



“Reduction in working hours”

... a motivational tool & win-win situation
for Employer, Employee & Economy

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Dedication

This work is dedicated to all the unemployed in Sweden and to all the professionals who are striving hard to improve the quality of life and decrease unemployment



Abstract

The Governments and workers have put in a great effort in regularizing the working hours and working week over the course of last one and a half century. The average work week in the world stands at 40 hours. With unemployment among all the work force in Sweden almost hitting 11 percent and in youth aged 15-24 hitting almost 27 percent. It's definitely alarming and requires measures to reduce. Different political forces in Sweden including Green Party and left party have joined forces in reducing the working week to 30 hours.

The reduction in the working hours certainly presents a solution to different issues like work life balance, quality of life and work satisfaction but is it a solution to reduce unemployment at the same time source of motivation? That is the fundamental question we have tried to answer in the pages to follow.

The reduction in working hours, during the economic downturn of 2008, supported financially by Government of Germany actually helped save at least half a million jobs. Volvo Power Train saved a number of jobs in Sweden by reducing the working hours of all the employees, so did Scania, and Saab in Sweden. Toyota reduced the working hours of its employees in 1990s to increase motivation, job satisfaction and quality of life.

Our research has shown that if working hours are reduced then jobs can not only be saved, but can be created as well. In the following pages you will come across information obtained through number of information sources and printed material which directly aims at looking into how reduction in working hours can reduce unemployment.

Our research presents different scenarios where reduction in the hours can generate employments. The debate however is open for future researchers to test these scenarios and see if they are viable proposals and can help reduce the employment.



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Chapter 1

Settings

1.1 Introduction

Different works, we have sighted during the course of our research, establish that reduction in the working hours certainly provides different benefits for the motivation of employers and employees e.g. the productivity of the workers increases and absenteeism decreases, the quality of life of workers and of families increases, employee happiness and job satisfaction increases, job turnover in the organizations decreases, overall performance of the companies with shorter work weeks increases, even the companies who have experimented with the reduced working hours managed to save a lot of cash in terms of hiring and recruiting new employees.

It has been clearly established by different researchers that reduced working hours certainly is a solution to different employee and organizational problems. The organizations and employees can benefit from it alike, but is reduction in the working hours a solution to decrease unemployment in different countries? The following pages will describe the problem of unemployment in the pretext of economic downturn of 2008 and look into how flexible work options are being used in different countries to counter this huge problem and how successful they are in doing so? If other countries are successful in overcoming this problem then how Sweden can adapt to these policies and solve this issue?

1.2 History of Reduced Working Hour

Reduction in the working hours is under discussion since the end of 19th and beginning of the 20th century, workers and unions are taking it as their birth right while governments are trying to take advantage of these options to facilitate the labor force and increase the employment. A lot of work has been produced and used to describe and implement different flexible work options in the work places.



The history of the reduced working hours is not only long and complex but also mired with the unacceptability of these options by the employers. The employers always want to prolong the working hours so that they can manage optimum production and remain profitable in the highly competitive business world. Ever since the mankind started living in the societies and societies started growing complex, the very basic organizations with the purpose of trade and earning profits came into being, the concept of employer and employees emerged. Societies and organizations grew further complex and the employees started thinking of their welfare and started asking for rights and the organized struggle for reduction in the work hours started, though initially only for women and children. There is no documented evidence how long work week were in the pre industrialization in the continental Europe or elsewhere in the world. The closest historical evidence we can dig into dates back to 1880s when workers for the first time sought reduction in the working hours for women and children and actually went on strike for their rights on at least 141 occasions.

In the 1880s two organized campaigns to reduce the working hours to 8 hour work day were staged and workers went on strikes on 141 occasions. Out of all these strikes only 42 proved fruitful and workers managed to attain the 8 hour work day and a 48 hour work week, the employers however were reluctant to allow the workers what they wanted to achieve. The role of the unions in organizing the labor force across America became evident and American Federation of Labor (AFL) emerged as the biggest and the most powerful player in the struggle for 8 hour a day work. (RATNER RONNIE, 1980)

The American federation of labor, the biggest collective bargaining agent (CBA) in US however continued their struggle for regularized working hours but the first serious effort to reduce the work hours to increase employment however came from Senator Black of Alabama who presented the bill in the senate in 1932, asking for a universal maximum working hour bill providing for a 30 hour week. In the midst of the great recession, the Black-Connery bill got passed in the senate in 1933 however it never came to a vote in the house. (Elizabeth Brandeis, 1957)

Significant work has been done in the field of flexible working options and highlights how the modern work week has evolved in different countries over the years. Quite a few writers have actually tried to see the flexible work as a mean to reduce unemployment in their



respective fields rather than taking it as a welfare tool for the employed. France has been a front runner in the development of flexible working time. The struggle to regularize and standardize the work hours gradually spread to continental Europe as well and since 1930s France is considered as the front runner in the development of reduced working time.

The 1936s legislation in France introduced the 40 hour work week and two weeks of holidays for workers is considered as the foundation of the modern working policies in the world in relation to working time. (Jallade, JP. 1996) Different countries followed the French and during the 50s and 60s a lot of countries in the continent Europe tried to legislate and limit the working hours.

French again took the lead when they introduced the 35 hour work week in 1998, though the apparent motive in doing so seems to be using standardized work hours as means to decrease unemployment. They started to formulate a series of laws under "Mitrard" in 1982 to reduce the work hours to 39 from 40. A series of laws in the late 90s reduced the hours further to 35.

From 1980s, a series of laws has decreased in the number of hours in workweek in France. The law enforced in 1998 made it compulsory for workweek to be of 35 hours in large companies by 2000 and in small businesses by 2002. The purpose of this reduction was to increase employment through work sharing, as the government expected that a given amount of work would be divided by a larger number of employees—an argument commonly known as the "lump of labor" fallacy" (ESTEVÃO, M.2006)

Though the results mentioned in same paper cited above do not coordinate with the desired results foreseen by the policy makers in the French Government, but reduction in the work hours certainly marginally increased the employment.

Other countries in Europe also have experimented with the work hour reduction, e.g. a Finish professor of Sociology Paavo Seppanen suggested in 1967 that for an organization to be productive, it should have a 12 hour operating time a day promoting two six hour shifts. From a social perspective this scheme is effective and also undertakes the human considerations.



Finish government some experiments in work hour reduction. It was conducted in the years 1996-1998. The study was carried out in 19 municipalities across Finland. The result of such experiment shows quite morale boosting in general. This study was based on the Professor Seppanen's suggested model of 6 hourly shifts, the need to hire new recruits in the second shift arose, which clearly reflects that reduction in the work hours can actually reduce unemployment provided Prof. Seppanen's advice is followed (ANTTILA, T., NATTI, J. & VAISANEN, M. 2005).

A lot of other European countries have also tried and are still trying to experiment with the working hours in a hope to overcome the unemployment issue. To name a few current European front runners are Germany, France, Italy and Netherlands. Since the reduction in the work hours is considered to be the part time working, almost all of the countries in Europe in 1990s were promoting part time work in order to overcome unemployment or to facilitate the job sharing concept.

Recently the debate in Sweden concerning the labor policies has been focused on demanding a six hour work day and a 30 hour work week. (Weigelt, U. 1991). The Green party in Sweden has vowed to reduce the working week to 35 hours and eventually to 30 hours if they come into power in the elections which will be held in late 2010. Similarly the left party has come up with the similar vows to reduce the work week to 32 hours provided they succeed in the upcoming elections. None of the political parties is looking into using reduction in the work hours as a tool to increase employment or reduce unemployment but the green party thinks that doing so may improve the employment statistics but they certainly are not sure about it and say there are other means and ways to reduce the unemployment as well.

According to Anxo, Due to forceful increase in unemployment during 1992, a debate on reduction of working time was at first preference in the list. Trade unions and political community were joined to oppose a general reduction in working time to resolve unemployment. Majority of stakeholders and decision makers in Sweden decided that there is no correlation between unemployment level and working time's length and it depends on other factors than length of working time (Anxo, 2009)



Short-time work or part time work is an important part of Swedish women's working lives. Approx 90% of Swedish women are part time employees. Part time work was not increased to alternate unemployment or to create flexibility and profitability to organization in 1970's, which is different from other industrial countries (Anxo, 2009).

In Sweden the reduced working hours for women become an obligation in the guise of legal absenteeism, house hold work, and promote gender based division of labor. (Anxo, 2009). According to data collected by Cranet-E (Cranfield Network on European Human Resource Management), 1995-96, in Europe to find growth of flexibility. Except Sweden every other country was increasing use of part-time work. There was hardly any reduction in any other European country than Sweden. Sweden, which had the highest part-time working increased redundancies of part time workers in 1990, and was the only country which was reducing in part time working instead of increasing (Sparrow & Marchington, 1998)

Reduction in the working hours has been on a rise in Europe due to the increased competition and the needs of workers who can easily adapt to different technological developments. These developments have caused the growth of flexibility in working hours (Plantenga, 2009).

In Europe, working time of women is considerably shorter than men. In Germany women generally concentrate on a lower level of 30 hour work week. Similarly in Sweden, women tend to work shorter hours and men usually have longer working hours. A study has shown that in Denmark, Germany, Norway and Finland more than 40% of the men and more than 35% women have access to different part time working arrangements. Sweden, Austria, France and The Netherlands are the other countries where more that 25% of all employees are involved with some kind of working time flexibility. (Plantenga, 2009).

The overall level of flexible working in European countries is definitely increasing; however, the pattern changes comprehensively across the Union due to varied labor regulations, resulting in different types of flexibility in different countries (Ducatel & Burgelman, 1999).

A legal framework is provided by the EU for the length of working time in a directive form, which shows that average working time should not exceed 48 hours in a week including overtime in 15 EU member states which includes France and Germany also.



Sweden and Austria are among those few countries who have limited the working time to 40 hour work week while Belgium happens to be the only country with a work week of 38 hours. (Plantenga, 2009).

1.3 Benefits of Reduced Working Hours

Does short working hours scheme and work flexibility offer any benefits to the organizations or to the labor force? A lot of different writers have tried to highlight different aspects of the short time working, but we can primarily look into what it has to offer to the organization and to the employees and overall to the country when it comes to delivering on a macro level.

