

**STUDY ON THE IMPACT OF WORKING TIME**

**The case of Germany**

**Contribution to EU research project VC/2005/0327**

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## Contents

<b>Part 1: Review of theoretical and empirical research .....</b>	<b>4</b>
1. Introduction .....	4
2. Definition of working time.....	4
3. Working time trends .....	5
4. Determination of working hours .....	7
5. Economic theory of working time reductions .....	8
6. Survey results on the extension of working hours .....	10
7. Non-standard working hours .....	10
8. Flexible forms of working time organisation .....	11
9. Part-time work .....	12
10. Short-time work.....	13
Literature.....	14
<b>Part 2: Company case studies.....</b>	<b>15</b>
<b>Case Study 1: IKEA Regensburg.....</b>	<b>15</b>
1. Background description .....	15
1.1. Market position .....	15
1.2. Ownership structure and organisation of the IKEA Group.....	15
1.3. IKEA Regensburg .....	16
1.3.1. Facts.....	16
1.3.2. Human Resource Management .....	17
2. Implementation of the working time arrangement.....	18
2.1. Historical development .....	18
2.2. Description of working time arrangement .....	19
3. Analysis of impacts.....	20
<b>Case Study 2: Verkehrs-Aktiengesellschaft (VAG).....</b>	<b>22</b>
1. Background description .....	22
1.1. Market position .....	22
1.2. Ownership structure of Städtische Werke Nürnberg GmbH (StWN).....	22
1.3. Verkehrs-Aktiengesellschaft (VAG) .....	23
1.3.1. Facts.....	23
1.3.2. Human Resource Management .....	24
2. Implementation of the working time arrangement.....	25
2.1. Historical development .....	25
2.2. Description of working time arrangement .....	26
3. Analysis of impacts.....	27
4. Conclusion.....	28

<b>Case Study 3: Volkswagen Wolfsburg</b> .....	<b>29</b>
<b>1. Background description</b> .....	<b>29</b>
1.1. Market position of the Volkswagen Group .....	29
1.2. Structure of the VW Group .....	30
<b>2. Volkswagen Wolfsburg</b> .....	<b>31</b>
2.1. Human Resource Management .....	31
2.2. Implementation of the working time arrangement.....	31
<b>3. Analysis of impacts</b> .....	<b>35</b>
<b>4. Conclusion</b> .....	<b>35</b>

## Tables

Table 1	Composition of annual working hours	5
Table 2	Working time regulation in the German metal industry	6
Table 3	Non-standard working hours	10
Table 4	Type of working time flexibility	11
Table 5	Staff composition - IKEA Regensburg	17
Table 6	Reasons stated for the retirement from train service in 1991	25

## Charts

Chart 1	Ownership structure of IKEA	16
Chart 2	Demonstration of the IKEA working time planning	19
Chart 3	Ownership Structure of StWN	23
Chart 4	Structure of the VAG	23
Chart 5	Volkswagen Group - Car Market Share 2004 – 2005	29
Chart 6	Volkswagen Group	30
Chart 7	Development of the workforce at VW Wolfsburg	32
Chart 8	Working time bonuses	33

## Part 1: Review of theoretical and empirical research

### 1. Introduction

Working hours are one of the central parameters in German labour market and employment policies. In 1984 the metal workers trade union (*IG-Metall*) strove for the introduction of the 35 hours week and achieved this goal during the nineteen-nineties. Times and strategies though have changed since then and in 2006 the service sector trade union (*VER.DI*) is striking against the extension of working hours in public administration.

For a long time the trade union's strategy was to redistribute work among workers as employment was declining and unemployment was rising. The job creating power of working time reductions however was weak, in particular because working time reductions were used by the companies to raise labour productivity. From the beginning of the negotiations on working time reductions, employers urged for more flexibility in working time schemes which allowed a better allocation of work on the time scale. While the hope for positive employment effects was disappointed, the reduction of working time initiated the development of a multitude of flexible working time models which are now introduced in most companies. This extended the scope of adjustments according to workers' and companies' preferences. Simultaneously to the rise in working time flexibility the number of part-time workers grew considerably, in particular among women.

The trend towards shorter working hours was stopped during the nineteen-nineties when the persistence of high unemployment weakened the supply-side power. Meanwhile the trend reversed to rising working hours. Sickness days declined, unpaid overtime increased and collectively agreed working hours were also extended. Trade unions were forced to accept longer working hours. The trend was initiated in companies vulnerable to relocation but has now found its way to sector-based collective agreements. In general, longer working hours were exchanged for job guarantees for periods of two or three years. Longer working hours have thus become an important contribution of workers to the improvement of competitiveness. This change is also possible in the public sector, even if the understanding of the mechanisms behind this development is not widespread.

There is the danger that longer working hours might be contra-productive in both economic and social terms. Recent survey results show that companies are aware of the negative impacts of longer working hours on motivation and labour productivity. Changes of working hours will therefore be accompanied by rising working time flexibility improving the coordination of both individual and company needs.

This review presents working time trends and the institutional framework of working time policies in Germany using statistical and research evidence. It does not include European or other international sources.

### 2. Definition of working time

For the understanding of the working time mechanisms in Germany it is important to keep the legal and organisational determination of working time in mind:

- *Collectively agreed working hours* (including weekly working hours, vacation entitlements and official holidays etc.) have to be separated from *actual working hours* (including overtime, sickness days, short-time work, strikes etc.). While social partners agree on working hours as minimum and maximum standards for labour contracts, companies decide on actual working hours in agreement with workers and works councils. One of the apparent issues at the bridge between these two regulatory levels is the flexibility of collective

agreements which should allow for both fluctuating labour demand and working time preferences of workers.

- The *scheduling of working hours* determines the working periods during the week, month or year. Shift work or weekend work are counterparts to the normal 8hours-Monday-to-Friday-work. Scheduling is also important for part-time work. With the introduction of yearly working hours and working time accounts, the former distinction between regular and non-regular working hours became obsolete. Scheduling within longer periods thus determines the flexibility of working hours.
- The *compensation of working time changes* creates the link between working hours and labour costs. While in the 1980s working time reductions were generally compensated through higher wages per hour, in later phases working hours became the flexible part of the wage bill leaving hourly wages largely unchanged. During the 1990s when flexible work schemes were introduced, hourly wages were not adjusted and overtime-compensation was cancelled. In recent years, longer working hours became the preferred way to achieve labour cost reductions. The compensation of working time thus strongly reflects the weakening strength of the supply side on the German labour market.

### 3. Working time trends

Working time development is characterised by a set of trends which can be observed during the last 35 years in western Germany (Table 1):

- Collectively agreed weekly working hours of full-time workers were reduced by 4 hours or 10 % since 1970. On average full-time workers were engaged for 37.5 hours per week in 2004. While the first half of the nineteen-seventies brought annual reductions of 0.23 hours, working time stagnated until 1984 and was reduced again with a similar progression until the middle of the nineteen-nineties. Until 2002 working time was stagnating and then collective bargains agreed on rising working hours due to the extension of working hours in the public sector.
- Part-time employment expanded continuously during the last decades. The share of part-time workers in employment increased from 6.3 % in 1970 to 17.0 % in 1990. In 2004 a share of 32.6 % was achieved, in particular through the growing number of marginal jobs (*geringfügig Beschäftigte*). In parallel, average annual working hours of part-timers shrank from  $\frac{1}{2}$  of full-time working hours to  $\frac{1}{3}$ .
- The average duration of vacation was extended from 20 to 29.8 days per year. The increase occurred especially in the nineteen-seventies and eighties. Since 1994 vacation was not prolonged any more.
- The average rate of sickness days as share of total working days sunk from 5.7 % in 1970 to 3.3 % in 2004.
- Strikes did not affect the overall working time balance, except in some exceptional years: in 1971, 1978, 1984 (and presumably 2006) German workers were on strike for 1.4 to 1.8 hours per year. In other years, no or minor working time losses were caused by strikes.
- Overtime continuously decreased over the years. The maximum of paid overtime was achieved in 1970 when 8.5 % of total hours worked were long hours. Until 2004 the share declined to 3.6 %. This is due to rising part-time and the reduction of growth trends in Germany. Unpaid overtime has a similar share as paid overtime.

**Table 1**      **Composition of annual working hours**  
Western Germany

	1970	1980	1990	2000*	2004*
Employees (actual working hours per person and year)	1878.7	1668.5	1489.2	1341.5	1317.5
- full-time workers	1938.5	1767.5	1662.2	1653.3	1671.2
- part-time workers	989.1	825.3	679.7	560.3	584.7
<i>Components:</i>					
Collectively agreed working hours					
- full-time workers (hours per week)	41.51	40.18	38.49	37.87	37.92
- part-time workers (hours per week)	20.51	18.45	15.29	13.01	13.40
Vacation (days)	21.9	27.5	31.1	31.3	31.1
Sickness (days)	13.0	12.8	11.4	9.1	7.3
Paid overtime (hours per year)	159.2	86.7	62.3	50.0	45.2
Short-time work (hours per year)	0.3	0.0	1.2	1.6	3.0
Bad weather, strikes and other factors (hours per year)	11.4	6.3	1.9	1.2	1.1
Self-employed workers					
- annual working hours	2346.3	2270.6	2225.0	2243.1	2153.7
Persons employed					
- annual working hours	1956.4	1739.1	1566.0	1445.2	1428.9
- volume of working hours (million hours per year)	52075	47611	47412	45640	45077
Employment (million persons)					
- employees	22193	24164	27116	28351	28085
- self-employed workers	4425	3213	3160	3230	3462
- total	26618	27377	30276	31581	31547
- share of part-time workers (%)	6.3	10.5	17.0	28.5	32.6

\* excluding West-Berlin

Source: IAB (2005).

Increased unpaid overtime resulted in 1657 actual working hours per full-time employee in 2004 – a reduction by 15 % since 1970. Part-time workers reduced annual working hours to the level of 637 hours on average – a decline by 36 %. For all employees average annual working hours declined to 1341 hours – 30 % less than in 1970.

