Applying global best practice: Workers and the “new” methods of production organization

Gijsbert van Liemt

Employment and Training Department
International Labour Office Geneva

ISBN 92-2-111008-7
ISSN 1020-5322

First published 1998
Forward

Around the world, lower trade and capital barriers are placing pressure on producers of internationally traded goods to adopt “Best Practice” methods of production organizations. These methods, which aim at achieving the highest levels of flexibility, productivity and quality, greatly enhance competitiveness. It is the reason why so many producers seek to implement them.

Global Best Practice (GBP) methods help producers remain flexible but a primary question is how this production flexibility affects workers. In particular, to what extent are Best Practice methods used by employers to pass on to workers the uncertainty that they encounter in the marketplace, or how can the new terms of employment of types of jobs be made mutually beneficial to workers and employers. An underlying theme is the extent to which national policies and traditions, including labour market regulation and collective bargaining, help shape the adoption of these Best Practices.

The paper begins by giving a concise definition of the set of workplace organization and labour management practices referred to as the current Global Best Practice. It then articulates two sets of questions. The first set identifies important research issues on the implication of the wider adoption of these practices for workers. The second set asks whether these practices will spread beyond traded manufacturers and what factors influence their adoption.

I would like to point out that this is relevant to questions on the linkages between local labour markets and foreign investment. These types of issues are currently part of an ongoing research project in the Department on globalization and local employment development. Clearly, the paper succeeds in developing a common understanding of a terminology that is often used vaguely and in motivating a research agenda. Besides the ILO, this research should be of interest to wide audience.

Mr. Van Liemt is an economist. For many years he was a staff member of the ILO. Currently he is an independent consultant based in Amsterdam.

Werner Sengenberger
Director
Employment and Training Department
Acknowledgements

Comments by Fred Fluitman, Andres Marinakis and Christine Evans-Klock are gratefully acknowledged.
Contents

I. Introduction ........................................................................................................... 1

II. Global Best Practice: What it is ........................................................................... 2

III. Applying Global Best Practice ........................................................................... 5
    Relations with subcontractors .............................................................................. 5
    GBP and labour-management relations ............................................................... 6
    Global Best Practice and worker flexibility ......................................................... 7

IV. How widely will the Global Best Practice be adopted? ..................................... 11

V. Conclusion ............................................................................................................. 12

VI. Summary: Nine questions for further research .................................................. 13

Bibliography .............................................................................................................. 14
I. Introduction

Around the world, companies are adopting Best Practice methods of organizing production. These methods aim at simultaneously reaching the highest levels of quality, productivity and flexibility, at competitive cost. Naturally, what constitutes Best Practice evolves over time. Currently, it includes extensive use of subcontracting, “Just-in-Time” production, “Total Quality” management, and very effective plant organization. In order to implement Global Best Practice (GBP) methods\(^1\) successfully, companies must adapt their organization of production and their relations with suppliers. The adoption of these organizational changes may require significant changes in the way people work and how they work together, and in labour management relations. Pressures for greater worker flexibility are being reinforced. This paper discusses current Global Best Practice and the changes necessary to implement it successfully. In doing so it highlights several issues related to the effects on workers of Global Best Practice that require further research.

Companies adopt Global Best Practice methods because they are left little choice in today’s highly competitive global business environment. The elimination of barriers to international trade and capital flows is taking away the protection that many companies (and their workers) enjoyed for so long. Companies active in sectors where international competition is strongest have been the first to adopt these methods. The automotive industry is the oft-cited example. But other sectors producing fairly homogeneous goods for the world market and with considerable over-capacity are also under pressure to adopt GBP methods.

Global Best Practice (GBP) methods are spreading in many ways. For many years Global Best Practice was virtually synonymous with Japanese Best Practice. Through direct foreign investment GBP methods are introduced in new and existing plants. Key staff from these plants move to other plants. Companies with production lines in different locations undertake performance comparisons in order to bring each at the level of Best Practice.

The implementation of GBP methods requires adjustments, and sometimes drastic changes, from suppliers and from the workforce. In countries and regions with high unemployment, with good jobs hard to come by, most companies have found it comparatively easy to obtain these changes. In fact, certain companies have become quite good at playing plants and groups of workers against each other when lines of production need to be closed. Decision on where to locate (or add) new capacity are used in a similar way\(^2\). Workers are willing to make considerable concessions when offered the prospect of substantial new investment in their plant.

Even so, implementing Global Best Practice at existing locations (“Brownfield sites”) has not been without its problems. This paper will highlight some of them. Lack of confidence, antagonistic industrial relations, reluctance to be retrained or re-deployed (and the lure of large investment subsidies elsewhere) are among the reasons why investors have looked around for a fresh start. In the US, the UK, and elsewhere (the Mexican automobile industry, for example), many jobs were lost at traditional sites while new jobs were being created at new locations.