The Families and Work Institute, a nonprofit research group has claimed that a recent survey conducted by them at world's biggest pharmaceutical giant and Automotive supplier Fel-Pro proves that the worker who opted for flexible work-time policies showed less absenteeism than the employees who did not opt for these policies. The productivity of the employees taking up the flexible working policies also increased as compared to the employees who did not opt for this. The report also advocates the free child care for employees and a six weeks holiday per year for the employees. (Newsweek 1993)

Discussing about the benefits of the short working hours the writers have found out, that respondents who participated in the Finish experiment of reduced working hours were of the view that "The reduction of working time mostly meant having more time for the family, a less tight schedule and more energy to do housework. Several respondents also emphasized that because of the reduced working time, they now had more time for themselves and that they had started new hobbies" (ANTTILA, T., NATTI, J. & VAISANEN, M. 2005)

The reduction in the length of the working time had obvious positive aspects from the family's viewpoint. The analysis of the different ways of reducing working time indicated that it was especially the six-hour shifts that had the most positive effect. The employees working the six-hour shifts also told that because of the shorter daily working hours they had more time for themselves. It can be assumed that having longer periods off does not provide the same daily relaxation. (ANTTILA, T., NATTI, J. & VAISANEN, M. 2005)



Some of the writers have argued that reduced working hours actually benefit the employer as well. According to research employers have found to have cost benefits because of flexible working provided to the employees. Employers receive high productivity and which creates motivation for them through flexible working. Research shows that 55% senior managers and directors believe that flexible working provides productivity (Hegewisch, 2009).

Working Families' Report describes that CIPD (Chartered Institute of Personnel and Development) shows approximate cost of hiring a staff member and training expenses about 4,667 pound and such turnover costs can be reduced by keeping their company's valuable and talented staff through short-time work program. Flexible working can help governments in relation to unemployment (Whitehead, 2009).

With the reduced working hours comes the reduced income, but in case of Finish employees who participated in the experiments between 1996-1998, "it is somewhat surprising that the level of salary loss did not affect the success of implementing the experiment from the participants' point of view. Some of the employees implied in the interviews that the loss of salary had been regarded as such a small inconvenience that the time together with children and the relieved work load was worth it" (ANTTILA, T., NATTI, J. & VAISANEN, M. 2005). In Europe part time work appeared to minimize unemployment which is dissimilar to Sweden, where part time work is relatively low and is esteemed as historical transaction to increase women labor market commitments (Anxo, 2009).

In France it is noted that the performance of the companies with 35 hour work week was better than companies with 40 hours or more work week. (BOSCH & LEHNDORFF, 2001) Short-time work or part time work is an important part of Swedish women's working lives. Approx 90% of Swedish women are part time employees. Part time work was not increased to alternate unemployment or to create flexibility and profitability to organization in 1970's, which is different from other industrial countries (Anxo, 2009)

Arriva has over 22000 employees in UK and Lynn Perry, HR executive for the firm noted that "tend not to be too difficult to manage" and are an important recruitment and retention tool". Lingerie firm Bella di Notte introduced flexible work to all of its 20 employees and the job turnover has actually reduced to zero. That clearly reflects that flexible work offers a



great retention strategy to the firm. The Founder Susan Johnson says "flexible working saves the firm, which has a £2.5 million turnover, about £4,000 a year in recruitment costs alone". (People Management, 2008)

In a nut shell the reduction in working hours offers a variety of benefits and sources of motivation to the employees and the employer as mentioned above and revealed in different research papers and articles published on the subject. Below is the list of benefits it offers to employees and employer

1. Less absenteeism
2. Increased Productivity
3. More time to spend with families and friends
4. Quality of life increases
5. Cost benefit to the employers.
6. Increases organizational performance
7. Helps retain employees
8. Decreases job turn over
9. Reduces recruitment costs
10. Improved confidence between employee and the employer

In case of the French experiment with the reduction in the working hours all of the above mentioned benefits were seen in relation to the employer and employee and on a macro level the reduction in the working hours actually improved the employment figures in the country only marginally though the French hoped it to considerably improve the employment figures.

In the recent economic downturn of 2008 the Germans however reaped the benefits of reduced working hours when they managed to save at least half a million jobs. It directly effected 1.5 million jobs and helped German economy come out of the crisis immediately while their other European neighbors are still struggling with the economic down turn.



Chapter 2

Research Methodology

2.1 Research Approach

The objective of this study is to find if reduction in the working hours is a solution to unemployment in Sweden. Ghauri 2005, states that research is based on planning, executing, and investigating to answer our specific questions. Reliable answers to questions can only be obtained if the research is taken up systematically, so that it provides a body of knowledge which is logical and understandable to others so that they take the research believable.

There are three main approaches which can be put into practice in any kind of research,

1. Inductive
2. Deductive
3. Combination of the both

By deduction means that we draw conclusions based on the logical reasoning, the conclusions may not be true in reality but are purely based on logic. The researcher is supposed to build hypothesis on from the existing body of the knowledge, which will be subject to testing and thus can be accepted or rejected. (Ghauri, 2005, page 15)

Deductive approach is important in a context where existing data and knowledge has already been tested, scrutinized and hypothesized. In this type, we study different types of bodies of knowledge and view points. We study different variables and their relation to each other and with the problem. This helps researcher understand the research problem and broadens the base to draw scientific conclusions as well as in better formulation of the overall body of the knowledge presented in the research. This speeds up the verification process and validity and reliability of the information presented and conclusions is greatly enhanced. (Ghauri, 2005, page95)

Though we have tried to collect and accommodate the responses from various professionals working on reduced working hours but the major portion of the data is secondary in nature and hence we will be using deductive approach. We will rely on secondary data (published data) to analyze the situation. The data presented in this work basically comes from very reliable published sources and hence can be used to draw different conclusions.



2.2 Data Collection

The data collected for this report is almost 100 percent secondary in nature and comes from very reliable sources. We have tried our level best to dig the very recently written and published reports, journals, books, articles, web sources and other printed material such as online newspapers.

Some of the data is published only in 2010 and in late 2009 and thus reflects the exact situation in terms of reduced working policies and the unemployment situation in the down turn of 2008s. The very reliable online statistical data sources like OECD, ekonomifakta and others were used to understand the latest unemployment situation in OECD countries as well as Sweden. OECD, Arbetsformedlingen, Ekonomifakta, European commission are some of the statistical sources for this paper and they are considered very reliable in Sweden due to their ability to synthesize the wrong or misleading data before publishing it.

Some of the data comes from very old research papers published in the beginning of the second half of the 20th century; specially when it comes to highlight the history of reduced working, struggle for reduction in the working hours, or the initiation of working time policies and other related subjects. These sources are valid and authenticated as well and are very helpful in formulation of the problem.

In order to know the response of different stake holders in Sweden we have contacted Volvo Power train, Ministry of Labor in Sweden, Scania, OECD professionals and European Union professionals looking into the reduction of working hours in order to reduce unemployment in EU. To our utter disappointment we were not able to get all the responses on time, since these professionals are very busy and in tackling their day to day work related problems and hence could not provide insightful responses.

2.3 Secondary Data

Secondary data is the information or a set of information regarding an issue or event which is readily usable in understanding a problem. It is always published and can be obtained through journals, articles, research papers, magazines, statistics reports, catalogues and books. (Ghuri & Gronhaug, 2005)



The use of Secondary data saves time, is reliable due to experts intervention, is of quality and easily comparable. Churchill (1999:215) stresses that a researcher should always begin with secondary data, should not neglect or bypass it, until it is exhausted and cannot be used further in reaching to conclusions. Primary data only comes after secondary data's failure in drawing conclusions.

During the research different materials and literature will be analyzed and different views of various researchers will be presented. This will provide a variety of opinions and will bring us closer to draw a conclusion or bring us close in finding if reduction in the working hours is a solution to age old problem of unemployment.

2.4 How the Analysis is done?

In order to analyze the data and present a viable answer to our research question we have used case study methodology. We have used a systematic approach to introduce the readers to the issues we are looking into, presenting the history and struggle for reduction in the working hours, unemployment situation, different statistics, moving on to different reduced or short time working schemes in Europe, specially the German model in the form of German case study and eventually presenting how Sweden is trying to reduce unemployment, followed by findings and conclusion. The researchers have tried their level best to maintain the flow of information in a logical form and also in a way which engages the readers.



Chapter 3

Theoretical Framework

"A theoretical framework is a conceptual model of how one theorizes makes logical sense of the relationships among several factors that have been identified as important to the problem" (Theoretical framework).

"it is a logically developed, described and elaborated network of associations among the variables considered relevant to the problem situation and identified through such processes as interviews, observations and literature survey" (Theoretical Framework).

3.1 Requirements of theoretical framework:

- Research totally depends on the theoretical framework.
- Theoretical framework incorporates researcher's logical beliefs within the boundaries.
- Theoretical framework shows the inter-relationship between the variables of the problem to be researched.
- Relationships of a problem can be needed by theoretical framework.
- Theoretical framework is needed to check the validity of implicated theory.
- It helps testing relationship through statistical analysis.

Theoretical framework provides base for the development of report because literature review provides the identification of important variables from previous research findings. It describes interrelation between these variables.

Intervening variable must be discussed on the basis of how and why they are intervening variables and it must be supported by a schematic diagram.

3.2 Few Basic features of theoretical framework:

- a) Identification of relevant variables to the study.
- b) Relationship consideration between the variables.
- c) If the findings of previous research can be related to the nature of the relationships. Indication of positivity or negativity of relationships.
- d) Explanation of the reasons for existence of these relationships.
- e) Schematic diagram of theoretical framework.

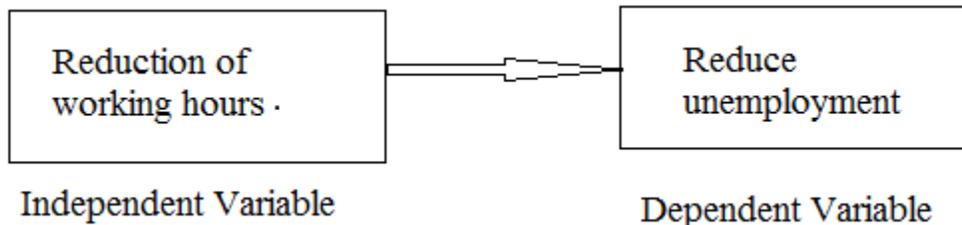
3.3 Types of Variables

1. Dependent/Criterion Variable
2. Independent/ Predictor Variable
3. Moderating Variable
4. Intervening Variable



1. **Dependent Variable:** While considering sale of a new product, "Volume of sale" is dependent variable.
2. **Independent Variable:** In the relationship of Reduction of working hours to reduce unemployment, the variables are :-

Reduction of working hours - Independent Variable
Reduce unemployment - Dependent Variable



3. **Moderating Variable:** Moderating variables modifies the relationship between Independent Variable and Dependent Variable.
4. **Intervening Variable:** "Job Satisfaction influences organizational effectiveness."
Job Satisfaction here is IV and Organizational effectiveness is DV.