The sum of hours worked by all western German employees was 38.5 billion hours in 2004. These were 3.2 billion hours less than in 1970 (-8 %). The share of part-time workers in total hours worked increased from 3.3 % in 1970 to 14.7 % in 2004. This reveals that the redistribution of work on a greater number of workers was achieved through the extension of part-time rather than the reduction of full-time working hours.

In eastern Germany working time development joined the western trends during the nineteen-nineties. After the decline in the first half of the nineteen-nineties collectively agreed working hours started to rise again in 2004 and the number of part-time workers increased from 5.8 to 24 % of all employees. This resulted in a minor decline of average actual working hours from 1498 hours in 1991 to 1464 hours in 2004. Eastern German full-time workers have slightly longer annual working hours than their western German colleagues (52 hours or 3 %).

In European comparison (EUROSTAT) Germany's full-time working hours are averaged (39.9 hours normally) but the length of vacation lies above average (29.1 days compared to 25.9 days for EU15).

Shorter working hours are expected to initiate innovative and efficient forms of work organisation which contributes to productivity growth (Bosch 1998). 85 % of the German companies can adjust working hours (and operating hours of their production facilities) to demand fluctuations. The enforcement of working time reduction by German trade unions functioned as a productivity whip while longer working hours lead to unproductive use of time (Lehndorff 2003).

## 4. Determination of working hours

Working hours are determined at three regulatory levels:

- The Federal working time act (*Arbeitszeitgesetz*)
- Collective agreements in all sectors of the economy
- Company-based agreements with works councils and workers

### *Working time act*

The working time act of 1994 (last revision in 2004) defines the regulatory framework for collective agreements and individual labour contracts. Regular working hours must not exceed the average of 8 hours per weekday within 6 months. The maximum working time is 10 hours a day. For shift work the average has to be achieved within one month. Employment on Sundays or official holidays is forbidden with a long list of exemptions. The minimum vacation is 24 weekdays.

The working time act is not eligible for management staff and a series of other persons.

### *Collective and company-based agreements on working time*

Suffering from high and rising unemployment since almost a decade, German trade unions decided to implement shorter working hours in order to achieve a broader distribution of job opportunities and more equality of work loads. It was in 1984 when the metal workers trade union IG-Metall started the initiative to achieve the 35 hours week. This was accompanied by a severe strike and resulted in the introduction of the 38.5 hours week at first. Meanwhile the 35 hours week is achieved in large parts of German manufacturing.

The price for this working time reduction was greater flexibility in working time allocation. Companies were allowed to adjust working hours within a 35 to 40 hours range. The 38.5 hours were an average which should be reached within a time period of two months. This model was largely applied in German collective bargaining. The metal industries again developed the base-model for flexible working time agreements (Table 3).

**Table 2** Working time regulation in the German metal industry  
Germany 2005

Regular working hours per week	35 hours
Permanent extension for 50 % of the staff	40 hours
Temporary reduction to	30 hours
Average of regular working hours has to be achieved within	12 months
Maximum overtime	10 hours per week 20 hours per month
Maximum weekly working hours	50 hours

Source: WSI (2005).

The averages of regular working hours as agreed in collective treaties therefore reveal no insight in the variety of working hour regulations. The level is lower in western than in eastern Germany (37.4 hours per week as compared to 39 hours), and the variance is wider in the western part. The initial idea to create equal labour conditions in both parts of Germany did not work due to the long-lasting economic difficulties in the East.

Opening clauses allow companies conditioned by collective agreements to deviate from the treaty, in general only in difficult economic situations. Following the latest survey among works councils undertaken by the WSI (the economic and social research institute of the German Trade Union Association, DGB; WSI 2004) 35 % of companies make use of these opening clauses. Among these the majority introduced flexible working time schedules (70 %), longer working hours (41 %) or a limited period of shorter working hours (24 %). Working time flexibility is used much more than the reduction or non-adjustment of wages (16 %) or fringe benefits (15 %).

These regulations were widely accepted by employers. The president of the German Employers Association (BDA), Dieter Hundt, assessed working time agreements as flexible enough to fit to the needs of every company (Handelsblatt 20.04.2000).

On the basis of these agreements a series of company-based regulations were found:

- Siemens arranged a two-year unpaid working time extension from 35 to 40 hours per week in the mobile phone plants at Kamp-Lintfort and Bocholt. These plants were just recently sold to the South-Korean company BenQ.
- Daimler-Chrysler extended working hours in R&D departments to 40 hours and 39 hours in other parts of the company.
- Volkswagen widened the range of working time accounts to  $\pm 400$  hours per year.
- The Deutsche Bahn AG extended working hours by one hour per week.
- In the public sector the social partners are in severe conflict as Länder governments and municipalities try to extend working hours from 38.5 hours to 40 hours in western Germany and above 40 hours in eastern Germany.

During the eighties working time policies were used by trade unions to solve the unemployment problem through the reduction of working hours. This ended without visible results as research evidence showed. It is now used in the opposite direction to defend working places through longer working hours against low-wage competition from abroad. Until now, there is no evidence how this works. However, longer working hours are the contribution which workers can provide to the competitiveness of their companies or the cost efficiency of public institutions. This is much wider accepted than wage cuts and thus might have less negative effects on labour productivity.

## 5. Economic theory of working time reductions

Economic research on working time changes is far from being unambiguous.<sup>1</sup> The long list of studies though revealed that the economic and labour market effects of working time changes cannot be captured by simplistic models. While the positive short-term effects of working time reductions on employment are quite obvious, the “second round effects” on productivity, wages, labour supply etc. are differentiated and strongly depend on the prevailing micro- and macro-situation. This can be seen as the main reason for contradictory results.

One argument, however, is very clear: labour demand cannot be seen as a lump-sum as it is often done in the public debate. Reactions to changing working hours and wages have to be expected on both sides of the labour market. As these effects have a compensatory nature the final effect of working time changes depends on many factors. Empirical research brought some evidence.

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<sup>1</sup> The following presentation of research evidence is largely based on the recent review of working time research undertaken by Allmedinger et al. (IAB 2005).



The first question is how collective bargaining directly affects employment through a reduction of working hours. If the direct employment effect is isolated from the indirect effect on wages, the answer is it does not have any effect. Calculations of a factor demand model in manufacturing in the period 1979 to 1995 reveals the number of workers did not change significantly in the course of working time reductions (Steiner, Peters 2000, Andrews et al. 2004). Moreover the reduction of working hours is only partly compensated by overtime. The elasticity of overtime to regular working hours is  $-0.2$  or even less (depending on the author). Much of the working time reduction was not translated into a reduction of weekly working hours but into additional vacation or non-working shifts. This means, the primary effect of collectively bargained working time reductions is on the productivity side and does not raise employment.

The effects on wages though are negative for employment. Working time reductions in German manufacturing were compensated by rising wages. 66 % of income losses were compensated for low and medium skilled workers and 85 % for highly skilled workers (Steiner, Peters 2000). Given the negative wage elasticity, working time reductions resulted in employment losses of 15.000 jobs. A study by Schank (2004) revealed that wage compensation was highest in companies which were bound to branch-specific collective treaties. It was lower in companies with company-based wage negotiations and lowest in unconditioned companies.

The Swiss study by Marti (2000) shows that there is a limited substitutability between working hours and persons. The elasticity of substitution ranges between 0.2 and 0.6. Persons can be exchanged for declining working hours, but not in full scope. Staffs therefore cannot be fully substituted in the course of working time reductions. The substitutability of labour is particular limited if skills are taken into consideration. The reduction of working time cannot assume that working places can be shared at low or even zero costs. The additional hour of an experienced worker has other labour unit costs than the first hour of a new worker. Of course these costs will equalise in the long-term, but the costs of change are greater than zero.

Reaction can also be discerned at the supply side of the labour market. It can hardly be assumed that collectively agreed working time changes exactly coincide with labour supply preferences of workers. In the case of working time reductions, restricted workers will search for a second job or extend their do-it-yourself activities. If wages are not adjusted, lower individual incomes will further support these reactions.

The do-it-yourself argument was particularly important for Germany, supporting the extension of building centres at the expense of crafts-related businesses. Weiss (2003) extends this argument by considering its effects on the skills structure: do-it-yourself activities generally substitute low skilled work and are therefore skill-biased like technological changes. If collective wage bargaining restricts wage adjustments of low-skilled workers – as it is the case in Germany – working time reductions lead to rising unemployment of less qualified groups.

In sum, working time reductions did not create additional employment as expected by the trade unions. Companies compensated shorter worker hours by allocating working time more efficiently, using flexible labour management schemes and avoiding less productive working periods. Moreover, income losses through shorter working hours were largely compensated through higher wages. This supported the substitution of labour.

## 6. Survey results on the extension of working hours

Based on the IAB/Economix job vacancy survey of 2003 a first assessment of the possible effects of working time prolongation can be given. This survey included 4000 companies in all private and public sectors of the German economy. They represented 67 % of total employment.

The preference for longer working hours was visible but far from being overwhelming. Only 29 % of German companies – representing 42 % of employment – would prefer longer hours without wage adjustment. 12 % preferred extend working hours even with wage adjustments. The reason for this reluctance is the fear that the acceptance among workers is low. Labour motivation and productivity is therefore not expected to stay at the same level. 57 % of the western German companies – small companies in particular – express such fears. On the other hand, about one third of the companies count on lower labour unit costs or the extension of production capacities.

28 % of the companies would prefer the extension of weekly working hours as compared to 22 % who would prefer the reduction of vacation. The majority of companies would like to combine these two forms. The expected effects of the extension are neutral as regards the number of workers in the companies.

Companies were very sceptic about the extension of working time over the life cycle. Less flexibility and higher sickness costs were the most frequent arguments against this measure.

## 7. Non-standard working hours

As the labour force survey for Germany shows, the share of employees with non-standard working hours expanded since 1991. In 2004, 48.6 % of all employees worked on shifts, weekends or at night. In 1991 these were only 42 %. The expansion is visible for both males and females at the same extent. Men are still more affected by non-standard working hours than women (52.7 % compared to 43.4 %).