---

\(^1\) These methods are also referred to as, inter alia, “World Class Manufacturing”; “the New Techno-economic Paradigm”; “the New Flexible Decentralization Model”; and “High Performance Production Systems”.

\(^2\) Several companies have threatened to close or shift work to other locations as a means to pressure workers and their unions into accepting changes in work rules. The strategy to force workers at one plant to compete with those at another in giving concessions is called “whipsawing” in the US. On the US, see Holmes (1991). On the European automobile industry, see e.g. Mueller and Purcell (1992) and Mueller (1996).
frequently far away from where (the) industry was traditionally located (“Greenfield sites”). In turn, the success of these Greenfield sites became a source of pressure for the workforce at existing sites to accept change.

After reminding the reader what the current Global Best Practice methods of production organization are, this paper will focus on how they are being implemented. It will consider the relations with suppliers, labour management relations, and how GBP methods demand greater worker flexibility. In the process it identifies several issues for further research. These are highlighted in the text and summarized at the end of the paper. Given that much of the current GBP finds its inspiration in Japan, on several occasions reference will be made to the circumstances under which it was implemented in that country.

II. Global Best Practice: What it is

Global Best Practice (GBP) methods of production organization aim at simultaneously reaching the highest possible levels of flexibility, productivity and quality at competitive cost. A high degree of flexibility is necessary in view of the highly competitive environment in which so many producers operate today. How to satisfy ever more demanding customers and how to react quickly to market fluctuations have become the critical issue. Rapid innovation and product development are at a premium. The marketing, design and manufacturing functions must work closely together so that they can quickly develop and produce a marketable product. The layout of the factory, the skill profile of the workers and their ability to work together, and the relations with outside suppliers must all facilitate the necessary production flexibility.

High productivity allows for lower unit cost and thus contributes to greater competitiveness. High capacity utilization, but also the elimination of waste at all levels, such as unnecessary movements and operations, have become a must for producers wishing to stay in the race. Key tools for achieving this are subcontracting activities which are either too specialized or have few prospects of reaching higher levels of productivity, and applying “Just-in-Time” techniques both inside the plant, and in relations with sub-contractors.

Quality requirements are set at high levels. In the past a percentage rejects had been acceptable. Today, zero defects is the expected standard. The generalized increase in quality has reduced the price premium that traditional “high quality producers” could command in the past. The search for quality also influences producer-supplier relations: defect free production requires defect free components, and this is another reason for producers and their suppliers to work closely together. High quality production improves competitiveness because it keeps the customer satisfied; it raises efficiency; and it lowers production costs: there are fewer rejects and less staff needed when the quality function is ‘built into’ products.

The imperatives of quality, productivity and flexibility thus require changes within the plant and in its relation with its suppliers. Within the plant teamwork is being emphasized; unnecessary layers of management are eliminated; workers on the shop floor are given more responsibility for quality control, and they are encouraged to participate in a continuous improvement (“kaizen”) process. There is also increased recourse to subcontracting. Increasingly, assemblers try to limit their own contribution to value added to a few, but critically essential activities. “Total Quality” management and Just-in-Time production are applied both

---

3 The principal sources of this section are ILO, 1993; Bessant, 1991; Maskell, 1992; Hoffman, 1989; van Liemt, 1992; and company reports.
Of course, high degrees of quality, productivity and flexibility are also achieved through the introduction of advanced technologies such as Numerically Controlled Machine Tools (NCMTs), industrial robots, flexible manufacturing systems, and automated monitoring and measuring techniques. These technologies reduce lead time and throughput (factory to door) time; save inventory costs (especially of work in progress); increase capacity utilization; and reduce set up times and the number of machines and operations necessary (Bessant, 1991). But even without introducing these technologies it was frequently found that great progress could be made in productivity, quality and flexibility simply through a more rational, better thought out organization of production. Successful firms “simplified all procedures and tasks, eliminating everything that did not contribute to value...including tasks that initially seemed candidates for automation” (Hoffman, 1989, p. 23).

Management carries the main responsibility: managers control the systems that cause most quality problems. Defects can arise at many points in the production process, including design, machine operation, poor training of operators, packaging, movement, and sale of final goods (Hoffman, 1989, p. 49).

Design and production engineering must facilitate ease of assembly. After all, it is much cheaper and more effective to deal with defects at their point of origin than later via inspection, rework, and field correction (ibid, p. 49). Design, engineering, and production must thus work closely together in order to systematically investigate the causes of defects and to eliminate them gradually. Quality must be built into the product, to avoid the need to remove poor quality be final inspection (Maskell, 1992, p. 6).