Employee Perspective

What motivates an employee to stay? Is it the job security or compensation and benefits? And is there any relationship between job security and performance of the workers?

3.4 Motivational Theory

Motivation: "Motivation is a process that starts with a physiological and psychological deficiency or need that activates a behavior or a drive that is aimed at a goal or incentive. Thus, the key to understanding the process of motivation lies in the meaning of, and relationships among, needs, drives, and incentives. Needs set drives aimed at incentives, and that is basic process of motivation." (Luthans, 2002, p249)

Some important secondary needs includes: a secure job, protection against illness, being protected against loss of income or economic disasters, being protected against physical harm (Luthans, 2002, p250).



"Mostly researchers have focused on money as pay while dealing with money as organizational reward as pay effects the motivation, job retention and job attitudes. That's why linkage between pay and performance has been the main interest of organizational behavior researchers and theorists" (Luthans, 2002, p145).

3.5 Motivation and Recession

"The impact of the recession on people is mainly measured in terms of unemployment. Expectancy Theory, by its rational cognitive nature, whilst including individual subjective elements and addressing both intrinsic and extrinsic views, could be a good way to look at the influence of the recession on employees motivation. However, Expectancy Theory also has limitations, especially in terms of unaddressed crucial issues such as unconscious mechanisms, problems with multiplicity of the three different categories within the theory, lack of accounting for behaviour over time and perhaps an over-rationality of the theory resulting in an over-simplification of motivation in a complex climate" (Motivation and Recession).

3.5.1 Recession and impacts on motivation: ...An expectancy theory view

"The general strengths of Expectancy Theory, and perhaps the reason why it has been one of the most popular theories of motivation so far, is that it represents rationality in economics and as such, may allow a good understanding of the various impacts of the economic downturn on people and their motivation in the work context. It is sophisticated enough to encompass both objective and subjective criteria (e.g. Story et al, 2009), intrinsic and extrinsic influences, as well as the concept of locus of control (Hackman & Lawler 1971) which will be exposed later on in this article. It concentrates on a cognitive process with very well defined categories, allowing clear conclusions to be drawn. A cognitive appraisal could contribute to a clear rational vision and help the regulation of emotion" (Motivation and Recession)



Organizational perspective:

According to American academy of Business an average company loses approximately USD 1 Million with every 10 managerial and professional employees leave the organization. Combined with direct cost and fixed cost employee turnover is a minimum of one year's pay and benefit. Organizational perspective to keep/retain skilled workers in the economic downturn? What is the cost/benefit to retain the employees?

People are the most important asset of any organization, these are the only kind of assets that increase in their value and thus provide higher benefits as their tenure increases. Human resources in technical words increasingly become important for the organization. In order to ensure goal congruency between manager's, employee's and organization's goals, it is vital to understand the levels of job satisfaction for employees .

"It would be simplistic to suggest that flexible working is a silver bullet for European countries tackling unemployment, and the faith that so many people have in it to create jobs and boost economies is surprising. However, I do believe the current downturn will encourage employers think about how to adopt a smart workforce approach, using flexibility as a practical and cost effective way of retaining talented staff who need to balance other commitments," said Michael Bayer, president of field operations, EMEA (Rachel Hodgson, 11 may 2010).

Workers need to have time for their personal activities and for leisure also. Work overload causes employees to stay away from leisure time. Anneke Goudswaard, TNO, the Netherlands said in a debate, "We should be working 'smarter' not longer, the emphasis should be on higher productivity, underpinned by improved health and a better work-life balance for staff – key ingredients for a successful, productive organization" (Communiqué, 2004). Working parents with small children wants to reduce their working time mostly (Tremblay, Paquet, Najem, 2006).

Organizations wants to retain good employees to increase productivity and look to arrange a good organizational culture which includes job sharing, good employee morale and employee loyalty to the organization. To maximize the benefits to the employees, managers



need to review personnel practices. Organizations try to meet the demands of their employees to increase employee commitment to the organization (Bruning, 2004).

The organizations that are not supporting employee's family responsibilities can get their company's value minimized. Productivity and job performance of workers decreased and workers may be not interested in such organizations and find another organization who support work-life practices and they leave the current company to have better work-life support. Work-family practices/strategies include programs and policies like telework, job sharing, job enrichment, compressed work week, flexible working time, part time work, child-care facilities and family leave etc (Bruning, 2004).

According to Avaya research, "95% of all those surveyed attributed at least one of these positive qualities – happiness, productivity and working hard – to flexible working, the key factors felt to be motivators for employers to implement it were increased productivity (59%) and the desire to keep talented workers with family commitments in work (59%). Half of those surveyed see cost benefits to the employer as a key driver, however, a significant portion (34%) think that seeing how successful schemes at other companies have been will be a factor" (Rachel Hodgson, 11 may 2010)

Governments perspective:

Why governments try to reduce unemployment? Why should Govt. opt for our solution of reduction in the working hours to reduce unemployment on a broader scale?

Hessen Metal:

Fair consideration of temporary work required

The Managing Director of the Hesse District group of Arbeitgeberverbandes HESSEN Metal Dr. Dirk Hohn sharply criticizes the improper decomposition of the temporary employment sector by central Hessian IG metal. The share of temporary employment is ignored as well as the "adhesive effect" for low-skilled and human flexibility in job tips in the economic success of recent years in its program.



IG has again put the Hessen Metal, the issue of temporary work in the Centre of the criticism. Dr. Dirk Hohn, Managing Director of Hessen District group of HESSEN metal explained, "The acquisition of additional skills during temporary work can be springboard for higher classified jobs, could not be achieved in a direct application. Temporary employment can facilitate entry into the workforce". Part-time work has allowed the premises, quickly with capacity adjustments to fluctuations and ups and downs of the industry to respond in their own share of the German economic success over the last decade. Even in economically uncertain times like the current crises, temporary workers can help through the flexible possibilities of rapid job creation. This benefited not only the local employers, but also many workers who would otherwise remain without a job. According to Dr. Mockery, "Therefore a higher productivity can be assumed when employees allows a differentiated remuneration". To reflect the fact stimulates the framework conditions in the temporary employment sector due to the 95 percent tariff cover are significantly supported by their acting unions (Hessen Metall, 2010)

Limitation about motivation theory:

"The recession reduces job mobility as workers stay on rather than take risk by changing job. There could be a high correlation between employment stability and dissatisfaction". In our thesis we will try to find out about flexible working, it's possible impact on employee, employer and economy as whole. At the same times we will try to examine its impact on motivation.



Chapter 4

Literature Review

4.1 Reduced working hour schemes across Europe

Member states including the Austria, Germany, Netherlands and France already introduced short term working program. This helps specially employees to apply for state benefit to top up the wages because of reduced hours. Those entire programs usually negotiated agreements between the social partners and are in force when sales level drops. They are also supported in most cases by collectively agreed frameworks of working time flexibility (Hurley and Fian, 2009)

France used chomage technique or chomage partiel that is allows a publically funded scheme in case of exceptional economical difficulties of companies to recourse to state-governed funds covering 60% of minimum hourly wages during periods when staff are temporarily laid off. There has been a large number of companies applying for the funds, especially in the car and car-components sectors (Hurley and Fian, 2009).

French govt. extended maximum coverage of their scheme. They decided to extend it from 600 to 800 hour per year in general and up to 1000 hours (which is 28 weeks under the French 35-hour week). Applicable only highly exposed sectors which included textiles/clothing and automobile sectors. It also made compensating levels higher and agreed a prolongation of chomage partiel from four to six consecutive weeks (Hurley and Fian, 2009).

The Austrian Kurzarbeit system is similar to the German one but with less extensive average (Hurley and Fian, 2009). According to this model, employees agree to a reduction in working hours of between 10% and 90%. The pay check paid to the affected employee is a flat rate which depends on the income level of the employee. Another supplement of 15% to this flat rate is payable if the employee agrees to attend professional training courses during the period of Kurzarbeit (Widner, May 27 2009).

While the initial period of Kurzarbeit must not exceed six months, in the light of the ongoing recession in early 2009 the government changed the regulation and people can now benefit



from Kurzarbeit up to 18 months in worst cases. "The introduction to Kurzarbeit demands a special arrangement between the 'social partners' of the Austrian CBA landscape (i.e., the Chamber of Commerce and the labor union). Under the agreement, on behalf of employer and affected staff, the social partners negotiate:

- The scope of the Kurzarbeit arrangement, in terms of both staff covered and the maximum period of application;
- The conditions for any lay-offs during Kurzarbeit; and
- The scope of any professional training or re-training courses included.

The model allows employers to reduce labor costs in an economic downturn while at the same time ensuring that they need not lay off their experienced workforce which will remain on hand when the economy recovers. Employees in turn keep their jobs and most of their spending power, helping to stimulate economic recovery(Widner, May 27 2009)"

Its still a matter of debate to see about these economic projections of the model's effectiveness to prove accurate, but Kurzarbeit is well accepted & widely used across various industries and all sizes of business.

"The Dutch government agreed in January 2009 to extend a scheme whereby companies are assisted from public unemployment funds (under the Werkloosheidswet – Law of Unemployment) to cover 70% of the salary costs of permanent workers who are temporarily laid off or put on short-term working. In the scheme, which originally formed part of a general stimulus package announced by the government in November 2008, companies experiencing a fall in sales of 30% or more. Companies are over two consecutive months may apply for the financial support. The Dutch authorities added 200 million euro to the public unemployment funds in order to extend its coverage to firms severely affected by the economic downturn. In return, they are expected to undertake (re)training of temporarily laid-off staff who continue to receive their normal pay for between 6 and 24 weeks. By mid-January, 223 companies had taken advantage of the scheme with payments covering the costs of 340,000 working hours (Hurley and Fian, 2009)"

"Before the Slovenian parliament a bill formed that would provide job subsidies to companies that agree to cut the working week rather than make employees redundant.