Due to the declining share of manufacturing employment and the rise in working time flexibility, the shares of the burdensome shift and night work declined while the shares of weekend work increased. In particular, occasional weekend work was considerably expanded. These trends are different for males and females: regular shift work among men declined by 2 percentage points to 13 % but expanded among women by 0.7 percentage points to 10.5 %. Similarly, regular night work among men decreased by 1.4 percentage points to 9.7 % but increased among women by 0.9 percentage points to 3.7 %. Occasional weekend work though expanded in both gender groups with similar rates.

Shift work has largely overcome the strict two or three shift rhythms which characterised industrial production for decades. Meanwhile, flexible group organisation allows switches between different shifts and working groups which consider individual preferences.

Shift work is still a health risk leading to sleep disorders, depression, high blood pressure, and cardiovascular disease. Due to these risks, the acceptance of shift and night work is low. The plans of the Federal government to cancel tax preferences for overtime premiums, was therefore strongly objected by the social partners.

**Table 3**      **Non-standard working hours**  
Germany 2004  
(% share of employees)

	1991	2004
Workers with non-standard working hours	42.0	48.6
- Males	45.6	52.7
- Females	36.8	43.4
Workers with regular ... *		
- Shift work	13.0	11.9
- Saturday work	21.7	23.7
- Sunday or holiday work	10.8	11.8
- Night work	8.6	7.7
Workers with occasional ... *		
- Shift work	1.7	1.4
- Saturday work	15.0	20.6
- Sunday or holiday work	9.3	13.1
- Night work	5.4	6.2

\* multiple responses

Source: Statistisches Bundesamt (2004)

## 8. Flexible forms of working time organisation

In 1993 only 15 % of German companies introduced flexible types of working time organisation. In 2004 these were  $\frac{2}{3}$  (Table 2). The potential efficiency effects of flexible work allocation lead to a boom of working time accounts. In particular, overtime compensation was avoided through these models, but also less productive production periods. Flexible working time was used to shift work from low demand to high demand periods. This happened not only in the sequence of seasonal fluctuations but also in cyclical terms, thus contributing to job stability of the core staffs at least. Recruitment costs and the costs of initial training were reduced. Working time accounts are thus an instrument which allows varying the capacity utilisation of the staff within certain limits.

**Table 4**      **Type of working time flexibility**  
Germany 2004

Type of working time flexibility	% share of companies (multiple responses)
flexible weekly working hours	40
annual working time accounts	33
flexitime with core period	33
flexitime without core period	10
Teleworking	8
life-time working hours accounts	3
none of these forms	36

Source: DIHT (2004).

The company survey of the Deutsche Industrie- und Handelstag in autumn 2004 showed the broad acceptance of flexible working time organisation in German companies. Among the ¾ of companies using flexible working time organisation the majority apply flexible weekly working hours (40 %) or annual working time accounts (33 %). 43 % use flexitime with or without core working periods. Life-time working hours accounts are very rarely used (by 3 % of the companies).

Following the IAB company panel, 21 % of German companies used working time accounts. Due to the considerable costs of such systems, bigger companies are using it quite more often than small companies (74 % of the companies with more than 500 employees but only 14 % of the companies with less than 10). Smaller companies achieve working time flexibility through less formal instruments. Differences among sectors are strongly related to the size structure of the branches.

## 9. Part-time work

The rapid increase of part-time work during the nineteen-nineties can also be seen as a sign of rising labour market flexibility. The share of part-time workers among German employees grew with accelerating dynamics since 2000. Within four years an increase of 4.4 percentage points to 31.6 % was achieved<sup>2</sup>. Eastern Germany rapidly adjusted to the western level, in particular during the transition phase. By 2004 the part-time share was 5.2 percentage points below the western share (27.4 % compared to 32.6 %). Eastern Germany is also characterised by a high share of involuntary part-time which is close to 50 % while the western share is only 10 %. This is due to the stronger labour market orientation of eastern German women.

The rapid rise of part-time can also be attributed to the more liberal regulation of minor jobs in 2003. 4.8 million out of the 9.3 million part-time workers have minor jobs earning less than 400 EURO per month.

Part-time is the domain of women: 80 % of part-time workers are female. These are half of all working women. Among men only 11 % are in part-time, most of them (70 %) in minor jobs. Part-time thus has not entered the normal working life of men while it is a normality for women.

In 2001 a new part-time and fixed-term contract act was passed by the German parliament (*Teilzeit- und Befristungsgesetz*). It entitles employees to change their working hours as far as the operational situation in the company is not opposed to it. Reductions and extensions of working hours are included. The law is eligible for companies with more than 15 employees and for workers with job tenure of more than 6 months.

The evaluation pointed out that the act helped particularly in eastern Germany to expand the number of part-time jobs (IAB 2005). Most applicants for part-time jobs were accepted. Only the minority of 4 % in western Germany and 11 % in eastern Germany of applicants were refused. This is different for the extension of working hours. In eastern Germany 61 % of the applications were refused (7 % in western Germany).

Part-time is used during specific life cycles in particular by women. The entitlement to longer working hours therefore has an even greater importance than that for shorter working hours. The part-time and fixed-term contract act links this entitlement to the economic situation of the company. This is a significant but obviously necessary limitation. Nevertheless, the act helped to better adjust individual and company preferences for working hours.

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<sup>2</sup> These figures are taken from the IAB working time accounts. The values are higher than the official labour force survey data as they include marginal jobs more completely.

## 10. Short-time work

Short-time work was the classical instrument to avoid unemployment during seasonal or cyclical slumps. Companies could reduce working hours and employees on short-time received unemployment benefits for the income losses (cyclical short-time). This instrument stabilised employment and reduced recruitment and training costs. Since 1988 this instrument can also be used for durable job cuts (structural short-time). Workers with termination agreements are transferred to separated company units. Company closure workers receive short-time benefits. This period is used for new placements on the labour market.

Until 1995 short-time work was mainly used as cyclical instrument. The share of short-time workers therefore increased with declining growth rates, in manufacturing in particular. This changed with the declining manufacturing employment and the relocation of manufacturing plants. Moreover short-time work became more expensive as companies had to pay social insurance premiums of short-time workers. Structural short-time became more important and had a share of 24 % of all short-time workers in 2004. This strengthened the importance of short-time as a transitional labour market.

## Literature

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## Part 2: Company case studies

### Case Study 1: IKEA Regensburg

#### References:

Country:	Germany
Company:	IKEA Deutschland GmbH & Co. KG, Branch Regensburg
Sector:	Furnishing retail
Size:	220 employees
Interviewee:	Xenia Mohr (Diversity Manager) Vera Buchert (Human Resources Manager) Matthias Riedel (Team Leader Sales and Works Council Member) Martin Gilch (co-worker logistics, internal anti-addiction coach and representative of disabled employees)
Date:	6/07/2006

## 1. Background description

### 1.1. Market position

IKEA is the market leader at the German home furnishing retail sector and has a market share of 16 %. The followers are Höffner, Lutz and Karstadt Quelle which all are half the size of IKEA. While the German market for household furniture stagnated over the last years at the value of € 36.1 billion, IKEA Germany increased its turnover by 12 % to € 2.8 billion in 2005. The company was able to increase its turnover up 23.1 % in the period 2001 until October 2005.<sup>3</sup>

With a share of 19 % Germany is the most important retail market for IKEA followed by Great Britain (11 %), USA (11 %), France (9 %) and Sweden (8 %). At present IKEA Germany comprises 38 stores; two opened in the last year and one in the current year. In 2005 attendance increased by 8.3 % to 88.3 million visitors. The customer number rose by 10.2 % to 38.5 million people. In 2004 and 2005 IKEA Germany invested overall € 230 million in price cuts. In 2004 and 2005 IKEA created 800 and 1100 additional jobs. This development indicates the general upward trend for IKEA.

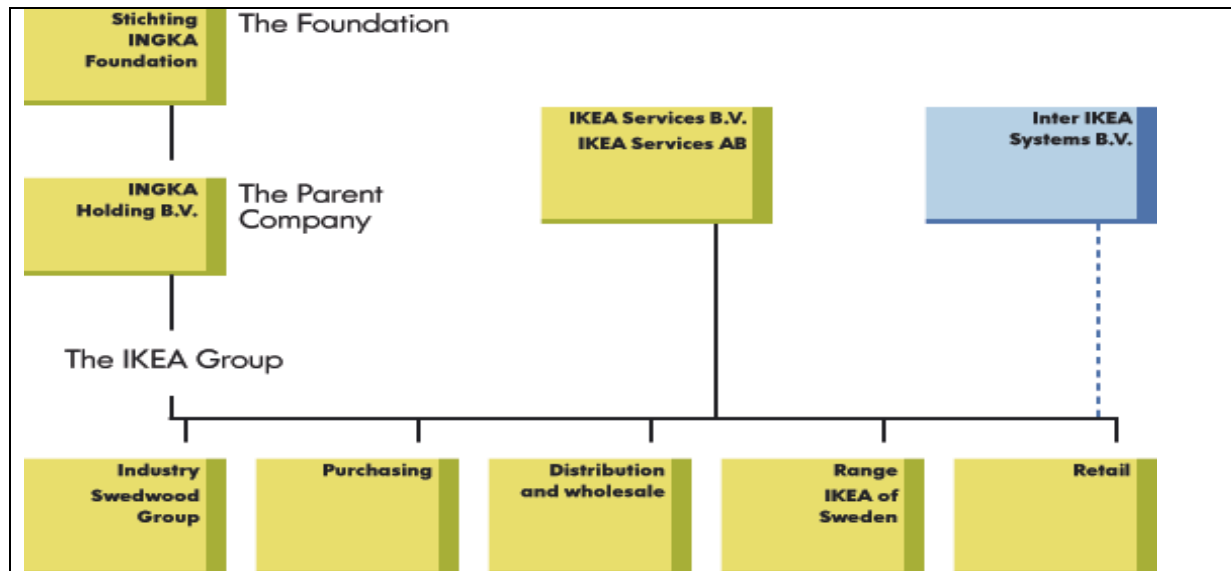
### 1.2. Ownership structure and organisation of the IKEA Group

The owner of IKEA is Stichting INGKA Foundation, which is registered in the Netherlands and owns INKA Holding B.V., the parent company of all IKEA Group companies. The IKEA

<sup>3</sup>Source: Euromotor International, [http://www.euromonitor.com/reportssummary.aspx?folder=Household\\_furniture\\_in\\_Germany\\_\(MMP\)&industryfolder=Home\\_furnishings](http://www.euromonitor.com/reportssummary.aspx?folder=Household_furniture_in_Germany_(MMP)&industryfolder=Home_furnishings)

Group includes the sales companies that run IKEA stores and are franchisee of Inter IKEA Systems B.V., the Industrial Group Swedwood, which manufactures IKEA furniture, and purchasing and supply companies. Inter IKEA Systems B.V. owns the IKEA concept and trademark and develops the principal guidelines of business activities. IKEA of Sweden is responsible for the design and development of products in the IKEA range.