The expanded role of production workers in quality control has implications for both the skill-profile of workers and the way plants are organized. Ideally, workers should have the technical skills to handle new tasks in a highly automated environment and to master the analytical and quality control techniques that are being incorporated into their job; psychologically, they should be capable and willing to take on more responsibilities, to identify problems and come up with ideas on how to overcome them which is the essence of the continuous improvement (kaizen) process; and they should have the social and communication skills to be able to function well in groups.

Group work is becoming increasingly important. Workers in a group stand in for each other when necessary and must be able to switch between job (“functional flexibility”). Good team members assist those who fall behind in their work and are careful, to do their jobs in such a way that they do not create more work for their team mates (Robertson et al, 1992). They accept responsibility as a team and are evaluated as a team.

The decentralization of responsibilities frequently leads to the elimination of one or more layers of management. This facilitates the flow of information, makes large organizations more flexible, and allows decisions to be taken more quickly.

“Just-in-Time” (JIT) production (“Producing or conveying only those units needed, just when they are needed, just in the amount needed”) aims at saving costs by minimizing inventories. JIT also requires a high level of quality consciousness and a high sense of responsibility of those...
involved in the production process: the absence of buffer stocks doesn’t tolerate the production of defective parts.

Parts and components must be defect-free and this provides a strong incentive to quality improvement efforts. Moreover, the production lines must be balanced: to ensure a high degree of flexibility without excessive inventories, machine set-up times must be short. This means that shop-floor workers get more responsibility in production scheduling.

Just-in-Time also has repercussions for the way supplies are being delivered. Assemblers who want to minimize their stocks need suppliers who are flexible both in terms of production and in terms of delivery and transport. In combination with Total Quality Management, suppliers must deliver (Just) in time, defect free and provide an explicit Quality Control Guarantee. This requires a close and intimate relationship between supplier and producer.

**Subcontracting.** Around the world, large companies try to become smaller in terms of employment (“downsizing”) and to concentrate on their ‘core’ activities. These usually include most of the following: design, research, product development, overall quality assurance, marketing, final assembly, the production of some key components, and the organization of production. They subcontract a growing range of inputs, components and services.

Subcontractors are a heterogeneous group. They range from those engaged in undercapitalized, highly labour intensive activities to very advanced, very knowledge intensive producers (“co-makers”) with critical technologies (and the capability to develop these) on which assemblers depend to a large extent. The former tend to be more numerous; the latter have greater bargaining power.

With the degree of “vertical integration” going down (i.e. fewer activities are done ‘in house’; the share of inputs purchased vertically goes up), assemblers and suppliers become more dependent on each other. Defect-free components are essential, and the collaboration in design and product development must be close. The words trust, confidence, long-term mutual benefit relationships come up frequently in connection with subcontracting. Such a close relationship can only exist with a small group of suppliers, which are carefully selected. ‘First-line’ subcontractors (because they may in turn have their own subcontractors in the context of a ‘subcontracting pyramid’) tend to supply subsystems rather than individual components.

The close relationship between assembler and supplier can go very far. Suppliers can be asked to ‘open their books’ to purchasers so that these can verify whether they meet the required criteria. This requires obviously a very trustworthy (and long term) relationship from which both sides expect to benefit.

---

5 Subcontracting offers producers several advantages. The rising complexity of products (and the related cost of R & D) makes it difficult for producers to be a specialist in all areas of production. Subcontracting also enables producers to adjust the level of production more flexibly by passing on the burden of idle overheads to the subcontracting firms. Subcontracting allow large firms to reduce their need for working capital and provides them with a higher return on assets (van Liemt, 1992). Subcontractors with lower labour costs provide assemblers with another cost advantage.

6 These “co-makers” must assume total responsibility for the quality of the product; they must be able to deliver at short notice; have the capability to develop new technologies and to supply entire subsystems; be price competitive; and be financially healthy (Gorgeu and Mathieu, 1990).
III. Applying Global Best Practice

Because of their proven contribution to achieving high levels of quality, productivity and flexibility and greater competitiveness, more and more companies want to implement GBP methods. But these methods have not necessarily received a warm welcome everywhere. In fact, GBP methods have been criticized both for what they are and how they are being implemented.

In a sense, GBP methods function as a mould. Across countries, there are wide discrepancies in the degree of sophistication of industrial relations and the way in which producers and suppliers interact. As the mould is being applied to different settings, and different industrial relations situations in particular, it brings out the incompatibilities with prevailing local practice. Efforts are then made by those who want to apply the mould, to ensure that it fits. This can be more difficult than many textbooks would like us to believe.