Companies reducing the working week from 40 to 36 hours would receive 60 euro per worker and those reducing the working week from 40 to 32 hours would Receive 120 euro per worker. The subsidy will be available for a period of six months, during which time redundancies would be prohibited. The subsidies need to enter into an agreement with the company and a representative trade union(Hurley and Fian, 2009)''

4.2 Germany during the Economic Down Turn of 2008

Germany was the world's third largest economy before the crisis and it's a very well documented fact that in the last quarter of 2008 only the German economy shrank by 2.1 percent which is the highest since the reunification in 1990. It is not that Germans were not expecting the shrinkage in the economy in the last quarter but the shrinkage was more than estimated in the beginning of the year and it was just the tip of the Iceberg. In 2009 as per the German statistics office the economy shrank by further 5% making it the worst drop in the economic output since the Second World War.

Germany was affected more due to global downturn because of manufacturing and engineering sectors which were hit worst because of this decline in world trade (Dullien, 2009).

Now in 2010 as per the estimates the German economy will grow by 1.5%. This reflects that Germany is already out of this economic crisis faster than the other players in the world. When the economies of UK, France, Sweden, US, Japan, Italy and Spain have yet to show this fight back, How Germans managed to pull this miracle?

4.3 The great German turnaround

Instead of US type bail-out packages to companies and financial institutes the Germans relied on the same old technique of reduction in the working hours or short time employment scheme called KURZARBEIT. The model is almost exactly the same as foreseen by BOSCH & LEHNDORFF, 2001. Instead of making the employees redundant the organizations are asked to negotiate through the Collective Bargaining Agent (CBA) for a reduction of 10 to 90 percent work hours. The Government provides the support or subsidy up to 65% of worker's salary for the hours lost.



Germany has offered the short-time work program due to recession which is called 'Kurzarbeit'. This Short-time working scheme has an initial duration of 18 months for employees who became entitled to it before the end of 2009. Federal Employment Agency pays the employees a short-time-working allowance to compensate for the working hours lost. Collective agreements allow employer to state the short-time-working allowance (Fickinger, 2009).

Research shows that in Europe and Russia 66% of employees mostly work on flexible basis and which is 72% in Germany. According to research 85% of European employees think that flexible working creates new opportunities in new jobs creation (Hegewisch, 2009).

According to OECD (Organization for Economic Cooperation and Development), Germany has saved nearly 500,000 jobs with the help of Kurzarbeit program and is being appreciated and similar schemes are being adopted in other countries too. In Germany employment rate is 7.7% which is below the average 8.5% rate of other OECD member states. Germany is benefiting more than other similar economic countries because global trade and sectors of manufacturing and engineering are becoming normal now (Welle, 2009a).

"During the past few months the results of the program showed that the program is doing exactly what authorities wanted it to do, which is tiding over important employment slots through a temporary slowdown so that you avoid increasing the unemployment more than necessary," said OECD economist Paul Swaim. In views of some economist short-time working scheme may be best suited to Germany (Welle, 2009a).

Felix Roth, Economist at CEPS (Centre for European Policy Studies) in Brussels said that success of scheme such as Kurzarbeit short-time work program only depends on the structure of the country's economy and according to him its essential for the German economy because its export based and have big industries which rely on skilled workers who are suffering low demand temporarily due to global recession (Welle, 2009a).

Kurzarbeit can be applied if companies are facing the recession due to lack of orders. Loss of work and pay of at least 10% in a calendar month can be a condition to use short-time work program. Short-time working can be applied just for individual departments by the companies (Fickinger, 2009) .



Big industries need to hold their valuable and skilled staff to gain productivity. In period of recession companies can minimize the working time of their skilled workers instead of dismiss them. In this way employers can gain productivity and avoid the cost of training and recruiting while needed. If organizations lay off skilled employees in recession and recruit new employees while demand increases then unsuitable candidates may be recruited which results in loss of productivity (Legge, 1995).

These new employees recruited instead of old and experienced staff which has been laid off can cause absenteeism costs, lack of commitment and loyalty and quality (see Hunter et al.'s 1993 in (Legge, 1995)).

Metal and Electrical companies are developing medium-term damage-limitation strategies. They assume that when it will be an upswing in industries due to increase in demands they will face the shortage of skilled labor than ever. They set their aim at reconciling the liquidity and profitability constraints of the organizations human resources policy need. It is necessary to do some judicious compromises in this situation (Fickinger, 2009).

Due to the global downturn approx. 60,000 companies are prompted to reduce the working hours of their employees, and millions of working people's working hours are reduced by about 30%. Almost 1,056 million employees are taking advantage of this program.

Frank-Jurgen Weise, head of the Federal Employment Agency stated that Industrial sectors such as machine tools and auto industries can face the worst. Even where in other countries like US and Spain the economic downturn declined the employment market, the short-time work program in Germany supported the economic situations in Germany and saved millions of jobs.



4.4 Case study Germany

In economic recession of late 2000s all countries are trying their level best to reduce unemployment situation. In this regards, Germany looks like has come up with a better idea. While countries like US, Sweden, Ireland are searching for ideas to reduce unemployment (James, 3rd December , 2009) they may want to look at Germany and might get possible solution.

Like U.S., a serious recession also observed in German economy. In November 2009 while U.S., unemployment rate was 10.2 percent, Germany's unemployment rate was 7.5 percent. Experts and economist credit Germany's model known as "Kurzarbeit" which literally means short work (James, 3rd December , 2009) . Firms which facing a temporary decrease/reduction in demand can actually avoid lay off by reduction of working hours instead. If hours & wages are reduced by 10% or even more then , the government will pays employee 60% of their lost income or salary, which encourages all those companies to use reductions of hours instead of layoffs (Hassett, 2009). Germany's govt. helping companies to avoid layoff by subsidizes employers. It means keep employee on the work by reducing their hours and wages.

"The remarkable resilience of the German labor market is clearly and directly attributable to a specific economic policy. While economic differences can be difficult to explain. Americans and others who are facing similar problem would do well to take some (Hassett, 2009)"but German policy makers have been innovative and clever. The Germans have discovered a secret medicine that can cure unemployment, or at least minimize its spread (Hassett, 2009)"

4.5 How does it work?

In Hassett's own words "a firm facing the challenges of the recession cuts Angela's hours from 35 to 25 per week, thus reducing her weekly salary to 714 euros from 1,000 euros. Angela does not work for the company during hours which was lost. As part of its short-work program, the authorities now will pay Angela 171 euros – almost 60 percent of her lost income. Most important aspect of this is that she still has work in the organization. Effectively, the govt. is giving her unemployment insurance/fund for the 10 hours a week that she is not employed "(Hassett, 2009).



The example of Angela quoted above clearly states that despite of the fact that Angela got her work week reduced to almost 29 percent while her salary reduced to 11.5 percent. Angela is happy because in a way she is being paid for less work, she has more time for her family and leisure. On the other hand Government is happy because it has saved a job by chipping in 171 Euros a week to a worker's salary, which in case of unemployment would have cost the government an additional 600 Euros per week for an unspecified time.

The Company Angela is working is also happy because by reducing the work hours it reduced the wages and thus cut its overheads and expenditures in the short run. The company also saved another 4-10 thousand Euros potentially in the long run if Angela was fired and they had to hire a new staff and invest in his/her training to make him/her worth taking up a skilled and trained worker's job.

This is the win-win-win situation for all three parties involved in the above mentioned scenario. Now after the crisis when the things are back to normal Angela will go back to regular 35 hours and will start getting the usual weekly salary of 1000 Euros. Government will stop chipping in the weekly 171 Euros.

4.6 Economic Case in the favor of reduced working hours

The economic reason/point in relation of such a policy is very powerful. During the down turn the company's profits & sales go down and company in order to keep itself afloat need to lay off employees which decreases the expenses. Since the recessions are always short term, companies after the end of the recession need to re-hire employees. The skilled employees fired in the beginning of the crisis may ne work again for the same company, so company needs to find new skilled employees who are expensive and even the hiring of such individuals costs money and then training costs also add up. In the recession the best strategy for a company is to keep its labor on board. (Hassett, 2009).

Hassett also noted that If such a company faces a 20 percent reduction in the sales it would be more easy to reduce the all of the employees' work by 20 percent. This will help the company keeping its work force which can help ramp up the production in the long run at a lesser cost. (Hassett, 2009).

For example the sales of an XYZ company are down to 30% and the company is forced to cut down its production accordingly. If the company fires it 30% of skilled but made



redundant work force and lowers the expenditure in terms of salaries and other overheads. Now after the recession is over the company's sales are again back to the pre-recession standards the company needs to hire its lost work force back, which is quite impossible since the useful and skilled workers have already found other jobs and are not willing to come back. So, the XYZ Company has to hire new workers and pay for the recruitment services, training costs as the new work force does not possess the necessary skill levels to start effectively contributing from the very first day. The hiring and training costs are a huge amount of money which can be saved if the company in the midst of crisis takes a decision to reduce the work hours by 30% in general (everyone in the company) and reduces the costs. This will not only help in retaining the important workers but also increasing the loyalty of the workers as well as huge sums of money in re-hiring and training costs.

Based on the German model companies can actually be attracted to keep the best and efficient labor in the down turn which will help companies expand at a faster rate without spending a lot of resources and time in costly replacements. (Hassett, 2009).

Hassett also noted that since all the work force on the verge of will agree to reduce working hours instead of going unemployed and looking for jobs which are scarce in the downturn. They will be making slightly more money than living on the unemployment benefit. This also keeps them in contact with the labor market and they can always land new jobs through employee networks (Hassett, 2009)

In case of Governments supporting a worker on the reduced hours is much more less expensive than supporting an unemployed. The employees will be in a state of working which helps soaring long term unemployment at bay. This will trigger a faster and less expensive economic recovery which will ensure steady revenues for the government in the long run. (Hassett, 2009).