**Chart 1 Ownership structure of IKEA:**



Source: IKEA

## 1.3. IKEA Regensburg

### 1.3.1. Facts

The IKEA store in Regensburg is one of 38 stores in Germany and opened in 2001. Like every other store and like the head office, IKEA Regensburg is divided into seven areas with seven teams (sales, logistics, administration etc.).

In addition to the standardised company structure, one expert is responsible for the implementation of new ideas and concepts. Basic guidelines for these ideas and concepts are given by the parent company. The implementation depends on the topical problems in each country and is therefore left to each store's own notion. E.g. the focus of the German workforce regarding HR diversity is less about discrimination at the work place but about childcare.

In Regensburg work 220 of the 11,650 employees of IKEA Germany. On average each house has 300-350 employees, bigger houses 400-450. Thus Regensburg belongs to the smaller houses. The particular challenge for such a house is to cover nearly the same fixed costs as the bigger houses because sales areas and range of products are almost identical among stores. An additional encumbrance for Regensburg is that collective wages are higher in Bavaria than in other Federal States. For the majority of workers wages are paid according the collective wage agreements and older employees receive extra-pay by negotiation.



Typically for the retail sector 68 % of the employees are women. At IKEA they receive the same wage as men and hold 50 % of the management positions. The average age of the workforce is 39.

**Table 5**      **Staff composition**  
IKEA Regensburg

	2001		2005	
	persons	%	persons	%
Employees	210	100	220	100
Full-time	109	52	89	40
Part-time	101	48	131	60
Female	146	70	149	68
Male	64	30	71	32
Full-time equivalents	162	-	154	-

Source: IKEA

According to the management IKEA Regensburg increased its turnover despite the decrease of the number of full-time equivalents by 8.56 employees in the period 2001 until 2005. This indicates a large productivity growth.

Furthermore there is low labour turnover. Remarkably 60 % work part-time, enforcing advantages to the company but also demanding an alternative organisation structure. The opening of IKEA Regensburg also came at a time where the new Opening Hours Act for Retail Trade imposed longer working times upon employees. The need to counteract the burden to work at unusual times grew more acute.

### 1.3.2. Human Resource Management

The IKEA management is seeking for high ethical standards and humanistic values. They feel obliged to a strong and lively IKEA culture, which is to help realising each individual's potential and esteeming the diversity of every single person. A principal aim is to reach diversity by acknowledging individual differences and seeing them as rich source. All employees regardless of their different backgrounds should feel well and bring in their views and ideas at all stages and in all functions of the organisation. Thus IKEA welcomes the uniqueness of each worker. It expects excellence of its employees being convinced that everyone should and is able to involve him or herself in the team. The company steadily works on removing impediments that could inhibit employees from using their potential. It assumes that a diversified workforce will improve efficiency and the competitive position, and make IKEA a better working place. The company believes that co-workers are the single most important factor behind the long-term success of the IKEA concept.

IKEA wants to be:

- a guiding example for appreciation of diversity and integration of differences.
- a learning and results-oriented organisation, which draws upon the inimitability of each employee.
- a working environment with openness for new ideas, a strong will to listen and to continue learning.
- a company, which rates people on the basis of their achievements and their basic values and approves differences as similarities.
- a working environment, where diversity is reflected on all stages of the organisation and among customers and suppliers.

- a company with a mixture of local and international executives with cross border and cross function experience.

Thus to satisfy employees belongs to IKEA's corporate culture. This includes investing in excellent and content staff and saving expenses through optimising processes. To achieve these objectives the staffs in turn has to make the grade and for instance be familiar with different sales and working areas.

The management developed many schemes to achieve an individual working life balance for each different employee and to accommodate the employee's needs with those of the company. "Being human is part of the corporate philosophy. Grown values shall persist even if the company expands globally." is one of the principles of personnel marketing at IKEA Germany.

Part-time work and flexible working hours are only one element of IKEA's programme to accomplish these objectives. IKEA is working on "diversity management," which is the continuation of the "gender mainstreaming concept" and assimilates aspects of the working life balance. Another scheme, "50+", deals with the 30 to 45 year old and tries to find ways to deploy employees older than 50 years. Work places are designed with lower physical strain and more favourable working hours. The company tries to get the commitment of their older employees because of their experience, which is especially helpful when a new store is opening.

Besides IKEA provides special assistance to employees through a "Help-Hotline" which is run by a consultancy company. It supports workers in day-care services, homework supervision of children, financial issues and other private issues. IKEA is also running own kindergarten and intends to provide more childcare in the future. Employees are allowed to have longsome vacations and get supported in the case they wish further education. Moreover they offer a particular orientation programme for new employees.

The social programme includes a series of remunerations to the employees:

- a 13<sup>th</sup> month payment,
- a company based pension fund,
- birthday presents and job tenure premiums.

Unlike many other companies IKEA does not have a profit sharing scheme. Following their arguments, IKEA is one of the few companies who do not release staff or cut supplementary payments in a downturn, so it does not feel obliged to offer more supplementary payments in an upturn.

## 2. Implementation of the working time arrangement

### 2.1. Historical development

One of IKEA's guidelines is: "IKEA shall constitute a working environment with openness for new ideas, a strong will to listen and to continue learning." Hence each IKEA store is supposed to start with a new idea. According to an employee's survey, which was carried out previous to the opening of the store in Regensburg, the staff desired co-determination regarding working times. As a consequence Regensburg opened with a new scheme that envisaged employees to arrange their working times in a self-administrated way.

The negotiations about the operating agreement lasted one year. So the scheme was first implemented as a project on a voluntary basis and in cooperation with the works council.

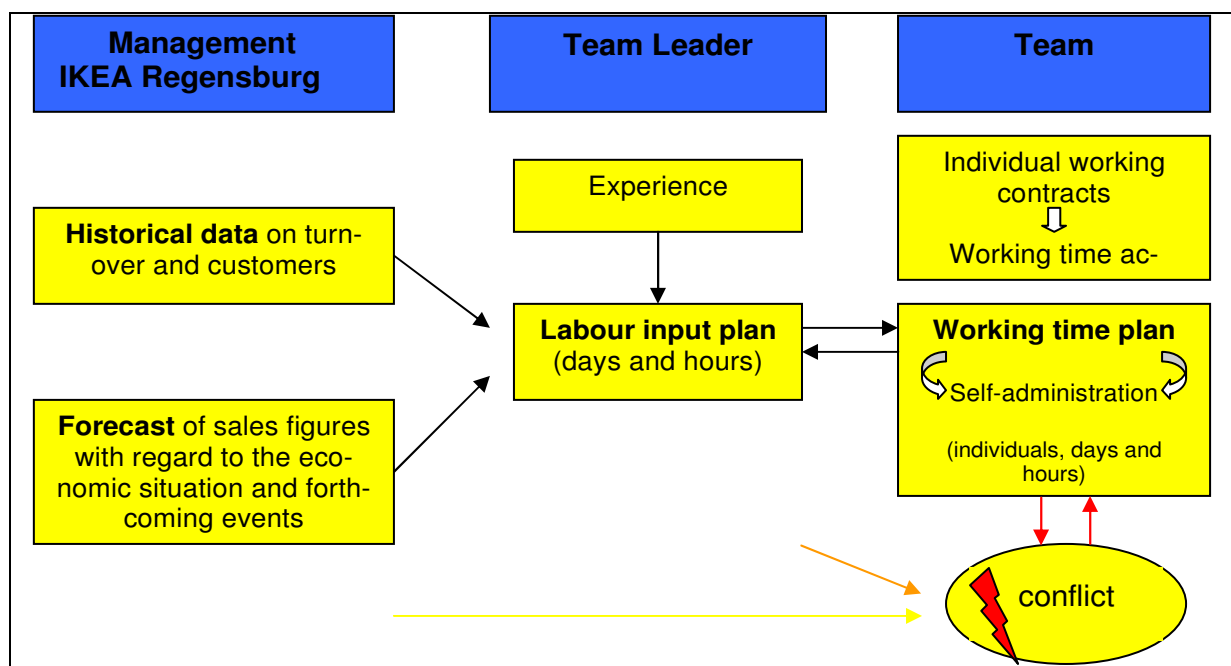
The participation of the works council firmed the conviction of the employees for the scheme because the staff perceived the arguments of their colleagues as more authentic.

## 2.2. Description of working time arrangement

Opening hours at IKEA sales departments are from 9:30 to 20:00 from Monday to Saturday. Logistic departments are open from 4:00 to 21:00. Collectively agreed working hours are 37.5 hours per week. Individually, working hours are fixed in the labour contracts. A broad range of agreements exists due to the high share of part-time work.

According to the operating agreement in Regensburg the management sets guidelines for the labour input and the work floor teams carry out the dispositions in a self-administrated way. The management forecasts the number of visitors and turnover based on historical sales figures and with respect to forthcoming events as well as the actual economic situation. Using this forecast the team leader plans the labour input with his experience. Five weeks prior to the actual working time he hands over a list that implies the calculated labour input to his team. Thereupon the team members have to enter their choice of working times in the list within the period of one week. The order of enrolment within the team rotates from month to month to avoid oppression. In the case of overlapping preferences the team members are asked to come to an arrangement among each other. If they cannot reach a consensus the team leader is the first contact person. If the team leader cannot settle the dispute the management will intervene. After each team member entered its choice with a signature the team leader will provide the management with a copy of the list and keeps the original for possible changes.