GBP methods demand change from the actors involved. These actors, be they workers or suppliers, must be confident that they stand to gain form this change. Their attitude towards change will to a significant extent be determined by the confidence they have in those who propose and implement the changes. An antagonistic buyer-supplier relationship doesn’t turn into a much-vaunted mutual trust and support relationship overnight. Where autocratic management, a suspicious work force, and conflictual industrial relations were the rule, it takes time to reach the necessary level of confidence. Also, there must be the expectation that all parties stand to gain from cooperation. Conflict, bitterness and misunderstandings have resulted from a partial implementation of GBP (e.g. the expectation that workers would achieve higher levels of productivity and quality without them being given more responsibility), but also from the logic of GBP itself (e.g. increased work-pace). Some workers have actually lost their jobs or seen a decline in their working conditions.

Relations with subcontractors

The oft-repeated key words in the relationship (“partnership”) with suppliers are: trust, mutual long-term advantages and openness for cooperation in top quality, cost-efficient, timely production. The partnership aspect, particularly as it exists in Japan, is often stressed; it is contrasted with the more adversarial relationships “of the past” (or outside Japan), in which suppliers are played off against each other and decisions are made mainly on the basis of price differentials.

It is doubtful, however, whether the contrast is really that great. On the one hand, collaborative and harmonious relationships between buyers and suppliers are found in many cases outside Japan. On the other, trust, openness (and market power) can be abused; and Japan is no exception.

Assembler-supplier relationships are not without their contradictions. Assemblers want to be less vertically integrated and thus need a strong, reliable partnership with their suppliers of essential technologies (“co-makers”). Fierce competition, on the other hand, pushes assemblers to annually negotiate a lower price for the components that they buy in. Some are more
In the US and European automobiles industry, certain suppliers have come to regret the ‘open book’ relationship with assemblers when they found that confidential design and cost information were being fed to competitors in an effort to obtain ever better conditions (Financieel Economisch Magazine). In the case of one large US assembler, suppliers found that blueprints of their top-secret technology were being circulated to competitors, in hopes of eliciting lower bids (BusinessWeek).  

Just-in-Time links with assemblers require a great deal of flexibility from subcontractors. Suppliers have the choice between carrying larger inventories of finished components in order to supply their customers’ just-in-time requirements, and ensuring greater production and labour flexibility. But when the cost of financing inventories are excessive, sub-contractors are virtually obliged to have recourse to fluctuating labour inputs in order to meet changes in demand. Smaller subcontractors in particular may need to resort frequently to the use of flexible work arrangements to speed up the pace of work, slow down or suspend operations as an alternative to carrying stock inventories (Chalmers, 1989). This may imply frequent recourse to temporary and part time workers and/or a good deal of working time flexibility for permanent (“core”) staff (see also below).

The smallest sized subcontractors (and usually the weakest in terms of bargaining power) are the self-employed (including home workers). They are flexible in their working time and not protected by collective agreements. Their costs tend to be “all-in”, i.e. they have to look after such secondary benefits as medical care and pensions that regular employees in large companies expect as normal. Atkinson has noted a tendance for employment contracts “to be displaced be commercial contracts” (Atkinson, 1989, p.5). In many cases there is a (de facto) employment relationship in the guise of a commercial contract.

GBP and labour-management relations

As in the case of the buyer-supplier relationship, GBP industrial relations rely on trustful, participatory cooperation for flexible, high quality, high productivity production. Shop-floor workers are given more responsibility. They are asked to make suggestions on how productivity and quality can be improved. This participatory, non-confidential approach rightly appeals to many people, not least to those used to autocratic, distant management attitudes. In this respect, the “productivity/quality/flexibility alliance” serves both workers and management. Also, through its effects on competitiveness GBP ensures the prosperity of the plant and its employees.

Nevertheless, there are those who question this “win-win” perspective, and who see it as too rosy a view. Close worker-management collaboration may contribute to enhanced efficiency and competitiveness but not all workers may consider this in their interest. The constant search for eliminating waste leads to greater work pressure and could lead to redundancies. In kaizen campaigns, member of a work team are encouraged to find out at which stage or at whose station on the production line ‘idle time’ arises. Work is then reassigned among the team members to eliminate the slack operation. Repeated success in such attempts “invariably leads to reduction in the size of the work teams itself - that is, one of the workers will be made redundant” (Kumazawa, 1992, p. 101).

The application of GBP methods demands a great deal of flexibility and adjustment on the

---

8 In the US and European automobiles industry, certain suppliers have come to regret the ‘open book’ relationship with assemblers when they found that confidential design and cost information were being fed to competitors in an effort to obtain ever better conditions (Financieel Economisch Magazine). In the case of one large US assembler, suppliers found that blueprints of their top-secret technology were being circulated to competitors, in hopes of eliciting lower bids (BusinessWeek).
part of both management and workers. Yet the “new”, supportive role of management which is often stressed, may in practice not be so easy to implement. Where industrial relations used to be highly conflictive, management may have to overcome a “credibility gap” and is likely to meet suspicion on the part of workers. In addition, managers may have to acknowledge that responsibility for most problems didn’t lie with workers but “with the rules, procedures, working environment, and production systems that management itself has created” (Hoffman, 1989, p. 57). In the worst scenario, management adopts the language of Global Best Practice whilst simply continuing with the confrontational practices of the past.

