



Eurofound

# Links between quality of work and performance

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**Author:** Oxford Research

**Research manager:** Radoslaw Owczarzak

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# Executive summary

Eurofound has during the past years focused on the links between social dialogue, working conditions, quality of work and their impact on employee and company performance. A package of research projects was launched in order to deepen the knowledge of these links through an extensive literature review, analysis of the European Company Survey data and in-depth case studies. This report is based on 21 case studies in four sectors (electromechanical engineering, food manufacturing, financial services and insurance activities, and wholesale and retail) in six countries: Austria, the Czech Republic, Germany, France, Spain and Sweden. The aim of this study and of the whole research package is to investigate whether and how improvement of the quality of work can boost employee and establishment's performance.

## Policy context

Creating better jobs and quality of work are key elements of the European social model. This includes areas such as the organisation of work and work activities; training, skills and employability; health, safety and well-being; as well as working time and work–life balance. However, improving the quality of work and working conditions is a new dimension within the European Employment Strategy, which previously concentrated mainly on quantitative measures such as increasing employment and reducing unemployment. The Lisbon agenda implies that improving the quality and productivity of work could lead to more as well as better jobs. In the recent Europe 2020 strategy for smart, sustainable and inclusive growth, the focus after the financial crisis is on more jobs (increasing employment), but a more innovative climate should, according to the strategy, also contribute to 'quality jobs'. Skill raising and vocational training is the preferred method to reach the targets in the strategy, and social partners are seen as key actors to contribute to this end through the use of social dialogue.

## Key findings

The report shows that most companies apply a bundle of measures to improve different dimensions of quality of work. Therefore it is difficult to single out how one specific measure affects performance. The report further shows that in some companies the chain of links from improvement of quality of work to increased performance is not fully recognised by themselves. Also, in a number of cases the positive relationship between quality of work and performance is anticipated, but not in any sense verified.

Nevertheless, the case studies indicate that the clearest link between quality of work and performance relates to training, skills and employability. Training contributes to improved performance mostly through increased ability to use technology and to meet customer demands. Training is also used because the potential alternative, recruitment, is a less optimal investment. It is difficult and often expensive for the companies to recruit potential employees, and internal career development through training is a more beneficial solution, both for the company and the employees who benefit from increased employability.

Career advancement plans and employment security contribute to improved performance by ensuring that there is a mutual understanding that medium to long-term career advancement is possible in the company. Thus, employees increase involvement, loyalty and ownership towards their work. This has many potential benefits: employees recommend the workplace to others seeking work, they act as ambassadors for the company, and they treat the success of the company as a personal success. The case studies are only indicative in this context, but the researched companies perform well in combination with well-developed career possibilities and employment security, proving that the two elements are possible to combine.

Health, safety and well-being, according to the findings, contribute to improved performance through decreasing sick absences and insurance payments. Additionally, they also increase employee satisfaction and decrease voluntary staff turnover. In some cases, in companies that have measured the impact on performance, the link is quite evident, where

improved health, security and well-being have resulted in an up to 20% increase in labor productivity, in addition to a positive impact on sick absences.

The case studies also confirm that well-developed company work–life balance policies can have a positive impact on performance. Not only is it easier to recruit, but the employees also have an increased tendency to devote high work effort to the company when it is most needed in return for the flexibility shown with regards to their needs. Moreover, employee satisfaction is also seen to increase. Thus, the flexibility benefits both parties.

### Policy pointers

This project has shown examples confirming that improving quality of work and achieving better financial performance are two sides of the same coin and not conflicting goals. Outlining specific links between quality of work and performance and drawing firm recommendations for policy makers and other key stakeholders are, however, challenging for a number of reasons. Firstly, companies are often either not aware of these links or do not verify them in any way. Secondly, most companies bundle a number of quality of work initiatives and achieve a series of performance benefits without being able to single out the specific interrelationship between them. Lastly, both methodological approaches of cross-sectional survey data analysis and of ex-post impact analysis in case-studies do not constitute a sufficiently strong base of evidence for answering the fundamental question about the causality in the investigated relationships. Only a longitudinal study over number of years of a panel of companies implementing job quality practices can provide the decisive evidence.

Nevertheless, some policy pointers and recommendations can be identified. The research shows that there is an obvious need to disseminate broadly information on the links between quality of work and performance and thus to raise awareness of the broader labor market and business community audiences of these existing sources of sustainable performance and growth. Furthermore, the researched links between quality of work and employee and company performance provide the basis for moving social dialogue in the EU forward. Moving social dialogue to the next level where quality of work is the common goal and is as important as employment will certainly be a substantial contribution to the goals of the Europe 2020 strategy and goals. All these should be done in parallel with further investment into baseline studies and longitudinal research on the links between quality of work and performance in order to deepen the knowledge and to further analyse the lessons from best practice examples.