Hassett notes that German model cost Germany a mere 2.85 billion dollars, which if adjusted for larger US population would have cost 10.6 billion dollars which is almost one-seventeenth of the US stimulus package. (Hassett, 2009)



In this economic crisis the manufacturing sector is affected more than any other sector in Germany. But importantly, only few companies adversely affected have laid off workers, and most of the companies have frozen recruitment plans and have introduced cost-cutting programs instead. During September 2009, The Institute for Employment Research (Institut für Arbeitsmarkt- und Berufsforschung, IAB) published their survey findings about company's adjustments to protect employment during the economic crisis. The survey conducted at the end of the first half of 2009, which shows that establishments in various sectors have been affected in different ways. However, the vast majority of companies have so far refrained from reducing the staff. (Stettes, 2009)



Chapter 5

Statistical Framework

The economic downturn of 2008 has proved vital in re-defining the employment situation in different OECD countries. A surge in the unemployment figures has been seen in OECD region after the crisis and its still getting worst despite of the economic recovery in different countries. United States and Sweden are examples of those countries where the unemployment has yet to hit the bottom. The US bailout package of almost a trillion dollars has yet to show a genuine decrease in unemployment.

5.1 Unemployment rates in OECD Countries

After the great depression of the 1930s, at present this economic downturn is alarming predictions about the employment impact of the most severe crisis in the develop countries. According to ILO, in January 2009 that global unemployment could go as high up as 50 million. Already, we can see most of the developed nation in Europe, and rest of the world facing recession (Hurley and Fian, 2009).

In 2009 statistics published on Ekonomifakta website reflect The Netherlands and Austria were the only two countries in the OECD who had a 5 % or less unemployment rate. The Average of EU's 27 countries was almost staggering 8.9 percent, while the Swedish unemployment rate hovered around 8.3. Spain along with Baltic countries and Slovakia have the biggest unemployment rates in the OECD. The dynamic graph given below reflects the very fact of economic difficulty and the surge of unemployment.

The data presented below (figure 1) takes into account all the eligible workforce of the OECD member states aged between 15-74 years. However the youth unemployment for the workers aged 15-24 presents a very bleak picture of the OECD states where the youth has started finding it even difficult to find work.

Figure 2 shows that Sweden is ranked 7th in the list of least favorable countries for the youth to find work with a youth unemployment rate of 26.4 percent with Spain, Slovakia, Estonia and Ireland leading the pack with 30% plus unemployment rates. Netherlands,



Germany, Austria and Denmark are the most favorable countries for youth in terms of employment with less than 13 % unemployment rates.

After the economic downturn of 1990s, the rise in the unemployment was substantial, especially among the youth. Through out the 1990s the unemployment among youth was higher but then in 1998 the situation started getting better.

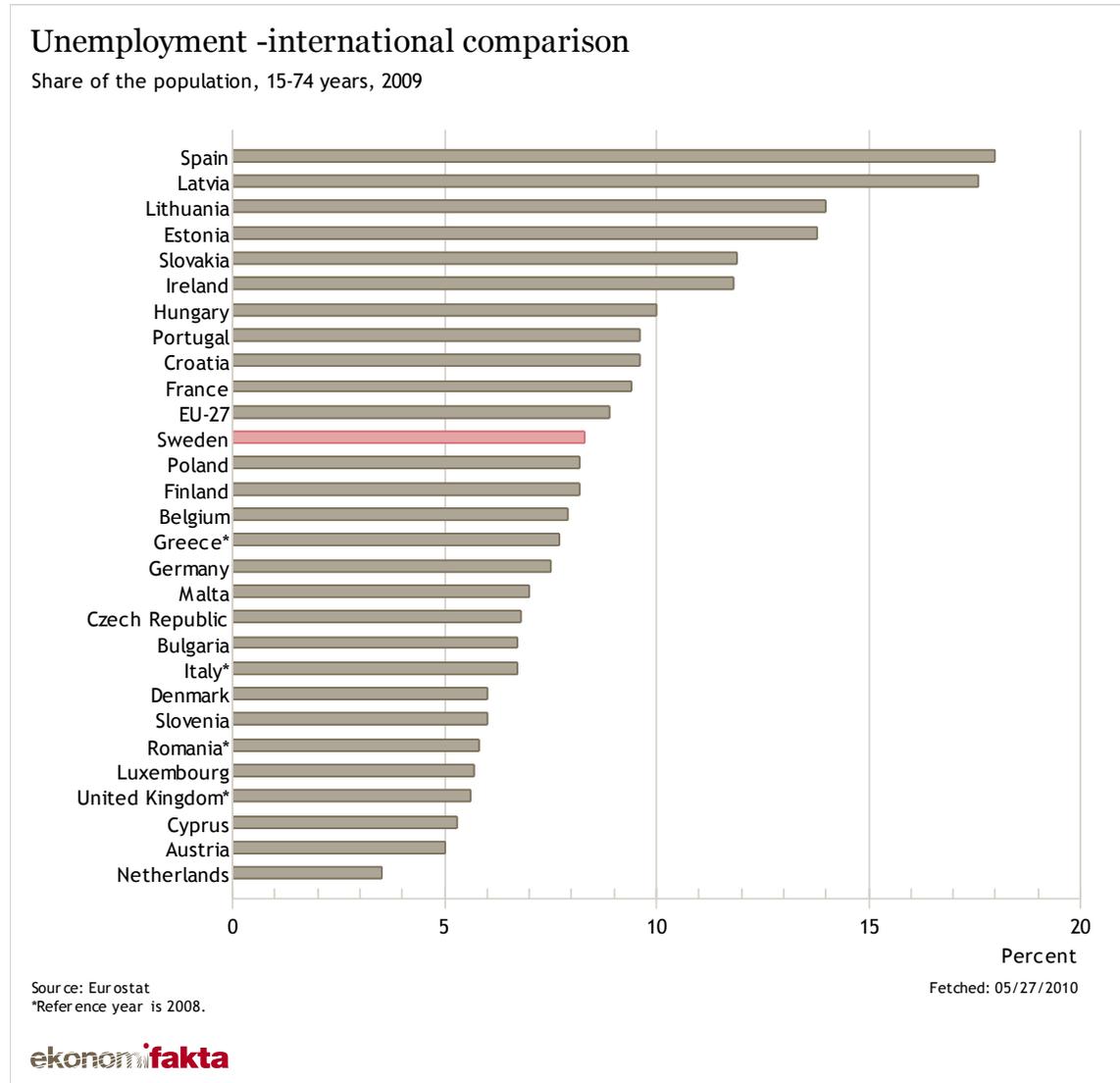
Youth unemployment in Sweden is on the rise again, since the 2008 year 20 percent or more of the swedes aged between 15-24 years are unemployed and looking for work. Sweden if compared to most of EU nations has worst youth unemployment figures.

Furthermore, in the aftermaths of the financial crisis of late 2008 the unemployment generally and the youth unemployment especially has increased in most countries. Sweden stands along with all those nations seeing a surge in youth unemployment. The current figures stand at more than 26% which reflects the 6% increase in the youth unemployment since 2008.



Figure 5.1 Unemployment -international comparison

Share of the population, 15-74 years, 2009

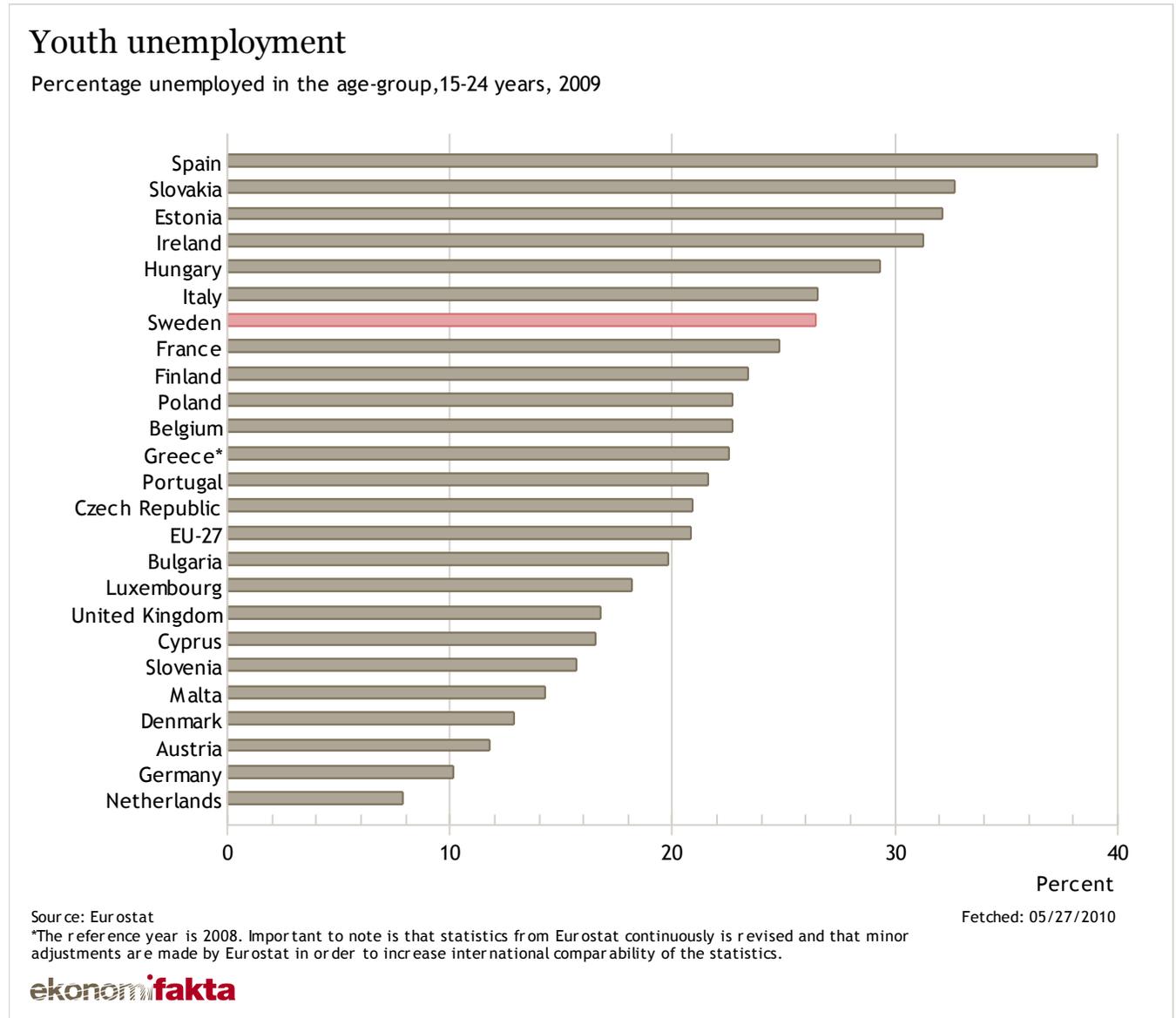


Source: <http://www.ekonomifakta.se/en/Facts-and-figures/The-Labour-market/Unemployment/Unemployment1/>

*Reference year is 2008.