The need for change in management attitudes may be considerable at all levels of the enterprise, but it is particularly great among those who deal directly with the workers on the shop floor. Production engineers and manufacturing specialists are expected to act on suggestions and ideas from production workers, join in quality circle and kaizen meetings, and otherwise treat shop-floor employees more or less as equals. “Many companies have found this to be a painful experience for their engineers, who tend to view themselves as fountains of expertise and the workforce as receptacles” (OTA, 1990, p. 111). The case of first line supervisors (or foremen) is particularly delicate. When work is done in teams, and these teams are given more responsibility in, for instance, the area of quality control and kaizen, and are allowed to stop the production line when necessary, the role of the traditional first line supervisor whose tasks included motivating and disciplining workers becomes unclear. Many foremen have great difficulty with the new situation and frequently oppose it.

Global Best Practice and worker flexibility

GBP and the fast pace of change that is typical of a highly competitive environment require a good deal of flexibility by all involved. Rapid innovation, close collaboration between marketing, design and manufacturing and with suppliers, JIT production and delivery all intend to facilitate this flexible response. Naturally, such a flexible organization also requires a good deal of flexibility on the part of workers.

Worker flexibility is a complex issue. Frequently ill defined, it is sought by management and by many workers (although often different types of flexibility and for different reasons). The link between the overall level of employment and worker flexibility (or the absence thereof) is the subject of much debate. Here, however, we will take a micro approach and limit ourselves to the effects of the spread of GBP on different types of worker flexibility.

In a typical Japanese owned automobile assembly operation - the example that is much used by proponents of the GBP model - the carefully selected staff tends to consist of young, healthy and highly motivated individuals, who show a high degree of identification with their employers’ goals, are capable and willing to perform different tasks (“functional flexibility”) in teams, accept a good deal of pay flexibility, and are willing to work overtime often at very short notice. They are surrounded by subcontractors and workers on fixed term contracts (“numerical flexibility”).

To be more functionally flexible involves the abolishing of restrictive work practices and job demarcations, and a reduction in the number of job classifications. This has proved easier to implement in some cases than in others9. Trade unions based on narrowly defined occupations, and has led to drastic declines in the number of job classifications. For example, a typical US automotive plant would have between 80 and 120 non-skilled and between 12 and 120 skilled classifications. In contrast, GM/Toyota’s NUMMI plant has only one non-skilled and two or three skilled job classifications (Holmes, 1991).
have been particularly vocal in their opposition.

Greater functional flexibility provides workers with a greater variety of tasks. But whether this greater variety also requires a higher skill level is a moot point. Greater variety may still involve only a limited range of skills. In practice, three possibilities exist (Nedo, 1986, p. 42). Some new tasks may be added from a different knowledge area, but at the same skill level (“horizontal enlargement”). Higher level diagnostic skills could be added (“upward enlargement”). But it is also possible that a skilled worker is asked to undertake certain semi-skilled tasks (“downward enlargement”).

*Question 1.* GBP requires workers to be more functionally flexible. To what extent does this greater variety of tasks that is typical of enhanced functional flexibility demand a higher skill level? and to the extent that it does, are employees compensated for these more demanding tasks?

Pay flexibility is often associated with GBP. Different flexible pay schemes influence workers’ motivation and performance in different ways. For instance, while a company-wide scheme (e.g. profit sharing) could be seen as relatively ‘neutral’ or objective, individual ratings might prove highly subjective, as these depend very much on who assesses performance. Individual flexible pay schemes would seem contrary to the team spirit that GBP companies try to achieve.

It is therefore somewhat surprising that in Japan, where teamwork receives so much emphasis, wages appear to be highly personalized. “The wage is a kind of secret between the company and the individual employee” (Nomura, 1992, p.131). The share of wages that is assessed and determined by the workers’ supervisor may account for up to 40 per cent of total pay (Dohse in Turnbull, 1988, p. 16).

Many see in the individual wage system a large part of the explanation for the “typically Japanese” attitude to the job and the employer. To Vreeman (1984, p. 9), it explains workers’ readiness to participate in *kaizen* activities; to Brodner (1992, p. 20), why Japanese workers take so few holidays, make so many suggestions, and work so much overtime. Absenteeism due to short-term illnesses is virtually unknown because companies make large deductions for absenteeism from the bonus payments. “Absenteeism also results in negative points in performance evaluation” (IMF, 1992, p. 32).