# Introduction

Creating better jobs and a better quality of work are key elements of the European social model. This includes areas such as the organisation of work and work activities; ‘training, skills and employability; health, safety and wellbeing; as well as working time and work–life balance.’ (Voss E., 2009). However, improving the quality of work and working conditions is a new element of the European Employment Strategy, which previously concentrated mainly on quantitative measures such as increasing employment and reducing unemployment. The Lisbon agenda implies that improving the quality and productivity of work could lead to more, as well as better, jobs. In the recent *EU 2020, a strategy for smart, sustainable and inclusive growth*, the focus, after the financial crisis, is on increasing employment, but a more innovative climate should, according to the strategy, also contribute to good-quality jobs (European Commission, 2010, pp. 9–10). Skill-raising and vocational training is the preferred method to reach the targets in the strategy, and social partners are seen as key actors in contributing to this, through the use of social dialogue (European Commission, 2010, pp. 16–17).

The European Foundation for Living and Working Conditions (Eurofound) has initiated a project on links between social dialogue and working conditions and their impact on performance. This report focuses on links between the quality of work and performance. It is based on 21 case studies in four sectors (electro-mechanical engineering, food manufacturing, financial services and insurance activities, and wholesale and retail) in six countries; Austria, the Czech Republic, Germany, France, Spain and Sweden.

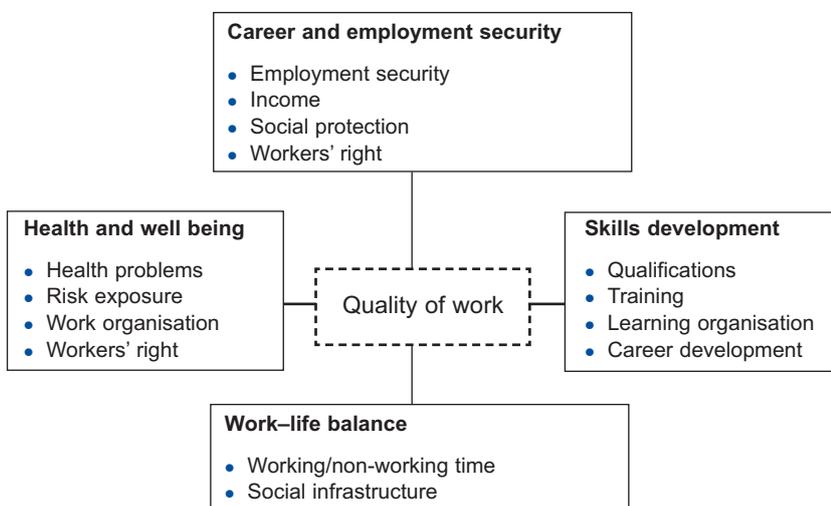
The study was led by Oxford Research, Denmark, with valuable assistance from Centre de Recherche pour l'Étude et l'Observation des Conditions de Vie, (CRÉDOC), in France, Great Place to Work® Institute Deutschland, IKEI in Spain, Institut für Mittelstandforschung in Germany, KMU Forschung in Austria and the Research Institute for Labour and Social Affairs (RILSA) in the Czech Republic. The study could not have been done without the flexibility and understanding shown by the partners and the participation of the 21 companies.

## Research question and key definitions

The research question is: What are the links between quality of work and employee and workplace performance? Accordingly, this research project focuses on the concepts of ‘quality of work’ and ‘performance’.

Quality of work is a complex subject that has been developed by Eurofound over the last decade. Quality of work includes four dimensions, as can be seen in Figure 1:

Figure 1: *Quality of work*



Source: Eurofound: ‘Quality of work and employment in Europe – issues and challenges’, (2002, p. 6)

As stated in a Eurofound publication, ‘Quality of work and employment in Europe’ (2008, p. 9) such categorising is inevitably somewhat arbitrary. However, it is beneficial to use an established set of terms to be able to relate the findings in this report to earlier research carried out by Eurofound.

The concept of performance in this study is broadly defined, not only as the economic situation of the establishment (TNS Infratest, 2009) including labour productivity, turnover, profitability and market shares but it also includes development of workforce size; staffing problems, such as absenteeism, recruiting, retaining, motivation; assessment of job satisfaction; information on workers’ complaints and industrial action; motivation and commitment of the staff and customer satisfaction. A more elaborate discussion on the concept of performance can be found in the ‘Extension of the European Company Survey 2009 with financial indicators’ (TNS Infratest, 2009).