**Chart 2 Demonstration of the IKEA working time planning**



Source: IKEA

The self-administrated working time management is based on individual labour contracts which include monthly working hours. These monthly working hours are registered in so called working time accounts. Each employee receives a copy of his/her time journal that displays +/- working hours at the end of each month. This journal is meant to help the employee to plan his/her working hours for the next month. Every four months the team

leader controls the journals and if required assesses a plan together with the team members. The management controls the journals each year at the 30<sup>th</sup> of April.

The employees also have the possibility to get paid for overtime. Therefore they have to write a request that needs to be approved by the team leader and the management. Compensation through leisure time shall take priority. If a team member gets ill or if there is a slack period then the team leader can only change the working plan in consultation with his subordinated employees.

### 3. Analysis of impacts

The new working time scheme appears to be a win-win-solution for both, employees and management. Responding the strong desire of employees for extended self-determination of working times, the system enables to better adapt the demands of employees, families and the employer. Since this is highly appreciated by employees no principal critique of the system is discernible.

From the management perspective, greater flexibility was particularly required in the course of the liberalisation of operating hours in retail trade. Opening hours were extended to 6:00 until 20:00 from Monday to Saturday. Further liberalisation steps are now planned by the Federal State's governments. As the reform of working time frames encountered resistance by the trade union VER.DI and the majority of sales workers, a compensation of the legally imposed deterioration of working hours was required. In consideration of this situation, the self-administration of working hours had to compensate some of the disadvantages of evening and Saturday work. And it obviously did.

A flexible and self-administrated working time scheme has four principal advantages for HR management:

- It avoids or at least minimises conflicts, which would occur in a top-down approach of working time management.
- It allows planning of labour input according to the sales fluctuations thus optimising labour input. This is associated with considerable productivity effects and – following the IKEA assessment – contributes to comparatively low labour cost shares.
- The new labour planning process makes the team members part of the planning process. This brings the market demands closer to the employees and fosters their understanding of company demands.
- The recognition of individual needs and preferences in the planning of working time has positive productivity effects as the acceptance of working time arrangements by the workers is improved and periods of high stress are avoided through a better planning of labour input. This did not only contribute to low labour costs but also to better client satisfaction and thus to rising turnover as the company confirmed.

Even if these effects cannot be measured directly, the observations of Regensburg seem to confirm the assumption of positive impacts. IKEA Regensburg is indeed doing quite well and received a price for achieving all performance figures in the last four years despite its challenge of being a small store. Indicated by the annual employee's survey, where Regensburg achieved outstanding results, the employees seemed to be very satisfied. In talks they appreciated their new flexibility. It would make it much easier to organise leisure plans or motherhood and consequential enhance their working life balance. Conflicts with colleagues were very seldom. Thus the management hopes that this satisfaction of their employees will be communicated and attract excellent applicants from the external labour market.

The concerns of the works council were at the beginning of the implementation that their colleagues would not be able to cope with the new scheme. Most of the resulting conflicts between the management and the works council were solved in discussions but still there persists the worry that employees with less stamina cannot assert themselves in the group and suffer from the self-administration. The rotation system for entries in the labour input list should produce relief.

The works council also pointed out that many colleagues are not aware of their rights and for example would go home when asked even if they do not want to. Therefore the management started several actions to make the employees more aware of their rights. For instance they had some information meetings and provided employees with information via handouts.

Various IKEA stores adopted the working time system. However, the approach was not mainstreamed in the retail business. The labour union VER.DI showed some interests for the scheme but did not develop any promotion activities. The reason might be that the implementation of the scheme can take a few years and therefore appears to be too complicated.

To put it in a nutshell the positive aspects seem to prevail since the conflicts that might occur are at the individual level. Nevertheless the implementation of the scheme imposes a demanding process on organisation

## Case Study 2: Verkehrs-Aktiengesellschaft (VAG)

### References:

Country:	Germany
Company:	Verkehrsaktiengesellschaft (VAG), sub company of Städtische Werke Nürnberg GmbH (StWN)
Sector:	Public Transportation
Size:	1900 employees
Interviewee:	Mr. Popp (personnel service manager), Mr. Loch (chairman of works council), Mr. Münzberg (service department manager, deputy of the business domain crew and service), Mr. Geier (metro train conductor since 7 years), Mr. Gabor (bus driver since 27 years), Mr. Spindler (bus driver since 15 years)
Date:	08/08/2006

## 1. Background description

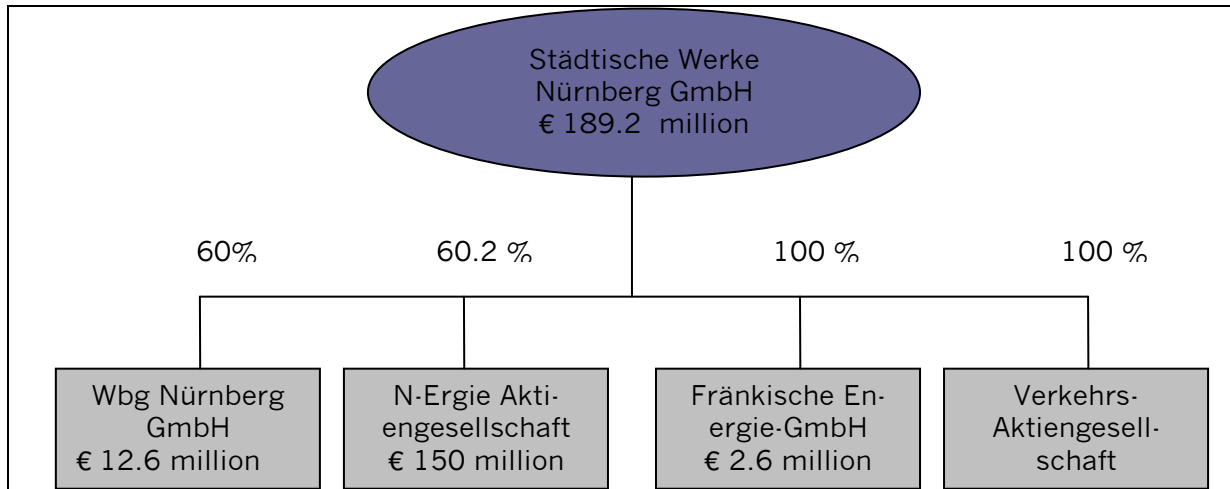
### 1.1. Market position

VAG is the major transportation company in Greater Nürnberg. Its turnover increased by 6.6 % to € 121.4 million in 2005. This increase mainly resulted from a rise in fares, which amounted 3.91 % on average. The number of passengers increased 0.4 % from 130.1 million to 139.6 million people. Still VAG made a loss of € 70.9 million including taxes. As a consequence VAG is cross-subsidised by N-Ergie, the 8<sup>th</sup> biggest electric company in Germany. In 2005 the investment volume amounted € 28 million (in 2004 € 18.1 million). Furthermore the company sees itself at risk through the upcoming increased competition in the public transportation sector, which the European Commission seeks to implement.

### 1.2. Ownership structure of Städtische Werke Nürnberg GmbH (StWN)

The Städtische Werke Nürnberg GmbH (StWN) is owned by the city of Nürnberg and belongs to the big communal companies in Germany. StWN employs 4.996 workers and is active in three different areas: real estate, energy and water supply and public transportation. Each section is operated by sub companies: Wbg Nürnberg GmbH is active in real estate, N-Ergie Aktiengesellschaft and Fränkische Energie-GmbH in energy and water supply and Verkehrs-Aktiengesellschaft (VAG) in the public transportation section.

**Chart 3 Ownership Structure of StWN**



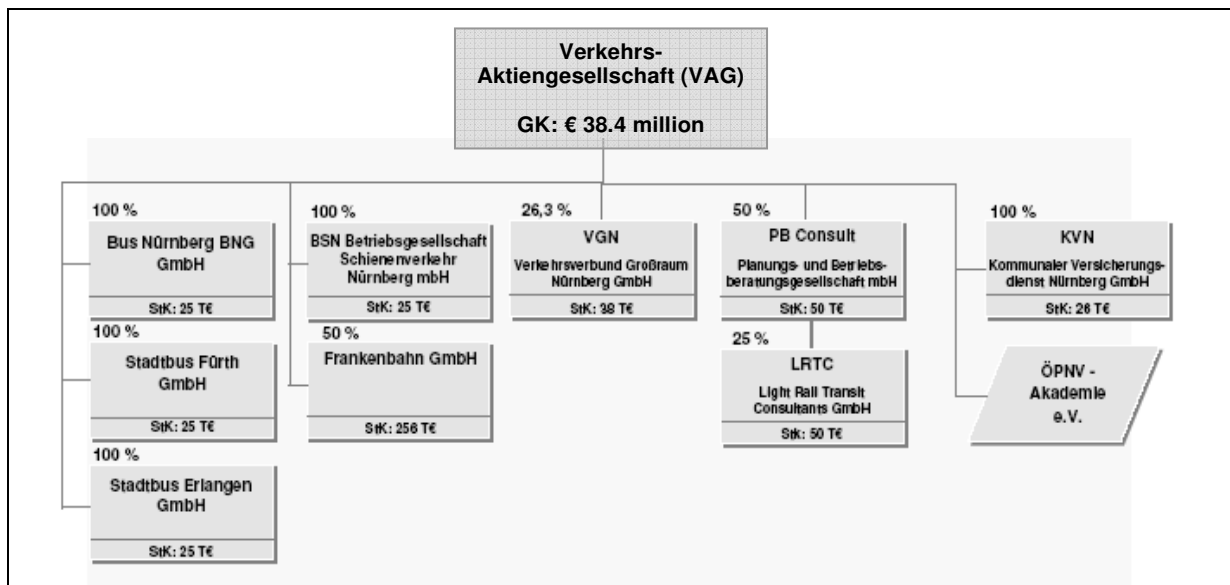
Source: VAG

### 1.3. Verkehrs-Aktiengesellschaft (VAG)

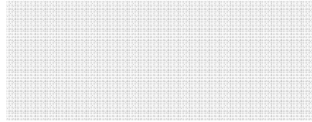
#### 1.3.1. Facts

VAG is a transportation company which emanated from the former Nürnberg-Fürther Straßenbahn in 1959. It provides public transport in Nürnberg and is member of the Verkehrsbund im Großraum Nürnberg (VGN), a federation of public transport providers in Greater Nürnberg. All VAG lines are liable to the VGN-tariff.