Figure 5.1 (b) Youth unemployment

Percentage unemployed in the age-group, 15-24 years, 2009



Source: <http://www.ekonomifakta.se/en/Facts-and-figures/The-Labour-market/Unemployment/Youth-unemployment-/>

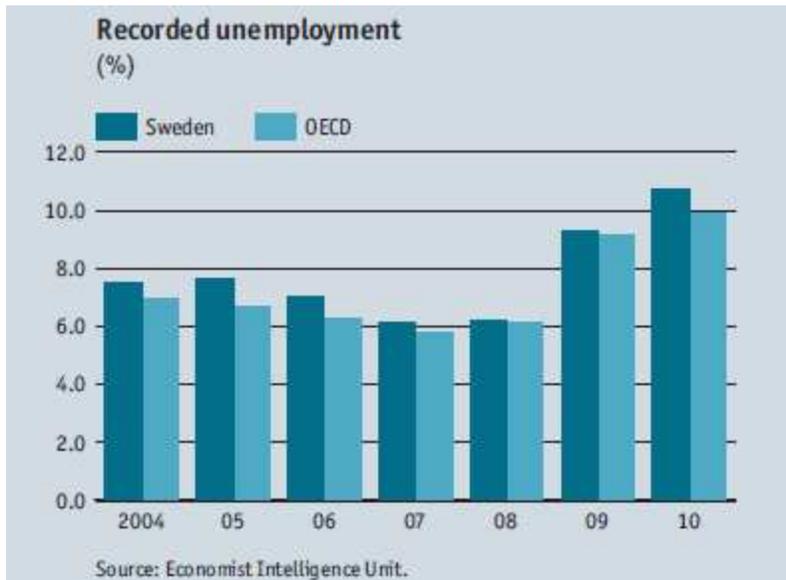
*The reference year is 2008. Important to note is that statistics from Eurostat continuously is revised and that minor adjustments are made by Eurostat in order to increase international comparability of the statistics.



Unemployment in Sweden was unprecedentedly low throughout the 1970s and the 1980s. In the early 1990s, however, the unemployment rate hit the sky and touched double digits. Unemployment remained high for several years but exhibited a marked fall from 1997 (Holmlund, 2003). After 2001 it was again increasing until 2005 and then it was decreasing until 2008 and again increasing, now in 2010 unemployment rate it 9.3%.

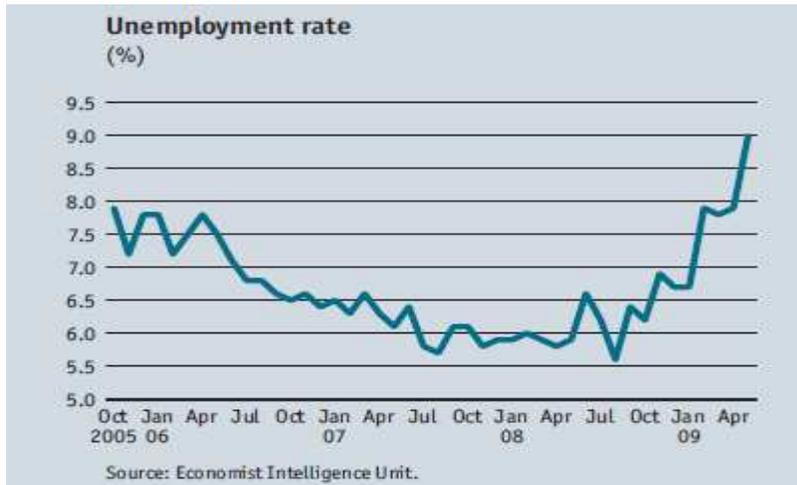
Current Unemployment situation:

Figure 5.1 (c)



In this picture we can see clearly that Swedish unemployment is increasing and also comparison with OECD countries(2009a) The unemployment situation is getting worst in 2010 and the third and fourth quarter of 2010 are going to be worst in terms of unemployment.

Figure 5.1(d)



Swedish unemployment monthly rate (2009b)

Figure 5.1(e)

Key economic projections



Source: <http://www.oecdepublishing.org/Keygraphs/Sweden-frame.html>

The figure 5 reflects that by the end of 2011 the projected unemployment will be slightly over 9 percent and OECD combined unemployment rate would be under 9 percent. The last quarter of 2010 and first quarter of 2011 could be worst and unemployment can hit 11 percent.



“Statistics Sweden has mentioned that the Scandinavian country's national unemployment rate rose to 9.4 % of the labor market. This is equivalent to 458,000 individuals and an increase of 2.1 per cent year-on-year. This figure is 0.1 % more than analysts had foreseen before the data published and a 0.8 per cent increase on December's rate. The agency has suggested that a rise in the unemployment figures has slowed during the last few months thanks to a higher number of employed men. In total, 4,399,000 Swedish labor market workers had jobs in January, which is 80,000 less than the same period during 2008. In December 2009, the Swedish government predicted in its economic forecast for the year that unemployment would peak in the economy at 9.5 per cent, which is 1.2 per cent less than it had previously suggested (Randstad, 2010)”

The economic slowdown of 2008 has forced the organizations to downsize and a lot of organizations in Sweden have already chalked up plans to further shed down the workforce, e.g. Sonyericsson has announced recently in November 2009 to downsize its R&D employee pool. On the other hand, we mentioned earlier Volvo power Train has struck a deal with employees union to lower the number of working hours with a substantial decrease in the employee earnings in a bid to retain the expertise and to facilitate its employees.

The Himalayan Times published a statement from Mr. Peter Karlsten President of Volvo Power train on 29th May 2009 "The agreements on shortening of work hours are extremely important for us since it is then possible to retain expertise in the company despite the highly substantial reduction in demand," (The Himalayan Times)

5.2 Notices influencing unemployment

The share of the dismissed among those who have been given notice has decreased somewhat during December 2009, but the consequences of the executed dismissals have in more and more cases turned into transitions to unemployment. Of those dismissed subsequent to notice of dismissal during October 2008, 58 percent returned to the Employment Service as unemployed at some point during the following six months. This can be compared with the 30 percent of those who were dismissed subsequent to notice during the first half of 2008(Arbetsförmedlingen, 2010)



5.3 Decline in labor demand

In April 2009 the number of vacancies reported to the Employment Service offices of the country amounted to 34,000* which is 36,000 less than one year ago. The vacancy volumes during April 2008 were particularly high due to the calendar effect; the fact that Easter in 2008 fell in March. The decline was noticeable and particularly large in the transport sector, the manufacturing industry and the commissioned activities. The number of vacant vacation jobs has decreased from 10,000 to 5,000(Arbetsförmedlingen, 2010)

5.4 Fewer job seekers entering employment

During April 42,000 of all registered job seekers started some kind of work, a decline of 13,000 people in one year. The decline depends partly on the fact that Easter in 2008 fell in March. Of those who entered employments in April nearly 29,000 were unemployed or participants in programs with activity support. Among those were:

- 7,000 young people under 25 years of age
- 5,000 born abroad
- 3,000 functionally impaired.

Furthermore, of those unemployed or participants in programs with activity support, 25,000 entered employments without support, more than 2,000 employment with support and less than 2,000 new-start jobs. The share of people in unemployment or programs with activity support who entered some type of employment in April amounted to 7.5 percent(Arbetsförmedlingen, 2010)

5.5 Increased inflow into unemployment

The number of newly registered unemployed with the Employment Service increased significantly in all age groups. During April the increase amounted to nearly 10,000 people, compared to the previous year. The total number of newly registered unemployed was 30,000(Arbetsförmedlingen, 2010)''

5.6 Unemployment increasing fast

The number of unemployed remaining with the Employment Service is increasing within most groups in the labor market. At the end of April the number amounted to 221,000 people, or 4.8 percent of the labor**, an increase by 1.9 percentage units, or 89,000



people, in one year. This means an increase since March by 2,000 people. The share of the unemployed in proportion to the population has increased from 2.2 to 3.7 percent in one year (Arbetsförmedlingen, 2010)

Since April 2008 the unemployment has increased more for men than for women.

- The number of unemployed women has increased by 26,000
- The number of unemployed men has increased by 62,000

“More men than women are now unemployed — 134,000 men and 87,000 women in April 2009. The increase in unemployment includes all age groups. Among young people 18 to 24 years of age 39,000 were unemployed, this is 16,000 more than one year ago. Among older people the unemployment is now increasing significantly. In one year the number of unemployed over 55 years of age has increased by more than 8,000 to 29,000 (Arbetsförmedlingen, 2010)”.

“The lowest unemployment in April was found in Uppsala County (2.6 %) and the highest in Västernorrland County (4.8 percent). During the last year the unemployment has increased in all counties - most in Värmland County (2.3 percentage units) and least in Uppsala County (0.9 percentage units). On national level the unemployed share of the population amounted to 3.7 percent, an increase by 1.5 percentage units in one year (Arbetsförmedlingen, 2010)”



Chapter 6

Case Study Sweden

Sweden faces an uphill task to reduce long term unemployment. Swedish government has taken a number of measures and has started different schemes to achieve this objective. Below you will see how in the current situation Swedish government is trying to tackle the soaring unemployment.

6.1 Government steps to reduce unemployment in Sweden

1. Employment and Development Centers in Malmö
2. Swedish government unveils measures to fight unemployment
3. Lower taxes for 2009 in bid to boost employment
4. Instigsarbet
5. Temporary Layoffs

6.1.1 Employment and Development Centers in Malmö

Here we will try to show some initiatives taken by The Swedish govt. and the local authority; which is interesting but in the long term this does not implicate any positive signs to better the unemployment situation. One of the projects we studied is called EDC and is based in Malmö.

Malmö is one of largest city in southern Sweden and has taken some initiatives to reduce long term unemployment problem. They are working with various levels of government and organizations in a cooperative way to utilize its resources so that unemployed people can access the information quickly and easily (Lannerheim, 2007).