Measuring performance can be, however, somewhat challenging since performance most often has to be understood in relative terms, for example, development of labour productivity, growth in turnover or relative-to-sector averages such as profitability of the establishment compared to average profitability of the economic sector in question. Besides, companies themselves use different measures to assess their performance. Accordingly, different datasets sometimes have to be applied in order to measure performance properly, and datasets on company data can be difficult to interpret. However, throughout the report, the best available datasets are presented, although they vary somewhat between the companies studied. Four sectors have been chosen to be studied in this project. The selection was made to complement the Eurofound 2008 study on social dialogue and working conditions (Eurofound 2009). The study uses the definitions given by the Statistical Classification of Economic Activities in the European Community (NACE):

- Financial services and insurance activities (NACE code K64 and K65);
- Wholesale and retail (NACE code G46 and G47);
- Electro-mechanical engineering (NACE code C26 and C27);
- Manufacture of food (NACE code C10 and C11).

## Context

The Lisbon Declaration set two overall ambitions for Europe: that it should be the most competitive region in the world and that it should become the most sustainable region in the world. Not only more, but also better, jobs were seen as a natural implication of this two-pronged strategy. However, during the recent financial and economic crisis, focus shifted towards increasing productivity, and concern was expressed with respect to the implications for quality of work and working conditions in general. Recognising the magnitude of the effects of global competition and the economic downturn, the European Commission stated:

*‘Overall, these factors are often perceived to go hand-in-hand with increased job insecurity; a deterioration of working conditions (for example increased stress and work-related health problems); reduced possibilities to combine work with other private and social responsibilities; and increasing inadequacy of existing social security schemes to cope with more heterogeneous and uncertain individual employment histories.’*

(European Commission, 2008, p. 147)

In the EU2020 strategy, focus has, as we have seen once again, been mostly on increasing the numbers of those working, to raise the employment level to 75%, whereas less is stated about the quality of work (European Commission, 2010). This raises the overall question of whether quality of work and performance complement or contradict each other.

One way to answer the question is from a theoretical and macro-economic approach, in the way that Jean-Marie Jungblut is looking into the links between quality of work and performance in a research project (2010). Based on a thorough review of academic literature, Jungblut concludes that there are no straightforward relationships between specific aspects of quality of work and specific performance measures. Most companies bundle a number of improvements in quality of work and achieve several performance improvements without being able to identify the specific chains of action or outcomes in between. However, a number of theoretical links can be suggested. For example, training and flexible job assignments make work more interesting, reduce absenteeism and voluntary staff turnover, which lead to reduced costs and, all other things being equal, better economic performance.

Another approach is to study links between quality of work and performance by in-depth case studies. That is the approach applied in this report. The cases studied were chosen according to a broader spectrum, enabling the study of links between quality of work and performance and links between social dialogue and working conditions, and they represent four specific sectors in six countries.

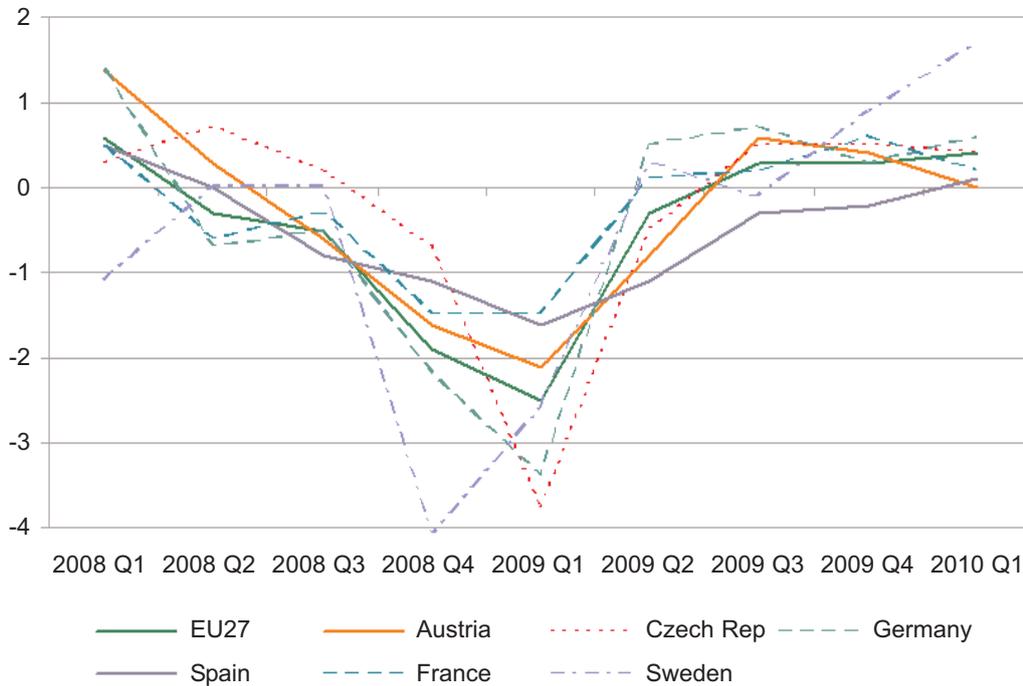
A specific challenge associated with studying links between quality of work and performance at the current time is the impact of the financial and economic crisis. As stated above, improvements in quality of work should lead to improved economic performance. However, during a financial and economic crisis, this relationship is not that straightforward and the case studies illustrate, among other things, that because of this, companies have improved quality of work in certain dimensions and have been met with negative economic growth. In such cases, it is somewhat difficult to prove that the economic development of the company in question would have been even worse if the quality of work had not been improved.

