PRODUCTIVITY AND THE FLEXIBLE WORKFORCE

IS NOW THE TIME FOR A RETHINK ABOUT ANNUALISED HOURS?

Neville Henderson,
Senior Consultant,
Pasfield Curran
In the Matthew Taylor Review of Modern Working Practices he stated that “We are much less likely to improve productivity in this country if we fail to improve the work of those on low pay”.

He goes on to quote the 2016 CIPD report that stated UK employees’ job satisfaction was positively associated with workplace financial performance, labour productivity and the quality of output or service.

**Historically, UK labour productivity has grown by around 2% per year, but in recent years something has gone wrong.**

In 2015, the Government published a productivity plan, based upon 15 points, designed to boost future productivity. The following year they announced the National Productivity Investment Fund, a four-year plan with a £23 billion commitment.

In spite of this there has been a persistent plateauing of productivity since the 2007 crash which has baffled economists. Now christened ‘the productivity puzzle’, there are many alternative theories to explain it. Suggestions include that low investment has reduced the quality of equipment employees are working with; the banking crisis caused a lack of lending to more productive firms and employees within firms being moved to less productive roles.

Recent research has shown UK employees also have one of the lowest levels of satisfaction and interest in their jobs etc. It is unlikely that one of these by itself is sufficient to explain what has happened.

International comparisons of labour productivity show that the UK was ranked fifth of the G7 countries, with Germany top and Japan bottom. In 2015, UK productivity was 19 percentage points below the rest of the G7 average, with the widest productivity gap since at least 1995 (when the data series began).

With all the current uncertainty and productivity improvement stagnating, something needs to be done to increase this productivity to get back in line with other leading nations. However at this global level, productivity is really seen as an abstract concept and not something businesses can get their teeth into. We need to drill down to the performance of individual employees and the workforce as a whole to allow us to find a solution to this problem.
Getting down to basics

So getting down to basics productivity is defined as how much is produced for a given input (typically an hour’s work).

\[
\text{i.e. Productivity} = \frac{\text{units of product}}{\text{work hours input}}
\]

The ideal productivity improvement will come through businesses increasing their output by getting employees and equipment to work better (increasing the numerator in the equation) whilst also planning more efficiently (decreasing the denominator in the equation) and building a strong organisation with solid procedures that maintains a focus on motivating staff.

Part of the answer to improving productivity therefore lies in having the right number of people at work as well as finding new ways of working smarter. However, as Matthew Taylor also understands “Employers must not use flexible working models simply to reduce costs and must consider the impact on their workforce in terms of increased sickness rates and reduced productivity”. In short, many of the current models of flexibility look at this equation one dimensionally whether using hordes of agency staff to bolster core employees either on a continuing basis or for parts of the year, or even the much maligned zero or low hours contracts - to have a workforce that can be effectively turned on or off at a whim to fit with demand. Both of these methodologies or ways of working can lead to reduced motivation and thus productivity (reducing the denominator, but also reducing the nominator).

Often a “them and us” culture can evolve, especially where agencies using the Swedish Derogation to allow some workers to have lower hourly rates. These workers may be highly skilled, more productive and even better attitudinally, often making managers wish they could be made part of the core workforce but business policy dictates otherwise. With quality of work and output becoming separated from reward the employee becomes simply a commodity in the equation, so productivity declines.
Few businesses run on an even keel. Frantic activity, slack periods and day to day unexpected events are to most, the norm. Traditional working tied contractually to weekly hours meant this flexible requirement was met by overtime. The use of this often costly solution to deliver extra hours when demand required remedied the highs but there was no let out to cut labour costs during slacker times. And, this slacker time when employees were underutilised carried the higher levy. In the past this led companies to reducing their workforce and relying on what was often voluntary overtime. Indeed this still happens in many backwards looking organisations, we’ve probably all heard about trains not running due to not enough drivers working additional “voluntary” hours.

This was the expensive traditional way to conduct business but does not provide a guarantee of meeting requirements. However, an alternative option was seen as the ideal answer in all too many manufacturing and distribution sites, where the core workforce was reduced to a lower level steady state whilst topping up with a separate group of more flexible lower paid agency workers. To employers it seemed a win-win, less cost and guaranteed attendance when required but all too often has led to this reduction in productivity.

**Productivity and the Flexible Workforce**

<table>
<thead>
<tr>
<th>EMPLOYEE PROVIDES</th>
<th>EMPLOYER PROVIDES</th>
</tr>
</thead>
<tbody>
<tr>
<td>Time</td>
<td>Security</td>
</tr>
<tr>
<td>Effort</td>
<td>Safety</td>
</tr>
<tr>
<td>Performance</td>
<td>Recognition</td>
</tr>
<tr>
<td>Trust</td>
<td>Workspace</td>
</tr>
<tr>
<td>Productivity</td>
<td>Growth</td>
</tr>
<tr>
<td>Flexibility</td>
<td>Flexibility/Tolerance</td>
</tr>
<tr>
<td>Leadership</td>
<td>Responsibility</td>
</tr>
<tr>
<td>Accept/Drive Change</td>
<td>Wellbeing</td>
</tr>
<tr>
<td>Innovation</td>
<td>Status</td>
</tr>
<tr>
<td>Supervision/Management</td>
<td>Influence</td>
</tr>
<tr>
<td>Investment</td>
<td>Equity</td>
</tr>
</tbody>
</table>

**PRODUCTIVITY AND THE FLEXIBLE WORKFORCE**
Is now the time for a rethink about Annualised Hours?

So, is there a third way to match flexible requirements with often unpredictable day to day activities without resorting to this them and us scenario?