**Chart 4 Structure of the VAG**



Source: VAG



Since July 2005 three independent bus companies provide the public bus transport. Each of them is responsible for a different district. Staffs are managed centrally by VAG.

### 1.3.2. Human Resource Management

In June 2006 VAG employed 1972 employees. Thereof 922 worked as drivers. The proportion of women amounts 10 %. The majority of female employees is working at the selling points, offices and in services; 50 women work as drivers. With a share of 7.28 % disabled employees the company exceeds the prescribed disability quota of 5 %. Full time work means 38.5 hours per week. The number of part-time workers is slowly increasing (100 employees in June 2006). The labour turnover rate is 4 %. Today the average age is 44 years; in five years 50 % of the workforce will be older than 50. Since the number of new hires is stagnating and jobs will most likely be reduced in future, the age structure will become a major problem for the staff management.

Measures are currently taken by the management to stay competitive in the case of open competition. Change management projects are initiated which shall assure that all changes are understood and supported by employees. Uncertainties shall be cleared and appropriate measures developed. On the basis of an as-is analysis the team of the project works out visions, goals and values for VAG. They already elaborated a corporate culture framework and informed employees in conversations about the next steps to be taken.

The regular implementation of new technology in the transportation sector needs to be accomplished by training courses, which VAG provides to all employees. In addition VAG trains its drivers how to react best in critical situations with customers, which constitute a daily challenge for most employees. Several other advanced training measures offered to those who voluntarily want to broaden their competence, e.g. courses on communication skills and method training.

Moreover VAG has a scheme that awards good ideas. Several employees initiated operational improvements and received premiums for their engagement.

VAG seeks to satisfy high occupational health and safety standards. Several measures were taken to improve the working conditions, especially in connection with the ambitious project RUBIN (implementation of a fully automatic subway system in the course of the next year).

VAG also established a social consulting system for its employees, which includes the activity of a company physician for better occupational health and safety standards, assistance in fighting addictions, guidance regarding prophylaxis and a healthier way of living as well as initiation of necessary treatments. Beside physical consultation the social consulting programme aims at providing employees with technical, legal, psychological and financial advice.



## 2. Implementation of the working time arrangement

### 2.1. Historical development

Since 1985 VAG is aware of the problem that a relatively high number of employees retires due to disablements. The number of sickness days in the transportation sector lies with 23 days per year well above the total average of 16 days per year.

In 1990 an analysis of 120 transportation companies assessed that drivers on average resign already after 21 years of work at the age of 49. Another study about an individual transportation company revealed that just 5 % of employees reach the retiring age of 63 years. The health of drivers who are 50 years and older deteriorates significantly; cardiovascular diseases, degenerative spine changes, acute respiratory problems, bronchitis, neural diseases and gastrointestinal tract diseases are proven after-effects of specific operational demands. At VAG 4 % of the drivers resigned annually due to health problems. As a consequence just 2 % of the employees reached the age of 60 as active driver. Drivers of the age 57 and older were more than 50 days per year away sick.

**Table 6** Reasons stated for the retirement from train service in 1991:

	VAG		All transportation companies in Germany
	%	Number of cases	%
Reaching the retirement age	3	2	10.9
Early retirement benefits with 60	12.3	8	10.7
Operational retirement	13.8	9	2.3
Disablement	21.5	14	12.0
Voluntary determination	3	2	13.4
Thereof for health reasons	-	-	0.7
Company leave	-	-	-
Thereof because of frequent illness	-	-	1.6
Internal transformation	44.6	29	37.9
Thereof by request	1.5	1	20
Thereof by medical estimate	27.2	18	27
Thereof by operational regulation	15.1	10	3.8
Death	1.5	1	4.1

Source: Company physician in "Arbeitszeitverkürzung als adäquate Massnahme zur Belastungsreduzierung bei älteren Mitarbeitern im öffentlichen Nahverkehr."

The management assigned a study on the causation of the comparable high number of disablements. They ascertained that the prescribed shift schedules are too demanding. Indeed the transportation requirements show wild fluctuations that reflect in working times. High irregularities of starting and ending times, no physiological sequence, week-end work and limited choice are the characteristics of the driver's working plans. Although often unconsidered, shift schedules in the transportation sector normally bear higher complexity than those in industries. Among others these irregular shifts lead to alimentary disorders and overweight. Due to the shortage of motion the musculature degenerates. Further demanding aspects are the extremely isolated working place, the limited possibilities to communicate and cooperate with colleagues, the many stress situations with aggressive customers that occur, the high demand for concentration and the few possibilities

to pause. This all negatively affects the performance on the job, the well-being, private life and health.

The stated demands will become even more encumbering because of the unbalanced communal budget and the regionalisation of the transportation sector that lead to high cost pressures. The resulting necessity of steep cuts is most likely to affect drivers rather than administrative staff. It is expected that by 2012 transportation contracts will only be awarded in concession procedures through European wide public submissions. Private bidders will then have the advantage of lower labour costs since they are subject to significantly lower collective wages. It is estimated that labour costs in the private sectors are around € 10 per hour while VAG pays more than € 20. Thus VAG is more or less forced to reduce personnel costs with the consequence that the working pressures will rise even more without adjustment in payments. This will lead to problems since the drivers constitute the interface between company and customers and therefore contribute most to VAG's service quality. The fact that VAG is forced to economise while it has to get more competitive asks for innovative solutions. Changing the personnel policy seemed to be essential.

An important problem constituted the traditionally rigid working time schedules with a regular sequence of day and night shifts, weekend and holiday work. A study revealed that the involvement of drivers in the planning process is of great importance with regard to job satisfaction because the arrangement of working time redounds most. 64 % of respondents stated that they had the wish to swap shifts in the last three month showing that the normal working schedule was too static. In 91 % of cases their request to swap shifts was responded but only in 5 % of cases without involvement of the supervisor.

## 2.2. Description of working time arrangement

First VAG concentrated on a qualitative reduction of the demands the driver jobs bear: since 1992 they offered workshops, which included autogenic training, physiotherapy with special assistance for the back and talks about balanced diets. After one year these workshops showed no significant effect in comparison with a control group. Nevertheless they became an inherent part of the operational health prevention. VAG also started to support the training for double qualifications so that many drivers became more flexible in swapping shifts and had less monotone work movements. Working places became more ergonomic and VAG offered company-facilitated sports activities as well as healthier canteen food.

After all these measures had no significant effect three major steps were undertaken by the company to reorganise working times for drivers.

- *57+ benefit:*

The company physician convinced the management to shorten the working time for older people, thus to concentrate on a quantitative rather than qualitative relief. Drivers of the age 57 + are allowed to work 20 shifts less per year without reduction in their wages. The 20 shifts they are allowed to leave out are taking place at the end of each working week and during night so are especially exhausting. Instead of having five working days and then one day off the older drivers now have four working days and two days off, which reduces their working time overall by 10 %. The only prerequisite for the working time cut is that the older driver is not allowed to have a second job. Now, after this measure became a complete success, all employees can independently of their age reduce their working time for three month to half of the original working time if it seems sensible in terms of occupational rehabilitation. Younger workers, however, still have to bear wage reductions.

- *Individual working time selection:*

At the beginning of 2005 a new rota model was introduced allowing for more self-determination. Since then the drivers can enter every two month their preferred working times in a computer terminal at the depots. With a few obligations they can choose between several shifts and also flag their choice with degrees of urgencies. The scheduling software considers the minimum requirements fixed by the number of day and night shifts, minimum recreation periods and other legal criteria. In addition the drivers are free to select shifts according to their preferences. The software solution tries to achieve a similar degree of quantification for all drivers' preferences. If an employee does not enter his/her preferences it is assumed that he wishes to maintain the old rota. One month before the planning period the computer disgorges the results and every employee can print theirs at the terminals.

- *Reserve pool employees*

In addition to the new computer based rota model VAG introduced a special service group that in cases of shortages of drivers has to stand in. This special group is characterised by a high degree of flexibility as regards working hours and the type of service. They also have night and weekend shifts but different to the other drivers their working times are composed of a mixture between fixed and gliding time. Working hours can fluctuate within the range of 35 hours compared to the standard working rotas. Many of the workers have two or more driving licenses which enable them to cover different kinds of services. In addition to covering peaks the reserve pool employees are in charge of several marketing tasks and control tickets when there is no other commitment.

### 3. Analysis of impacts

- *57+ benefit:*

Before the working time cut for older employees was introduced their absence from work amounted on average more than 50 days per year. As a consequence of the twenty working days they had to work less now, their absence from work suddenly decreased by 50 %, so that they were actually working more than before. The older drivers were less often ill and after an illness they returned back to their working place sooner than before. The numbers of disablements also decreased significantly. To this positive development contributed not only the psychobiological stress reduction but also the increased appreciation and recognition the elderly received through the implementation of the measure. Despite of these positive developments and despite the fact that VAG has to bear just one third of the costs (health and social insurance funds also have an interest in reducing the disablements) the measure is at risk because the older employees are still not productive enough. The company states that a private firm would not afford this support.

- *Individual working time selection:*

The new computer based working time model is relatively disputed among drivers. There are some principle concerns in particular among older drivers but the majority of depots voted in favour of the model and prefers the new individual working time selection.

Many drivers have the feeling that the computer system is not technically mature so that it does not allocate working times in a fair way. Although the management assesses that 80 % of the entered preferences are obtained, the drivers complain about the bad consistency with the shift times; only the choice of free working days would be fulfilled regularly. Due to many rules the choice would be limited anyway and a two month in advance planning period is not enough for several drivers. Moreover many employees are already so accustomed to the old rota that they are unwilling to change. They are unsatisfied with the new system if they do not get their old working times.

It is assumed that the habit of the old system was the main reason why depots voted against the new system. Another reason was the smaller size of the depot, which reduced the availability of shifts and lead increasingly to dissatisfaction. Another disadvantage that drivers stated came along with the new system was that existing social groups among drivers dissolve. Before the implementation, when groups had the same working times, the coherence within the workforce was stronger. The choir, the touring company, the tennis group etc. do not exist anymore and incidences like protesting jointly for another free day do not happen anymore.

