participation by employees, since efficient production requires enhanced levels of both trust and commitment in firms.

A great potential for Europe

24. European industry, manufacturing as well as services, has many underlying strengths. One such strength is the single market, the

biggest economic entity in the world. Sixteen million firms established in this market have a great advantage in being close to 370 million consumers. The new way of organizing work that is slowly emerging in Europe could be another strength, by improving the ability to adjust production to the new market conditions of ever-changing consumer preference. In this way, the flexible firm could offer a sound basis for fundamental organizational renewal built on high skill, high productivity, high quality, good environmental management — and good wages.

25. It is important to recognize that European companies and public services have already introduced a great number of organizational innovations, which are in tune with European conditions. There are a number of case studies — some examples are presented in the report from the Commission's competitiveness group — demonstrating the potential for productivity and prosperity of a new work organization. The findings confirm that these innovations in the organization of firms lead to improved business performance, better job protection and job enrichment. The same message comes from the German programme on work and technology and the Scandinavian programmes, showing that the firms that have restructured their work organization and industrial relations have been far more successful than those that have attempted to meet the challenges solely through the introduction of advanced manufacturing technology. These programmes also show that trust and commitment can be effectively combined with sound formal and contractual agreements. However, many firms — and public authorities — are still in the age-old work organization: hierarchical, with a high degree of specialization and low degree of integration and product innovation, defensive methods of restructuring and political demands for reduced responsibility in relation to the workforce. The diffusion of new practice seems to be slow.

26. Their traditionally informal structures, coupled with the smaller scale of operations, have enabled SMEs to avoid the organizational sclerosis which has hindered the adaptation of many large firms. However, the informal nature of relationships in SMEs gives rise to a different set of problems in relation to work organization: in particular the lack of resources necessary for systematic organizational planning tends to hinder long-term personnel development. As a result, although SMEs are poten-

tially better able to adopt flexible forms of work organization, further efforts need to be made if they are to exploit fully the opportunities presented.

27. It has to be acknowledged that improvements in productivity can result in a reduction in employment in one part of the production chain. But improved productivity is necessary if real wages and profits are to be increased. Higher wages and profits lead in turn to the creation of employment in a number of ways: in the firm itself, in its suppliers, by increasing demand and by creating the wealth to pay for the employment-intensive services, which are needed in the future: in health, education, leisure and care for the sick and elderly to name but a few.¹

28. The choice is not, in fact, between being more productive or staying as we are. It is between remaining competitive or relegation to the second division. This is not an easy option. There are a number of obstacles to the modernization of firms and one such obstacle is the lack of awareness of the possibilities and of the potential of a new way of organizing work. There is a need for information and debate and for initiatives that can stimulate the development of new forms of work organization, not least among the many SMEs.

29. Furthermore, all change creates turbulence and uncertainty. There are balances which have to be struck:

- between young workers and older workers;
- between the well-educated and the less well-educated;
- between the need for high production levels and the health of workers; and above all,
- between flexibility and security.

Flexibility and security

30. The potential economic benefits of a new form of work organization based on participation and trust are substantial, with potential gains for everyone. Public policies need to be

¹ The employment potential in this area is set out in the Commission's report on 'Local development and employment initiatives: an investigation in the European Union', SEC(95) 564.

built on this understanding. However, it has to be recognized that certain categories of workers in some areas at different periods in the economic cycle will have more difficulty in adjusting to the new situation than others: these include, in particular, older workers, younger workers with low levels of qualification and workers who live in areas of high unemployment and are not mobile. Similarly, while there are considerable benefits for firms and workers engaged in core activities, care is needed to ensure that all workers, irrespective of their contractual status, share in the potential benefits of the new work organization.

31. The key issue for workers, management, the social partners and policy-makers alike is to strike the right balance between flexibility and security. This balance has many aspects. The reorganization of work often causes uncertainty. Workers need, above all, to be reassured that after the changes are made they will still have a job and that this job will last for a reasonable time. At the same time, once the changes are made, the new organization of work can offer workers increased security through greater involvement in their work, more job satisfaction and the possibility of developing skills and long-term employability. This security for workers can also provide employers with increased security in the form of a more stable, versatile and contented labour force. Employers need greater flexibility in order, in particular, to cope with fluctuations in demands for their goods and services. In particular, they are often looking for interchangeable

skills and adaptable working patterns, including working time arrangements. Such flexible arrangements can also have advantages for employees, provided that they are negotiated: for example, working time arrangements which suit their private or family commitments.

32. It is the achievement of this balance between flexibility and security which is at the heart of the partnership for a new organization of work, which is the subject of this Green Paper. So far we have discussed the implications for employers and workers. But if this balance is to be achieved, there is a need to adapt a wide range of public policies accordingly. These policy challenges will be discussed in the next chapter.

Questions

Do you share the views expressed above on the evolution of the organization of work and the main driving forces behind the new developments? Are there other factors that should be included?

What is your experience of firms that have introduced new forms of organization of work? Are there particular experiences in respect of small firms which you would like to mention?

Are there examples of new business strategies which appear more successful in dealing with such changes?