Geographically Malmö is situated in an important economic zone which is close of Copenhagen, the capital of Demark. There are much more opportunities to get work in comparison to other cities in southern Sweden. Since it's connected and close to Copenhagen, recent years have seen an increasing number of Danish recruiters looking for employees from Malmö. On the other hand there is good number of supply of labor in



Malmö with high levels of migration to the region. This includes Swedes from other parts of the country and immigrants from abroad including refugees.

But Malmö's jobseekers do not always have the skills required for the available jobs, so the city of Malmö decided to increase the skills of unemployed personnel and helping them to get employed and thus reducing unemployment. Here, the role of Employment and Development Centers (EDC) is to ensure better coordination and cooperation between public authorities and national resources. On the basis of mutual understanding and joint collaboration they are trying to improve the unemployment situation. EDC treat each individual separately and try to know exactly what are his/her needs and their potentiality, limitation and then trains them accordingly. Finally match them with employers' needs. So, this joint works makes it possible for EDC to create a positive impact in the employment situation. Where they act as a medium in between at least two authorities and try to match the gap and thus help individual job seekers to find their right employment (Lannerheim, 2007).

Employment and Development Centers are operated through collaboration between the city districts, the Swedish Employment Service, and the Swedish Social Insurance administration. Their objectives are to help those unemployed people who are far away from job market(Lannerheim, 2007).

Usually EDC maintain close contact with industry, labor market as well different party linked with employment organizations. More also linked with customized education and training necessary for individual job and collaboration with Swedish employment services authorities, local govt., families(Lannerheim, 2007).

EDC works with special cases as well especially those are far away from labor market, and those who are on sick leave but not taking any advantage from Social authority, and immigrants.

The Swedish Employment Service basically coordinates business contacts and matches initiatives which are within frame work of EDC. It includes special and planned initiatives with employer for gainful employment (Lannerheim, 2007).

The city of Malmö is primarily working with the assessment of individuals with the objective of evaluating their potential for training and educational course. It includes vocational



training courses, Swedish language training, adult education, job search program. Then they organize and customize training courses in collaboration with training companies, employers and EDC. And usually once a person completes training course successfully then he is rewarded with the job (Lannerheim, 2007).

The Swedish Social Insurance Administration is also involved in the whole process and uses its expertise and resources in the collaboration and objective is to prevent and reduce the duration of sick leaves.

This is of course a great idea, but if we see in the long run the country wide impact in reducing unemployment is limited, while in the short run it is possible to see positive image. One of the reasons is that the number of immigrant people has increased and Govt. support for adult education has reduced. It is also difficult to maintain the quality of the program effectively. The employment market initiatives fell dramatically in 2007 as a result of the policy of the new government.

Main objective has not been achieved since the capacity of the unemployed people is often lower than the level for which an employer is prepared to pay. According to Pia Hellberg Lannerheim (Lannerheim, 2007) there is a gap between social policy and labor market policy, which might be because of the changes in the govt. policy .

6.1.2 Swedish government unveils measures to fight unemployment

According to (Arbetsförmedlingen), the Public Employment Service forecast of unemployment in 2010 about 11% of the population. More than half a million people or 9.8% of the population were registered as unemployed in June 2009, according to Statistics Sweden (Statistiska Centralbyrån, SCB).

Swedish Govt., made an announcement on 26 August 2009 about its employment policy to prevent long-term unemployment in general and also to reduce the high level of youth unemployment due to the economic recession. Government's plan to invest SEK 8.4 billion (about €810 million as at 8 November 2009) in the next two years with the aim of easing the effects of the recession. Further details were given when the government presented its Budget Bill 2010 to the Swedish parliament (Sveriges Riksdag) on 21 September (Lovén, 2009).



The first part of this kind special package will support the expansion of existing education programs which represent an investment of SEK 4.5 billion (€434 million). The goal is to enable 23,000 new member in education system, of which 10,000 member will be at universities & higher education level, 10,000 in municipal adult education programs (Kommunal vuxenutbildning, Komvux) and 3,000 at the newly established Swedish National Agency for Higher Vocational Education (Myndigheten för Yrkeshögskolan), which administrates government grants/subsidiary and supervises all higher vocational education. in Sweden all these training program are customized according to the need and demand for such training program(Lovén, 2009).

“The second part of the package, will subsidize different labor market measures for unemployment people. Including an investment of SEK 3.9 billion (€376 million), such as 54,000 new activities and/or enrolments in programs for long-term and short-term unemployed people. Some 40,000 places will be made available in a new labor market activation program called Lyft ('boost'). This program offers unemployed people can chance to take up temporary work. Such as repairs or maintenance, at county council or municipal schools, care centers, cultural institutions or in forestry. . In addition, 12,000 places will be created in work placement schemes, vocational training and coaching programs. The purpose of Lyft is to enable unemployed people to remain in contact with the labor market. The government also plans to create an additional 1,000 new places in short-term education programs. Furthermore, some 1,000 places will be made available at adult education centers (Folkhögskolor) that will make it easier for unemployed people to find a new job by developing their practical skills ”(Lovén, 2009).

6.1.2.1 Criticism about govt., proposed model

There are a number of authorities and political personalities, and economists who have criticized this action. “According to a Swedish newspaper on 27 August 2009, the economic spokesperson of the social-democratic opposition party, Thomas Östros stated that the measures are well needed but that they came too late, and that the measures are not powerful enough to combat the high level of unemployment, as well as the effects of the recession(Lovén, 2009)”



“In a press release Swedish trade union for professionals in the private sector Unionen also stated on the same day that the government package of employment measures is not ambitious enough. The trade union thinks that the measures government is looking forward to take are inadequate and inconsistent in relation to upcoming needs. Employees union has estimated that a further 300,000 people will go jobless by 2011. Unionen is also questioning the type of investments and has demanded other kinds of activities, such as those enabling growth and continuous vocational training”(Lovén, 2009).

Both LO and Unionen have demanded to increase the scope of training program for unemployed people. The Swedish Trade Union Confederation (Landsorganisationen, (LO) also has said that “the provisions are not far reaching enough and came too late (Lovén, 2009)”. LO also criticizes the new Lyft initiative and is concerned that collectively agreed minimum wages will not be applied for work placements under this initiative, according to an interview by the Swedish News Agency (Tidningarnas Telegrambyrå, II) on 26 August 2009”(Lovén, 2009). The President of LO, Wanja Lundby-Wedin, highlighted that “the government’s actions are inadequate to help the large number of unemployed youth” (Lovén, 2009).

6.1.3. Lower taxes to boost employment

An important area of budget bill 2008 was the reform program for employers, employees and small businesses, concerning jobs and social welfare. To manage a weaker economy and to increase of employment opportunity the government tried to introduce a program called ‘in-work tax credit’ (jobbskatteavdrag). In doing so proposed the lowering income tax of around SEK 40 billion (about €4 billion, as at 16 October 2008). A later reduction of SEK 10 billion (€1.01 billion) is also proposed. Govt., also proposed to increase social security for unemployed persons and that will be achieved through changes in the unemployment benefit funds. And the corporate tax rate will be lowered from 28% to 26.3%(Brunk, 2008).

Several organizations have expressed their view point about government’s actions on budget 2008. “Swedish Confederation of Professional Associations (Sveriges Akademikers Central organization, SACO) supports the idea of restructuring of the unemployment benefit fund, they think a reduction of income taxes is good, at the same time they think this is expensive and costly way to reduce unemployment (Brunk, 2008).



In April 2010 if we can see the unemployment rate, we can easily conclude govt., thinking was good but didn't work according to their plan, and rather unemployment rate is increased.

"The Professional Employees Confederation in Sweden (Tjänstemännens Centralorganisation, TCO) states that it would be better if the government invested the budget surplus in safety reforms rather than in tax reductions when the economy is undergoing a slowdown"(Brunk, 2008).

6.1.4 Instigsarbet

It is another of the initiative taken by the Swedish Government in order to reduce long term unemployment. In this scheme the immigrants who are given a residence permit to stay in Sweden are entitled to register themselves with the arbetformedlingen (the Swedish Employment Agency). The Swedish employment agency in return tries to negotiate a job for the applicant with different employers. The companies who will provide employment to the applicant will be paid 75% of the applicant's salary to the employer for the first 3 years. The applicant in turn ensures that he will join a language school to learn Swedish which will eventually help him finding a new job as well as ensures a smooth integration in to the Swedish society.

Since the immigrants are most vulnerable in the job market and comprise a large part of the long term unemployed this measure certainly helps in reducing the long term unemployment.

6.1.5. Temporary Layoffs

In Sweden there is another scheme in place in order to save the jobs and it is called temporary layoffs. Companies like Volvo and Scania have saved jobs by using this. Temporary layoffs require the necessary arrangements with the collective bargaining agents (in this case Unionen), Companies can by taking the CBA on board and communicating extensively with the employees reduce the working time of the employees as in case of Volvo where the wage loss is not part of this arrangement. The employees are funded through A-Kassa for their time loss. While Scania has implemented this arrangement by reduction in the wages by ten percent and a time reduction of 20 percent, all the personnel undergoing this arrangement can benefit from a training program funded by European Social Fund. All the sectors of the economy and all the companies can opt for this option in order to save jobs.



6.2 Time to find a new model

Sweden is one of the few countries which provide better unemployment fund, better opportunities for adult education, and training programs. The employment centers also are working hard to provide necessary information to match unemployed people and their experience with possible opportunity. As we try to see Malmö Employment development center was one of the interesting ideas, but didn't work properly and Govt.'s new proposal on tax reduction is also interesting. They are reducing some percentage of tax from various sectors to improve the unemployment. But what we can see here the situation is getting difficult day by day. We are not saying that it is a grave situation since Sweden is in better condition than any other developed country in the Europe to cope up with the unemployment. But we feel that something is missing. In addition to govt.'s model we need to add something else to reduce unemployment.

Many countries in the Europe are trying to change and improve unemployment situation by reducing working hours. Countries like Germany are one example. Not in all the cases it works but where there is a situation to lay off the factory workers, there is a small opportunity that reduced working hours can save jobs and will have some impact in reducing unemployment in the country.

Since all the efforts of the Swedish Government have not generated enough positive results, is it time to adopt the German short time employment model to create more jobs and increase employment in the country?