### **National context**

Last, but not least, the cases studied in this report cover six countries with different general levels of quality of work and with different vulnerabilities in relation to the recent financial and economic crisis. The selection of countries follows the 2009 Eurofound study, 'Working conditions and social dialogue'. The six Member States profiled in this study exhibit different traditions of social dialogue and industrial relations, and thus different traditions of improving quality of work to enhance performance. Four of the countries are selected to represent types or 'models' of social dialogue and industrial relations (Sweden, Germany, France and the Czech Republic). Spain and Austria are included to demonstrate a wider range of models of social dialogue, and to include differences in frameworks regarding regulations on working conditions (Voss, E., 2009, pp. 4–5).

The case studies were conducted in a period of economic turmoil in Europe. To see the extent of the crisis and the macro-economic environment the companies are operating in, a short review of changes in GDP and employment over the last few years is given below.

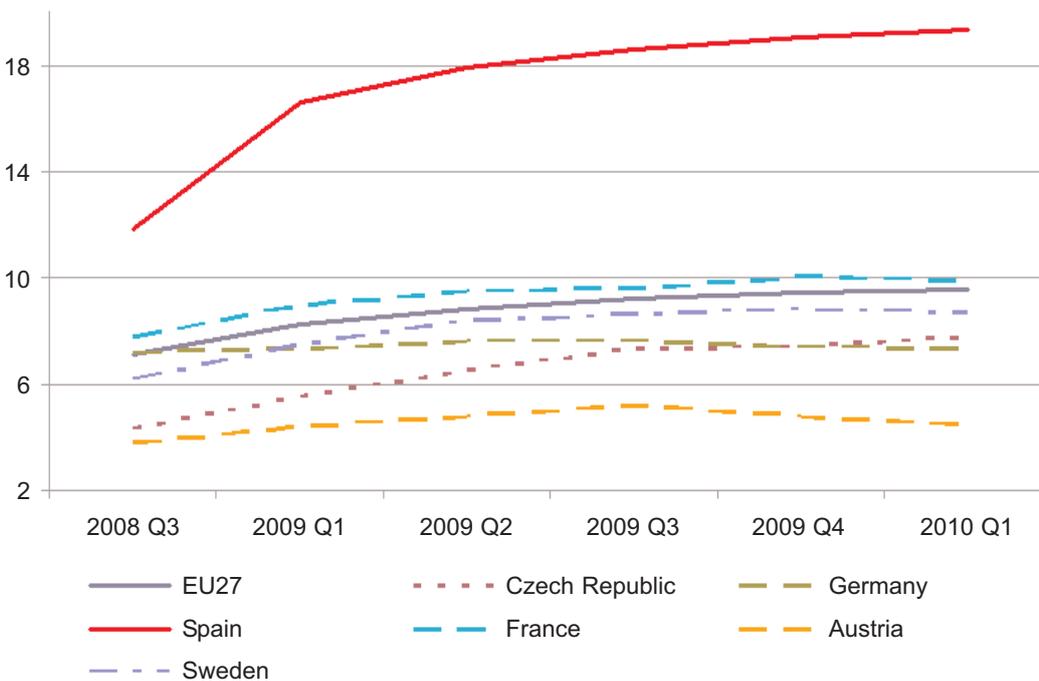
Figure 2: GDP (Market prices): Percentage change from previous period



Source: Eurostat, employment figures.

The financial crisis and the subsequent euro-zone debt crisis have affected EU countries in different ways, and the countries have adopted various approaches to dealing with the crisis. Nevertheless, the trend for all countries appears to be similar, with a drop in GDP between 2008 and 2009 followed by a recovery beginning in 2009.