*Question 2.* GBP is associated with greater pay flexibility. Has there been an increase in pay flexibility schemes related to the performance of the individual? If so, how does this affect the GBP need for workers to work more closely together and accept joint responsibility in teams?

GBP is associated with more frequent and more systematic use of flexible working time. Companies that are reluctant to take on new staff use overtime to cope with demand fluctuations. In smaller manufacturing companies, the need for flexible production associated with JIT links virtually imposes flexible working time. In larger Japanese assembly plants, workers are often told little time in advance that they will be working overtime (Berggren, 1993, p. 176).

Increased recourse to shift work is typical of large plants, which want to run their expensive machinery for long hours. Drastic changes are under way in several industries where, in order to cope with enhanced competition and to make better use of installed capacity, first, the number of shifts per day is increased, then Saturday working, night work, and lastly Sunday working are placed on the agenda. At each step better use is made of existing capacity, enhancing the risk that somewhere some existing capacity becomes superfluous. The possibility that capacity will be reduced or plants closed further adds to the pressure on workers to accept changes in work rules (Mueller and Purcell, 1992; Mueller, 1996).

The trend towards “annual hours” arrangements takes this working time flexibility one step further. Agreements on the number of hours that people should work per year greatly ease
work scheduling problems that management might encounter. In a typical annual hours arrangement, management can introduce an extra shift at weekends which employees are required to work as part of their normal working time, without receiving extra compensation. During periods when demand fluctuates downwards, management can also cut the working time for the employees covered by the annual hours agreement (European Industrial Relations Review)\(^\text{10}\).

Many workers are in favour of some kind of working time flexibility. Workers with family responsibilities, for instance, appreciate the possibility to be able to achieve a better match between work and care for the family. But whilst it might appear that the two groups seek the same, in practice this need not be the case.

**Question 3.** GBP requires a flexible use of working time. Is GBP related working time flexibility on the increase? and if it is, which arrangements are in place regarding who decides when, how frequently, and how long workers work overtime?

**Numerical flexibility.** How to pass on as much of the uncertainty on the demand side has become a key issue for GBP producers. The greater customer orientation and just-in-time production links confront all producers with greater and less predictable demand fluctuations, and this requires greater production flexibility. Partly, the greater unpredictability in the spread of work volume over time is solved ‘in-house’ through recourse to overtime (as we saw above) or by shifting workers from one production line to another. However, the use of non-standard contracts can be very attractive to the employer: overtime premiums are avoided; often the workers involved receive fewer or less generous secondary benefits. Also, the use of temporary workers allows employers to postpone permanent recruitment. And when they recruit from among the temporary workforce, they can select and observe these future permanent workers for a long time.

Companies have always needed some degree of flexibility in the number they employ to cope with fluctuations in the amount of work over time. Firms are reluctant to take on new permanent employees when they feel uncertain about the outlook of their company. The difficulty and the cost involved in shedding workers in the case of an unforeseen decline in activity also makes employers reluctant to take on new permanent staff.

What is new, however, is that most OECD countries have experienced an increase (sometimes a dramatic increase) in at least one form of non-standard employment such as self-employment, part-time employment or temporary work. These jobs usually offer lower levels of social security and employment rights than regular jobs (ILO, 1996). Particularly new types of non-standard jobs, such as “on call” or “min-max” contracts\(^\text{11}\), offer a maximum of flexibility to employers. In addition there is a variety of types of semi-independent work, or “grey areas” where employment begins to merge into self-employment (Treu, 1992).

When unemployment is high it can be relatively easy to recruit qualified temporary staff. Also, companies may not want to employ certain specialists full-time, as they do not have sufficient demand for their services. But employers probably would not want to rely on temporary workers for the more critical, responsible functions in the enterprise, particularly where these require a good deal of on-the-job training and/or highly motivated employees.

---

\(^{10}\) Such arrangements are more widespread in some than in other countries. In Germany only a small proportion of workers are currently affected by annual hours arrangements. In the UK, however, a recent estimate put the proportion of the workforce whose hours are calculated on an annualized basis at 9 per cent (ibid, p. 13)

\(^{11}\) which only specify the minimum and/or maximum number of hours that a worker will work during a given time period.
Much of the increase in non-standard jobs is associated with the services sector. It is unclear to what extent the trend to use more staff on non-standard contracts affects the manufacturing sector (which is the focus of our analysis). A recent German survey found that, contrary to services sectors, in manufacturing fixed-term contracts, self-employed and sub-contracted staff were not used all that much (little more than five per cent of establishments used them). Consumer goods manufacturers recorded even a small decline for the period considered (Bellmann et al., 1996).

**Question 4.** GBP encourages the use of non-standard jobs. But to what extent do different sectors rely on such jobs; and, in each sector, which are considered the “core functions” (and why)?