Chapter 7

Analysis

For the sake of analysis we have undergone an extensive study of both German model and the measures Swedish govt. has taken in order to reduce the unemployment. Analysis of all the elements of both the countries' efforts has led us to suggest certain possible solutions and ways to handle the unemployment and also to save jobs in Swede.

7.1 Findings

Following is the list of findings

- a. The German model can be implemented in Sweden easily since the German model is very simple and easily replicable.
- b. Govt. in Sweden is definitely aware of the fact that the unemployment is a serious threat and needs to be fixed as at the earliest.
- c. The Govt. in Sweden has already taken serious steps to reduce unemployment but so far the efforts have not borne any fruits.
- d. The reduction in the work hours or the subsidized employment if does not reduce the unemployment helps retain the figures previously recorded.
- e. The different efforts to reduce the unemployment by reducing the work hours have all proved fruitful somehow or the other. Some of the efforts like German, Austrian and Dutch efforts have shown great result while the others e.g. the French efforts have only marginally improved the employment.
- f. The reduction in the work hours certainly brings the families of the employees closer and they tend to have more quality time together.
- g. Reduction in the working hours is definitely the answer to decrease the unemployment especially in the crisis situations. It can be easily implemented in troubled companies in Sweden by seeking help from the collective bargaining agents and the potentially threatened employees and management of the troubled company.
- h. The sick or troubled units can be offered this solution for a shorter period of time in order to save the current job pool exactly as the Germans have done it.



- i. The German model is quite straight forward and does not imply any cultural issues if replicated in Sweden. Even otherwise the Swedish and German cultures are almost similar and policy makers can always look into the adaption of the model as per the Swedish requirements.

7.2 Proposed Scenarios

We have developed some proposed scenarios, which could be helpful in reducing unemployment in Sweden.

- a. Reduction in the working hours can be helpful in general as well if the government chalks up a policy to reduce the working hours to 30 hours a week instead of 40. The lack of ten hours of salary can be covered by offering reduced taxes to the employees taking up the option voluntarily. For example if an employee gets 22000 kronors before tax and after tax his take home salary is 17000 kronors and he works for 160 hours in a month, he makes about 107 kronors per hour after tax and 138 kronors before tax. Now his hours are reduced to 120 instead of 160 and on the same rate he will be getting 16560 kronors before tax and Govt. can reduce direct income tax and thus he may walk away with around 14500 kronors per month. His direct income loss would be around 2500 kronors and he gets 40 hours of free time for his family and friends. The studies conducted in Finland around the turn of the century actually show exactly the same thing. Another young worker can be hired in his place to work for reduced 40 hours or 10 hours a week. The youth recruitment will reduce the burden on the social welfare system and this new job will help him train for the future big assignments.
- b. Govt. can initiate a pilot project as well asking biggest companies in Sweden to introduce volunteer reduction in the work hours among the employees. For example a company has 1000 employees who work 40000 hours a week and if half of them voluntarily take up the reduced working hours scheme then total hours worked by 1000 employees in a week will be 35000 hours that is a reduction of 5000 hours a week and company can actually hire 167 full time employees to work for these lost hours. That is a 16.7 percent increase in the work force. Govt. can actually provide subsidy to the companies by offering 0 percent or a very nominal social taxation on the new hires. Companies don't need to increase the infrastructure or facilities since



new hires will be working during the time when the other employees are not working. Govt. can also ask the companies to hire only the youth in the beginning for six months and companies will be allowed to fire any of the new recruits anytime within six monthly probation period. The CBAs can also be taken on board and Govt. can further ensure that training of the new hires is also subsidized by the govt. support.

- c. The role of the Govt. should be of a monitor and helping hand, if the unemployment goes down, it would be Govt. who will take the credit of doing so.
- d. All the players should be mutually taken on board before taking any decisions i.e. Govt. bodies, CBAs, Employers, and even opposition parties who criticize the decision if not taken on board.

7.3 Survey Results

We have contacted 4 professional through email and telephone calls and asked them questions related with the topic as well in addition to our desktop research through number of articles and journals and other published literature. We asked them five questions except Volvo and Scania no one answered all the questions.

7.3.1 Questions

1. What do you think of reduction in work hours as a tool to reduce unemployment, how should Sweden pursue it?
2. What do you think of if this is doable in Sweden, how should Sweden tackle this issue in generating employment?
3. Is it a temporary solution or can we use it as a long term solution to unemployment?
4. Since Scania and Volvo are involved in this and saved a lot of employment. Do you think it's possible to implement this in any other company as an example/model? Was it short term solution or long term solution?
5. If you have any other thought regarding flexible working and its relation to unemployment, please mention that as well.



7.3.2 Responses

Answering the question, what do you think of reduction in work hours as a tool to reduce unemployment, how should Sweden pursue it? Almost all of the respondents are off the view that German model provides a short term solution to save the jobs and certainly provides the basis for reduction of unemployment in as well but that needs to be taken care of through well structured Govt. intervention and a series of laws and regulations.

Ms. Annette Linton VP, HR and Communication for Volvo power train was off the view that non viable jobs should not be created, supported or saved at any level in the organization. Only viable and productive jobs can be created supported and saved through this solution. She also commented on the fact that production jobs can be easily saved and streamlined while other support function jobs like sales, Marketing, Finance and HR, only the important jobs can be saved through German model. She was also of the view that Sweden can create employment as well using this model but only through Govt. intervention and giving organizations the necessary subsidiaries and support. She supported our proposed scenario that Govt. should through labor policy reduce the working hours of the employees from 40 to 30 and thus for important jobs ask the companies to recruit new workers for the reduced hours and then Govt. should support companies to help them train the new recruits. She very much appreciated the Instigsarbet scheme as well, already in place in Sweden as a vital scheme to reduce the unemployment at least among the immigrants.

Companies can easily implement this as well; all they need to do is contact the CBA and ask them to come to negotiate all this.

Mr. Hans-Åke Danielsson, Press Manager, Corporate Relations Scania responded to this question this way, in his own words, " Reduced working hours is a way for the companies to keep its personnel, and thereby its core competence, in downturns. Scania's way of opening up for young people to get into the labor market is its system with temporary contracts, which is used in order balance short to medium term changes of the demand. An agreement with the Union enables Scania to have up to 20% of the workshop employees hired on temporary contracts. These contracts are normally on 6 months with an opportunity to additional 6 months. After this period, the temporary employed have priority to the fixed jobs that are available. This system makes the fixed jobs more safe, gives young people an



entrance to the labor market and the company more willing to respond to changes in the demand”

Responding to another question he replied, “ How to handle a situation as the one that appeared after the global financial crisis need to be discussed among all stakeholders, i.e. the politicians, the unions and the companies. It’s about finding a way of tackling an instant drop in demand that safeguard not only the employees concerned but also the companies’ long term survival as well the countries public finance”

He responded to another question by saying that it is definitely a short time solution and companies and Govt. need to take some other measures as well to make it a long term solution.

The most pathetic answer we got was from Arbetsmarknads departementet Ministry of employment, Sweden, where we could not break the clutter of bureaucracy and reach to the policy makers. The only person we could get a two line response was a press assistant who said, ‘If reductions in working hours should be used as a means to handle the economic crisis and downward economic trends, be it temporary or permanent reductions, are issues primarily handled by the social partners in collective agreements’

Mr. Peter Tergeist, Employment Analysis and Policy Division, Directorate for Employment, Labor and Social Affairs, OECD answered the questions and supported the fact that reduction in the working hours can certainly reduce unemployment in any country in the world. We sent him abstract of our research as well and he pointed out two mistakes in our research, which should be recorded and corrected in the body of the text in the previous pages. As per him, ‘ In Germany, the Kurzarbeitergeld is paid to the employer, not directly to the employee and the “jobs saved” in Germany were certainly never up to a million. At the height of the short-time work scheme last summer, employees involved were 1.5 million. This could be translated into. 500 000 full time equivalents if you consider that the average working time reduction as a third. But an estimate in the forthcoming OECD Employment Outlook estimates the number of permanent jobs realistically saved at only half of that”



Chapter 8

Conclusion

The unemployment situation in Sweden is real bad and needs immediate actions and steps to correct it. After going through the analysis part we have come to the conclusion that the reduction in the work hours certainly presents a solution for reduction in the unemployment and Sweden can definitely benefit from it, provided Govt. takes it up seriously and provides the organizations the necessary support and motivates them in reducing the working hours by taking all the stakeholders on board. This may help generate the employment as the proposed scenarios presented in the previous chapters refer to the possible way of handling the situation.

This is our very own observation that no economic and labor model can be implemented in any other country until and unless its not adapted as per the later country's own requirements. Even though, Sweden and Germany are very much alike in so many different things including the economy, if Sweden looks forward to use German model to reduce employment they have to change and shake the model a bit to tailor it to their requirements.

However, the future researchers can look into the viability of the scenarios proposed and may propose entirely different insights into handling this particular situation. We feel that the field is wide open to research extensively on the company level as well. We have, in Sweden, a lot different fairly big sized organizations facing economic crunch and trying to find out ways to come out of it. Examples could be Sonyericsson and AstraZeneca, both facing hard times in ensuring growth of their products and services as well as profits and balance sheets. Both the organizations have issued notices to hundreds of their employees for termination of employment contracts quoting that their jobs have been made redundant because the products and services they were working on are no more compatible in the market. Our suggestion in this case would be to take up the reduction in the work hours as a solution and also promoting the culture of innovation and extensive training to make the jobs viable again, since the employees of any organization are the biggest asset of it and assets can't be wasted because the company is facing problems related with compatibility of its products and services.



It will create positive motivation for the employee, employer and economy as whole. We always see during recession it's important to motivate employee. Even though the company's financial health is not good, managers always try to hide it. This is only to keep employee motivation up.

So yes, in the whole thesis, we tried to find in the literature review about different models of reduction of working hours. Different countries is implementing this. Definitely this is giving some result. One think we also figure out during research is employee motivation. By reduction of working hours we can create positive employee motivation in recession period.

Our model is simply a tool for Human resource managers. Definitely it will not change unemployment condition over night. During recession when an employer think to cut cost, our model will give them a second thought. If possible they will try to reduce working hours and save jobs. And this is the way they can create positive motivation environment in the company during recession time. If whole economy follow this, it might give same result.

In the end we must say that we are open to any suggestions from honorable faculty members and valuable colleagues pursuing masters' thesis in business administration at the Blekinge Tekniska Högskola, 371 79 Karlskrona, Sweden.



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