Younger drivers appreciate the new planning flexibility more. They stress that through the new system it is possible for them to start shifts each day at the same time for one week. This way they have more space between shifts, get more sleep, can stick to a healthier rhythm and feel better. To get a free day would now be less complicated since they do not rely on swapping shifts with colleagues. In cities where the system was implemented earlier a study revealed that the absence from work declined 2-3 % and the satisfaction increased.

For the management the new system has the advantage that the ability to adapt to changes in the market improved. They can appoint drivers at peak times and special events without paying overtime. Thus labour costs decreased.

- *Reserve pool employees*

The reserve pool employee team has the advantage that in cases where additional staff is needed they can be called and the normal drivers stick to their individual rota. Before its implementation each depot had one or two people in stand duty round the clock. According to the management the old model was less efficient because often the employees in stand duty were under occupied and when there was a real peak during public events the number of people in stand duty was not enough. According to the drivers, however, the reserve pool employee team is not able to stand in fast enough and too often problems occur when reserve pool employee is not familiar with certain routes. Then the normal team members still have to cover the shortage and reorganise their shifts.

## 4. Conclusion

In conclusion the working time schemes introduced at VAG to become more flexible and competitive achieve their objective. The 57+ benefit, the individual working time selection and the reserve pool employee team accommodate to the drivers needs and have operational advantages. For the drivers the implementation of the schemes led to an adjustment of working times to individual preferences and health status. For the company the measures improved the flexibility and led to cost savings.

## Case Study 3: Volkswagen Wolfsburg

### References:

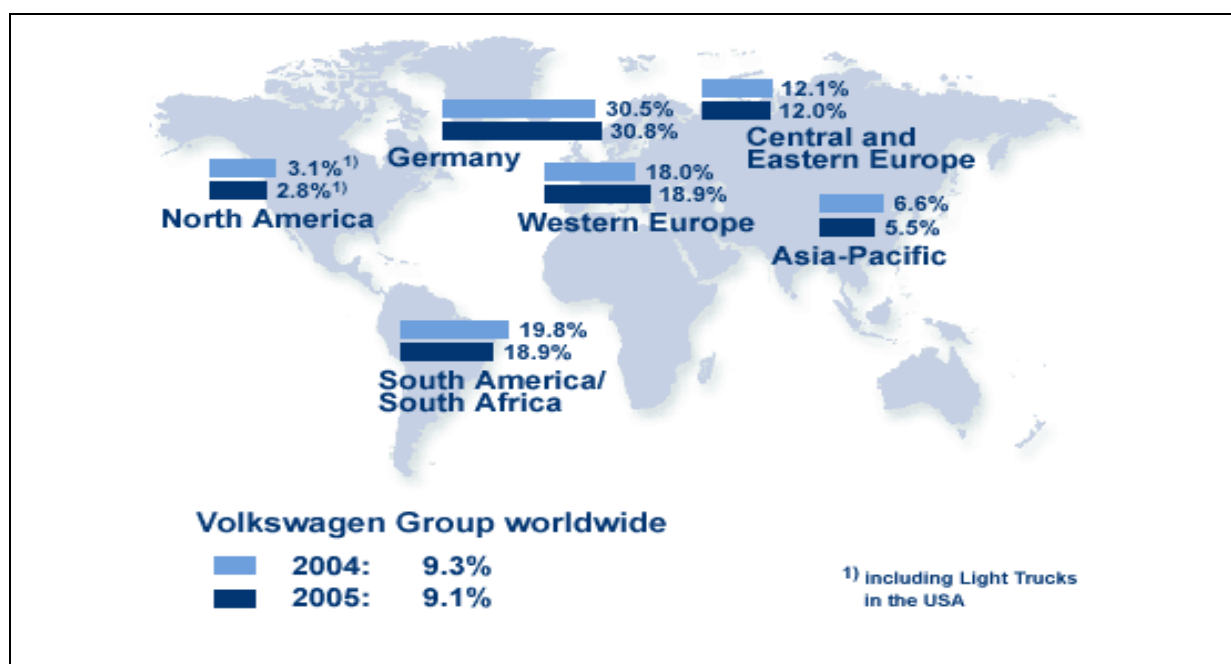
Country:	Germany
Company:	Volkswagen Wolfsburg
Sector:	Car Manufacturer
Size:	50.000 employees
Interviewee:	Herr Gasse (personnel manager of the car production division in Wolfsburg) Frau Dr. Lange (assistant of the personnel manger),
Date:	28/09/2006

## 1. Background description

### 1.1. Market position of the Volkswagen Group

The Volkswagen Group with its headquarter and main plant in Wolfsburg is the fourth largest car manufacturer in the world and the largest carmaker in Germany and Europe. In 2005 the Group increased the number of deliveries to 5.243 million (2004: 5.079 million), corresponding to a 9.1 percent share of the world passenger car market. In Western Europe the Volkswagen Group has a market share of 18.9 percent. It operates 44 production plants in eleven European countries and a further seven in the Americas, Asia and Africa.

**Chart 5 Volkswagen Group - Car Market Share 2004 – 2005**



Source: VW

The Volkswagen Group operates with profits. After a steady downturn since 2001 after tax profits rose to 1.12 billion Euros in 2005.

## 1.2. Structure of the VW Group

The Group's passenger car business is divided into two brand groups, Audi and Volkswagen. The product portfolio of Volkswagen ranges from low-consumption small cars to luxury class vehicles. Moreover trucks and commercial cars are produced. The Audi brand group comprises Audi, SEAT and Lamborghini. The Volkswagen brand group is made up of the Volkswagen Passenger Cars, Škoda, Bentley and Bugatti brands. Each brand retains its differentiated image and operates as an entity on the market with considerable scope for independent strategies.

**Chart 6** Volkswagen Group

Division/ Segment	Automotive Division				Financial Services Division
Business Line	Volkswagen brand group	Audi brand group	Commercial Vehicles	Remaining companies	Financial services
Product Line/ Business Field	VW Passenger cars Skoda Bentley Bugatti	Audi Seat Lamborghini		Financing Services	Dealer and customer financing  Leasing  Insurance  Fleet Business

Source: VW

The Board of Management of the Volkswagen AG comprises six members with Dr. Bernd Pischetsrieder as chairman. Each board member is responsible for one or more functions within the Volkswagen Group. The work of the Board of Management of Volkswagen AG is supported by the boards of the brands and regions as well as by the other group business units and holdings.

The Supervisory Board, comprising 20 members with Dr. Ferdinand K. Piëch as chairman, is responsible for monitoring the management and approving important corporate decisions. Its composition conforms to the German Codetermination Act of May 4, 1976, which means that 9 members are representing the company's employees. The staff association, labour unions, the executive board and the federal state Lower Saxony collaborate in the supervisory board. This collaboration and the fact that the government holds an 18.53% share in the Volkswagen Group, ensures high social standards for employees at Volkswagen. VW offers its employees a socially compatible and secure working place rarely given in the automobile industry and closed by area in this vein. In many respects the Group cooperates with the government and takes responsibility for the whole region. The workforce and the government are aware of Volkswagen being the main employer in the region and thus of the importance to sustain competitive. VW seems to be the driving force of the economic well-being of the federal state Lower Saxony.

Volkswagen is an Aktiengesellschaft, abbreviated *AG*, being equivalent to the English *Corp[oration]* or American *Inc[orporated]*. The disposition of ordinary shares stated on the 31<sup>st</sup> of March 2006 had been:

- Public float 51.29%
- Dr. Ing. h.c. F. Porsche AG 18.53%
- Federal State Lower Saxony 18.10%
- Brandes Investment Partners (Brandes), LLC 8.58%
- Capital Group Companies Inc. 3.50%

## 2. Volkswagen Wolfsburg

The Volkswagen Group's headquarter is Wolfsburg. Among the administration and research departments the main plant of the Group is sited here. The Wolfsburg plant produces the VW Golf with an average daily outcome of 2000 cars. Volkswagen has a firm-specific collective agreement, which is more advantageous to employees than the industry-specific agreement. The implementation of collective agreements differs among plants. Thus there are differences in the cost structure and therefore in the efficiency between plants. Wolfsburg belongs to the high cost plants.

### 2.1. Human Resource Management

The human resource management of the Volkswagen plant in Wolfsburg is influenced by the strong participation of employees regarding the corporate governance of Volkswagen. It had lead to a kind of "Volkswagen socialisation," which means a high degree of solidarity among employees and an attitude to take high social standards as granted. Social incisions seem to be hardly achievable though necessary for efficiency reasons facing increasing competition worldwide.

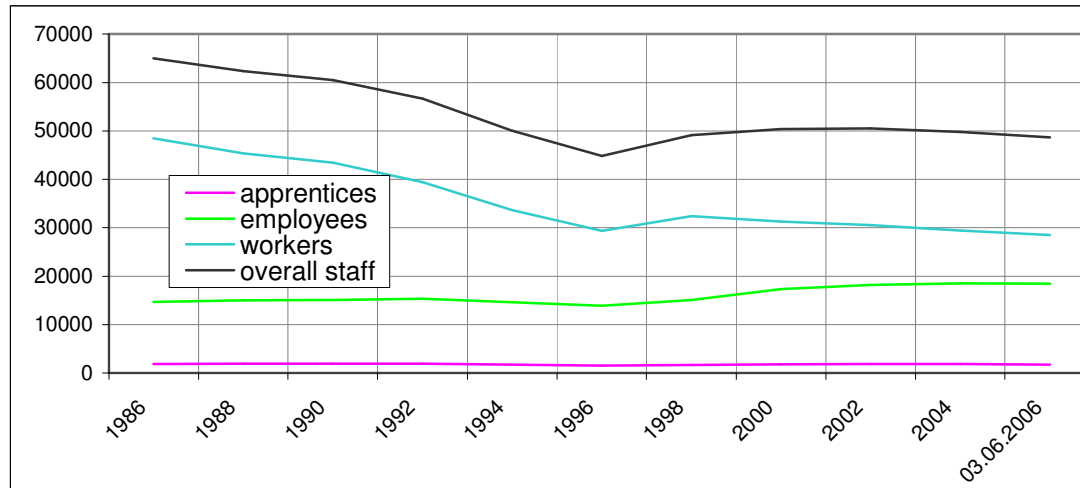
In car production Volkswagen practices continuous three shift schedules with regular shift switches. Normally workers are in morning and evening shifts for eight weeks and in night shifts for four weeks. The regular working week consists of four working days.