To workers, non-standard jobs may be a welcome source of income at a time when other jobs are scarce. They may also be a way for first time job seekers to gain experience, or a way back into work for the long term unemployed. However, there are disadvantages. Insecurity is a problem. A low level of social protection could be another. Workers with fixed term contracts are, by definition, excluded from regulations concerning protection against unfair dismissal. Those working irregular hours and less than the prevailing standard number of hours may be excluded from different types of legal or collectively bargained benefits such as paid holidays, paid maternity leave, statutory sick pay, thirteenth salary, and firm specific pension schemes. To what extent this is the case depends on the country considered, on the number of hours worked, and on the length of the employment relationship. For instance, while German part-timers having a “regular” part-time job involving twenty or more hours a week may only suffer minor disadvantages (Beuchtemann and Quack, 1989, p. 27), British workers in new working arrangements, such as week-on/week-off, term time, annual hours and zero hours contracts, may be completely unprotected (Hewitt, 1993, p. 113). Differences in the extent of social security coverage and in the way social security is financed can provide producers in certain countries with a competitive advantage.

**Question 5.** To what extent are workers on non-standard employment contracts covered by social security; when they are covered, is their protection based on employment relationship, or is it a citizen’s right; and to what extent is this coverage financed by the employer, the employee, or through the general budget?

Lastly, the relentless drive to eliminate waste at all levels that is associated with GBP may well allow a continuous improvement in productivity and efficiency, but it also raises the pace of work. Healthy people of prime age can be expected to keep up this pace of work for a long time, but those past this age may well encounter increasing problems. Japanese workers have traditionally retired early from their primary job. Outside Japan, this could well become a major point for discussion.

**Question 6.** In Japan, employees typically retire early from their primary job to pursue subsequently a second, less well-renumerated career. As a result of the spread of GBP methods, are other OECD countries moving towards a similar employment system?
IV. How widely will the Global Best Practice be adopted?

Applying the Global Best Practice requires a good deal of flexibility by all involved, and by workers in particular. The previous chapter has raised some questions related to different types of worker flexibility. This chapter takes a slightly broader perspective and raises three further questions. These relate to the likelihood of GBP methods becoming more widely adopted.

In the current highly competitive world business environment firms are faced with a great deal of uncertainty. Through GBP methods they attempt to pass much of this uncertainty on to workers and suppliers. Fixed costs such as working capital, inventories and permanent employees are being minimized. Reliance on the self-employed and on workers with non-standard contracts provides them with a cost advantage. Against the background of high unemployment and greater emphasis on decentralized bargaining, it looks as if workers are having to assume a greater share of responsibility for how to ensure the competitiveness and continued viability of their plant.

It is unclear, however, whether this pattern is becoming generalized, i.e. whether the current GBP model will be the dominant model for all industry as indeed for the economy as a whole. For instance, while their relevance for the automotive industry seems undisputed, GBP methods may be less relevant for capital intensive industries such as petrochemicals and paper making, or for research intensive industries such as pharmaceuticals as Berggren (1993) has argued. Still, this seems a matter for further research.

Question 7. The GBP model and the problems with its application, which this paper has discussed, are typically associated with assembly industries such as the automotive industry. Yet how relevant is the model for other industries?

The relevance of GBP methods and their application for the rest of the economy is a further issue for research. To shed some light on this question one would need to compare the typical features of producers engaged in the production of internationally traded goods with those supplying essentially non-traded goods and producer services for the home market. Largely sheltered from international competition, providers of consumer services for the domestic market should, a priori, hardly be affected by GBP related pressures. In Japan, a highly efficient manufacturing sector exists side by side with a sheltered, highly labour-absorptive, low-productivity services sector.

Question 8. GBP is typically associated with a highly competitive environment in internationally traded goods. Yet, to what extent are suppliers of non-traded goods and services affected by GBP methods; and are consumer services affected at all?

The degree to which extensive use of subcontracting will result in cost savings is a relevant factor in the above questions. Deutschmann has pointed out that, compared to Japan, the savings resulting from subcontracting may be much smaller in Europe, thus making it less attractive. In Germany, legal non-wage costs and fringe benefits determined by industry-wide collective bargaining agreements have to be paid by all employers irrespective of the size of the enterprise. Also, German collective bargaining agreements on wages, working hours and other issues traditionally apply to all firms in a given industry, irrespective of firm size. This puts clear limits on employer discretion in fixing wages and working hours (Deutschmann, pp 135-136).