Organisations need to look at their culture and how they work to understand how they can boost efficiency, engage the workforce, maintain motivation and work effectively to deliver results. This not only will improve local productivity but the UK as a whole. This has to mean enabling businesses to do more with their core workforce through managing them flexibly whilst still upholding the psychological contract with the employee who will provide effective productive work if the employer treats them fairly.

Indeed, going back to the Taylor report this is really the entire emphasis of his work. “Ensuring all work is fair and decent with realistic scope for development and fulfilment relies on the provision of quality work”. He continues “Pay is only one aspect in determining quality work; for many people fulfilment, personnel development, work life balance or flexibility are just as important to many people”.

The dilemma therefore is to provide a workforce which:

- guarantees flexibility
- is made up of your permanent core workforce
- controls excessive labour costs (seen when using from agency or overtime)
- doesn’t rely on external umbrella organisations who may treat their “employees” with different ethics to your own
- doesn’t require expensive and time consuming recruitment to be repeated as seasons change
- promotes productivity improvement

whilst also providing the employee with:

- a stable guaranteed income
- some certainty of hours
- work-life balance
- flexibility

One such methodology that may indeed do just this is annualised hours. It has been around in the UK since the mid 1980’s and has gone through periods of popularity when widely used to increase productivity in mainly manufacturing organisations, but has also been seen negatively when used as a brutal instrument to slash labour requirement. There have therefore been some poor badly thought through examples of this concept but when properly implemented with co-operation between employer and employee there are some extremely well thought of schemes, giving benefits for all.
Annualised hours basics

An employee works a certain number of pre-planned hours over a year (with some flexibility depending on business and employee requirements) e.g. the production plan will follow known orders or expected seasonal variations. Analysis of work content/past productivity is required to best plan the requirements – productivity and quality improvements are the usual outcome. The clever part is that some hours are usually left unplanned but are contracted – these are called reserve hours – they may be used for short notice work (e.g. unexpected refits), sickness, productivity etc.

Normally the shifts are planned in regular patterns according to the expected work content in “seasons” e.g. high, mid, low or trough leading to equity across the planned work group. Attendance is planned according to the requirements e.g. there may be longer/more shifts or more people planned to be at work in the higher “seasons”, fewer/shorter shifts with less people at work in the lower “seasons”.

As the requirement for attendance is planned in advance this implies that time off is also planned. This can lead to longer and additional breaks dependent on the shifts times that have been planned. Generally swapping of time off is allowed for employee flexibility.

If there are unused hours left at the end of the year then these are usually written off – this is a significant “carrot” to encourage productivity, low sickness and generally smarter working.

There is no off the shelf solution, although may attributes may be seen with other schemes each annualised hours scheme must be designed specifically for each organisations requirements. And, it is this that is behind the fact that in recent years, with this productivity conundrum, employers have perhaps thought this option too hard and left it alone, however developed correctly, it can bring significant benefits to businesses (15% productivity improvement has been seen on a number of occasions!) as well as providing this psychological contract with employees.

In short, benefits come from the fact that we flexibly plan upfront any known work and give clear vision allowing for better distribution of hours of work for all rather than a concentration on a few (either core with overtime or external workers).
This ensures easier compliance with working time regulations and fits with the underlying emphasis of the Taylor review. Indeed, this upfront planning to examine different periods of the year means that it is possible to design shift patterns and time off to allow more usable leisure time.

The “gig economy” and other perhaps ethically suspect examples focus really on the individual — what can I do to earn more money — and pits worker against worker to do this. Annualised hours, on the other hand, aligns employee and employer incentives and actually encourages more productive team working.

The slacker times are removed thus preventing the easy option of allocating employees to non value-added work to “fill” time if productive work is not there. Ignoring the cost and productivity implications can often lead to poor motivation and commitment to the organisation.

Previously seen reliance on voluntary measures to guarantee flexibility can be more or less eliminated without the dependency on overtime or contractors. Taking all possible scenarios a full understanding of flexibility expected from employees and the business is developed. Change notice periods are often developed together and a consensus of what is reasonable reached. The new currency is time and not increased/reduced pay so these conversations can become far more amiable.

Having this flexibility from your own core workforce means that all work can now be carried out with the correctly skilled people that you employ and have trained.
For further information on the design and implementation of flexible working schemes please contact:

**Neville Henderson**  
Senior Consultant  
Pasfield Curran  

**Email:** neville.henderson@pasfieldcurran.com  
**Web:** www.pasfieldcurran.com  
**Tel:** +44 (0)1827 309800

For further information on the management of flexible working systems please contact:

**David Hughes**  
Head of Marketing  
Crown Workforce Management  

**Email:** dhub@crowncomputing.co.uk  
**Web:** www.crownworkforcemanagement.com  
**Tel:** +44 (0)1827 309800