### 2.2. Implementation of the working time arrangement

#### *The Volkswagen Week*

At the beginning of 1990s there was a labour surplus of 20.000 employees at the Volkswagen plant in Wolfsburg due to a downturn in demand (see chart). Responding to the structural changes the management decided to introduce specific measures in line with the human resource principles of the company. Instead of making substantial parts of the staff redundant, a four day working week for all Volkswagen employees was implemented, which -due to its uniqueness- is also known as the Volkswagen Week. The management explains Volkswagen started to "breath over working time rather than jobs." The 20 percent labour surplus was commuted into a 20 percent working time cut. Before 1994 the average employee worked 36 hours per week, from then on they worked 28.8 hours.



**Chart 7**      **Development of the workforce at VW Wolfsburg**

Source: VW

Monthly incomes were reduced in accordance with the shortening in working hours. In addition several tariff bonuses were abolished. Leisure time demands were shortened leading to an increase in working time of two percent. Former demands on vacation and Christmas allowances and on a 13<sup>th</sup> month payment were now included in monthly payments. Further a 1.5% wage increase was conceded. Overall the annual salary decreased 16.5%.

For solidarity reasons the shortening of the working week was initially implemented rigorously with no exception to researchers and large parts of the management staff. This kind of advancement ensured that there was no loss in competencies and knowledge. Moreover employees were bound to the company in knowing their working places as secure. The disrepute of enforcing a redundancy programme through dismissals was avoided.

In addition to the reduction of the workload from 36 to 28.8 hours the management negotiated the allowance to increase the average annual working time per week up to 35 hours solely depending on business activity. With a public announcement at least one week in advance the management can prescribe extra shifts as long as the average working week during the year does not exceed 35 working hours. Vice versa a break can also be announced.

The normal working week lasts from Monday to Thursday. There are three production shifts of 7.2 hours per day, thus an overall operating time of 21.6 hours was achieved. The remaining 2.4 hours of each day are used for maintenance services and or for catching up the production plan. The regular weekly operating time is 86.6 hours.

Each employee is grouped in a team, whose working schedule is assigned by the management. Within each team there prevails self-management led by the master craftsman. The team work improves the human relations and enables the team members to counterbalance their strengths and weaknesses, this way increasing the productivity because of the complexity of the product.

An extension of working hours without overtime bonuses is possible on Fridays during all three shifts. On weekends high extra payments would fall due:



**Chart 8 Working time bonuses**

	1 <sup>st</sup> shift (6.30h-14.02h)	2 <sup>nd</sup> shift (14.30h-22.02h)	3 <sup>rd</sup> shift (22.30h-5.42h)
Mo-Th	-	8.66%	38.33%
Fr	-	8.66%	62,98%
Sa-Su	30-50%	38,47%	84,17%

Source: VW

The management stresses the advantage of this arrangement in comparison to a programme of two shifts per day from Monday to Saturday. The VW system would allow for 20 percent more “breathing” over working time in order to adjust to the order situation without letting employees work on weekends where high extra payments fall due. 2.000 (92.000) more cars can be built per day (year) without changing teams or hiring temporary staff. Car stocks are avoided and production can be more precisely adjusted to demand.

Interestingly extra shifts on Fridays cost VW less than the regular shifts from Monday to Thursday because payments for absenteeism drop. The unpaid absenteeism rate accounts 10% from Monday to Thursday. On extra working days the absenteeism rate is even higher, though productivity does not decrease.

In addition to these measures the attendance recorder was abolished. The management argues that in the production section an attendance recorder is not necessary because of the conspicuity when the assembly line starts and workers are not present. In the management section it was abolished because an attendance recorder would only control attendance rather than work efforts, which is what matters.

### *Alterations of the initial approach*

In the course of time the experience with the Volkswagen Week after the great shock lead to several adjustments of the working concept: Despite of the measures taken the management released thousands of employees until 1996 through cancellation agreements, early retirement schemes and the using the normal fluctuation. In 1996 manpower requirements increased again. These requirements were covered by temporary workers. After one year many of the temporary workers were taken over and the staff increased again.

In 1996 the effort to increase productivity resulted in a collective agreement which reduced paid breaks for workers from 8.0 to 5.5 minutes per hour. Simultaneously working hours per week for salaried employees increased from 28,8 to 30,0 hours.

Moreover, since the beginning of 2006 working hours for specialists can be increased to 40 hours per week with a respective raise in salary and bonuses. The short working hours were hardly appropriate to these human capital intensive jobs.

Since 01.01.2005 all new employees work 35 hours per week.

In contrast to these working time extensions, the Volkswagen week was also used as an instrument for youth integration: Young employees having completed an apprenticeship at the Volkswagen plant in Wolfsburg also suffer for the labour surplus in being fully employed only during the course of 3.5 years. Having completed the apprenticeship they

work 20 hours/week for the first two years. Afterwards they get an occupation for 24 hours/week for further 1.5 years.

### *Time asset bonds*

In 1997 the Volkswagen plant in Wolfsburg introduced a time asset bond scheme allowing employees of the age 55 and older to shape and finance their working life by using accumulated overtime of previous years. The overtime wages are invested in financial funds. Together with interests these funds can be used for an earlier retirement according to their preferences. The prohibition of state financed early retirements with 55 gave reason to its implementation. Alternatives to the early retirement had to be found for two reasons. First working in the car production sector demands a high degree of fitness for which employees of increasing age are less and less armed, thus an early retirement is often inescapable. Second VW's labour force grew but not the overall productivity. As a consequence there accrued a labour surplus, which amounts 6% (3.000 of 50.000 employees) today. The management does not want to release younger employees just because they are less socially involved in order to fight the labour surplus.

The time asset bond scheme permits to transform overtime through extra ordered shifts on Fridays into time assets. The time assets are part of a fund invested on the capital market. This secures employment in the future by documenting claims on Volkswagen for paid release from work. Today the average retiring age among the employees in the production section is 57.5 years, three years earlier than the German average.

### *Auto 5000*

In 2001 the inefficiency due to the high cost structures had lead the VW management to the foundation of the Auto 5000 GmbH. The Auto 5000 project originally employed 5000 workers building the van "Touran" at Wolfsburg for much lower conditions (basic salary of 25.000 euros gross a year) than the normal interoffice tariff prescribes. Due to hard critique by the labour union IG Metall the VW management had to recede and assign the normal agreement on tariffs of the metal industry for its Auto 5000 employees in June 2006.

### *Back to the 33 hours week (employment started before 31.12.2004)*

In 2004 Volkswagen was pressurised even more when there was a profit collapse of 50 percent in 2003. Thus the Executive board signalled a burn-out turnaround in order to cut the costs in cooperation with the workers to make German plants more competitive.

High wages and production costs are considered to be the reason for the crisis. By VW's own account the company's personnel costs lie 11% above the average among the German car manufacturers. This has lead to comparatively high car prices. According to some critics high dividend distributions to common stockholders (336 million Euros in 2004) and to high manager wages and compensations were part of the problem. The dividend distribution would have corresponded to wage payments of 933 Euros to each of the overall 343.000 employees or to a reduction in price of 65 Euros for the 5.1 Million vehicles produced in that year.

In September 2006 the labour union IG Metall and the VW management of all western German production plants, among these Wolfsburg, agreed upon a return to a 33 hours working week for employees in production and a 34 hours working week for employees working in administration without advancement in wages. This new regular working time

can be expanded to 35 hours through extra payment. In addition a working time corridor between 25/26 and 33/34 working hours was agreed upon. In return operational dismissals were ruled out by the management until 2011. The changes will also be compensated by a single payment of 1000 Euros in 2007.

There will be no raise in salaries in 2007. This is compensated by a single payment of 1000 Euros in 2006.

Further reduction in staff is planned through cancellation agreements and partial retirement.

### 3. Analysis of impacts

The concept “breathing company” with the Volkswagen Week as the main implementation had become the very essence of flexibility before customers. The model enabled the company to cope with the rate of change in demand as well as in customer requirements and market developments. Consistent orientation toward the customer in terms of quality, price, loyalty and speed of delivery were key elements of the concept. At the same time it has been socially reconcilable; an alternative to a “hire and fire” employment strategy. Through the influence of the government and the strength of the labour union IG Metall employees used the right of codetermination and showed responsibility for working places. This certainly encouraged the acceptance of incisions taken by the management in order to become more competitive.

According to a survey of the Friedrich-Ebert-Stiftung the acceptance to the incisions in 1994 was the higher the lower the salary of the single employee. Reasons why the acceptance among lower skilled employees was greater might be that they had to fear to lose their working place more than high-skilled workers. This is because low-skilled workers are easier to replace and the collective agreement at Wolfsburg still lay above the average even with the cuts in wages.

VW Wolfsburg increasingly shifted staff to the more efficient research section. After 1994 even craftsmen were moved to the research section. For them a new career path opened through the cutbacks.

Overall the standard labour turnover at Volkswagen of 1.5 percent did not increase by very much in the course of the measures. Meanwhile many other international Volkswagen plants adopted the breathing company concept though adjusting them to local standards.

### 4. Conclusion

In conclusion the Volkswagen Week introduced at VW Wolfsburg to become more flexible and competitive achieved its objective. For the company the measure improved the flexibility and led to cost savings, for employees it safeguarded their jobs and led to increased solidarity. Despite further incisions became necessary in the course of time due to a new emerging inefficiency and a labour surplus of 6%. Further reduction of working time would have been senseless, thus the management finally called for an increase in working time without compensatory wage payments. The staff is aware of the problems the high wage payments cause and so in fear of losing their jobs they feel obliged to agree.

The social responsibility visible in the Volkswagen approach has to be seen in the context of the size of the company and its dominating relevance for the region. Without this working time and wage cutting consensus South eastern Lower Saxony and the surrounding regions would have experienced a severe labour market crisis.