Nevertheless, it must be asked to what extent national traditions and national regulations will continue to make a difference in the face of widespread pressure to adopt GBP methods. For instance, while pay differentials within employee categories in Japanese transplants seem to be nowhere as high as they are in Japan (Pil and MacDuffie, 1996), it is also true that Japanese
transplants in Europe are making great efforts to introduce more personalized pay by reducing, as much as possible, the number of wage grades given by the industry-wide-labour agreement and then re-introducing a different kind of wage differential “based on a close appraisal of individual employees’ merit” (Kumazawa, 1992, p.103).

**Question 9.** National practices, as embodied in legislation and collective bargaining agreements, help to shape the extent to which GBP can be applied in different countries. Will these national practices continue to do so, or will the pressure to adopt GBP be such that there will be growing harmonization of practices across countries?

### V. Conclusion

This paper has discussed the logic behind “Global Best Practice” (GBP) methods of production organization and some of the problems encountered in their implementation. It has also identified some issues for further research. This chapter offers some conclusions. The next chapter recapitulates the questions, which, in our view, require further research.

GBP methods aim at reaching simultaneously the highest levels of productivity, quality and flexibility at competitive cost. Their implementation usually requires changes inside the plant, and in the relation between the plant and its suppliers. The clear contribution that these methods make to enhanced competitiveness is the reason why so many producers are pressing for their early implementation. National, industry and company characteristics will continue to make a difference but it looks as if downsizing, Just-in-time, Total Quality management, de-layering of hierarchies, and greater pressures for worker flexibility could well become typical features of companies engaged in the production of internationally traded manufactured goods everywhere.

These features should be viewed as positive to the extent that they enhance customer satisfaction, stress harmonious worker-employer relations, give greater responsibility to workers on the shop floor and open the possibility to broaden their skill base. Through their positive effects on competitiveness, GBP methods prevent jobs from being lost at the level of the firm and that of the economy.

But whilst to top-management the advantages of GBP methods are undisputed, many workers are being more sceptical. To them, GBP is also associated with a weakening of their bargaining position, the need to work irregular hours, and with a less stable employment relationship.

If anything, this paper has wanted to make clear that the extent to which and the manner in which GBP methods are being adopted leaves many questions for further research. This chapter has identified nine of these. They are recapitulated in the next chapter.
VI. Summary: Nine questions for further research

The effects that the worldwide application of Best Practice methods of organizing production are having (or could be having) on workers raise a number of questions for further research. Nine of these questions have been highlighted in the text. To recapitulate, they are repeated below.

Question 1. GBP requires workers to be more functionally flexible. To what extent does this greater variety of tasks that is typical of enhanced functional flexibility demand a higher skill level? and to the extent that it does, are employees compensated for these more demanding tasks?

Question 2. GBP is associated with greater pay flexibility. Has there been an increase in pay flexibility schemes related to the performance of the individual? If so, how does this affect the GBP need for workers to work more closely together and accept joint responsibility in teams?

Question 3. GBP requires a flexible use of working time. Is GBP related working time flexibility on the increase? and if it is, which arrangements are in place regarding who decides when, how frequently, and how long workers work overtime?

Question 4. GBP encourages the use of non-standard jobs. But to what extent do different sectors rely on such jobs; and, in each sector, which are considered the “core functions” (and why)?

Question 5. To what extent are workers on non-standard employment contracts covered by social security; when they are covered, is their protection based on employment relationship, or is it a citizen’s right; and to what extent is this coverage financed by the employer, the employee, or through the general budget?

Question 6. In Japan, employees typically retire early from their primary job to pursue subsequently a second, less well-renumerated career. As a result of the spread of GBP methods, are other OECD countries moving towards a similar employment system?

Question 7. The GBP model and the problems with its application, which this paper has discussed, are typically associated with assembly industries such as the automotive industry. Yet how relevant is the model for other industries?

Question 8. GBP is typically associated with a highly competitive environment in internationally traded goods. Yet, to what extent are suppliers of non-traded goods and services affected by GBP methods; and are consumer services affected at all?

Question 9. National practices, as embodied in legislation and collective bargaining agreements, help to shape the extent to which GBP can be applied in different countries. Will these national practices continue to do so, or will the pressure to adopt GBP be such that there will be growing harmonization of practices across countries?
Bibliography


European Industrial Relations Review (260, September 1995).

Financieel Economisch Magazine (13 November 1993).

Gorgeu, Armelle; Mathieu, René. 1990. Partenaire ou sous-traitant? Qualité et ressources humaines chez les fournisseurs de l’automobile et de l’armement-aéronautique. Dossiers de recherche no. 31 (Noisy le Grand, Centre d’études et de l’emploi).


Mueller, Frank. 1996. “National Stakeholders in the Global Contest for Corporate Investment”,


Vreeman, Ruud. 1984. “Flexibele arbeid. Flexibilisering als vorm van herstructurering van de arbeidsverhoudingen”, in *Tijdschrift voor politieke ekonomie* (vol.8. no.2)