Figure 3: Seasonally adjusted unemployment rate, quarterly averages



Source: Eurostat 2010

Governments have acted in different ways to limit the effects of the financial crisis and the subsequent euro zone debt crisis. For example, Sweden has kept government debt and deficit in check, and has not increased fiscal spending to any noticeable degree. This also means that there is no need here for austerity programmes.

Spain, on the other hand, has increased government spending during the financial crisis, as have France and Germany. This was done in order to increase demand and to reduce the effects of the crisis. The Czech Republic had a sharp decline in GDP growth and a severe increase in unemployment, but since the third quarter of 2009, positive GDP growth has returned. Austria has the lowest unemployment rate in the sample.

However, these countries have also instigated major austerity programmes to reduce government debt in 2010. For instance, the Spanish austerity plan aims to save €50 billion between 2010 and 2013, which includes a public sector pay cut of 4%.

This snapshot of the countries participating in the project shows how the countries have all suffered during the crisis, but in varying degrees. This overview report sets out the framework of the studies conducted and offer a general context to the companies involved.

### **Structure of the report**

The report introduces European and national policy contexts, which is followed by introductions to the sectors studied in this project. The case study findings are presented in four subsequent chapters. They are structured along the dimensions of quality of work. Accordingly, the first one is entitled Training skills and employability; the second, Career and employment security; the third, Health, safety and well-being; and the fourth, work–life balance. The final, sixth, chapter contains conclusions and perspectives for the future.

The case study method is essentially a qualitative method aimed at capturing as many dimensions as possible. It does not isolate factors in the same way as quantitative research does. It allows for links and comparisons to be drawn during interviews and as the research progresses. It is therefore beneficial to use case studies when causality and qualitative implications are sought. The role of the researcher is thus interpretative, or capable of combining multiple perspectives and details from different contexts. Although the links between quality of work and performance have been investigated previously, the nature of the links is still unclear. This study aims to establish the link between quality of work and performance. It also aims to examine different perspectives and sources of evidence, including materials received from the companies which were researched.

A total of 21 case studies have been conducted in four sectors in six countries. The case studies were conducted between 20 May 2010 and 19 July 2010. Three interviews were, in general, conducted in each of the companies studied: one with a financial manager or similar, one with an HR manager, and one with an employee representative. Additional data about the companies has been gathered through a variety of open sources.

The degree of social dialogue involved in improving the quality of work also differs between countries, and in some countries it was more difficult than in others to find suitable companies. Additionally, the requested size distribution of the sample of cases posed some challenges, since SME's seldom calculate hard data on quality of work indicators such as voluntary staff turnover, sick absences or performance indicators such as employee satisfaction and labour productivity. In some cases where companies stated that such data existed, management declined to reveal it to the research team.

The selection of companies was based on two main criteria. The first was that the cases would include companies of different sizes (differentiating between SMEs and large companies);

The second was that selected companies should have established mechanisms for social dialogue and improvement in working conditions according to the following definitions in the EIRO Industrial Relations dictionary (2010):

- Social Dialogue – ‘All types of formal dialogue, involving discussions, consultations, negotiations and joint actions undertaken by employer representatives and employee representatives on working conditions in the workplace.’
- Working Conditions – ‘Conditions relating to the working environment and the non-pay aspects of an employee’s terms and conditions of employment. This includes areas such as the organisation of work and work activities; training, skills and employability; health, safety and well-being; and working time and work–life balance.’

It was also determined that the cases should be exemplary practices, complementing existing work and allowing transferability of some elements to other cases. Furthermore, it was necessary that the companies should be willing to share a variety of performance indicators with the researchers.

National experts and social partners were used in the different countries to identify the companies. Together with Eurofound, it was decided that both sides of the industry should recommend the company, based on the objectives of the study. The companies were individually approved by Eurofound before the field work started.

The separate case study reports, which include the names and positions of all those interviewed, have been drafted and will be available online from Eurofound. A separate methodological report, which includes an outline of the interview guidelines, has also been drafted and is available on request.

## Interviews

Structured interviews were used to provide reliable and comparable qualitative data. In order for all researchers involved to gather comparable facts, an interview guide was developed.

There are two critical factors that needed to be addressed during the interviews. It had to be ensured that members of a core research team were present at all interviews to enable them to draw conclusions based on findings in the different case studies. It also had to be ensured that there was good understanding, during the interviews, of both the national language and national policies and practices regarding social dialogue and working conditions. Therefore, all interviews were made with one member of the core research team and one national expert. Most of the interviews were conducted in the national language of the companies involved. Due to sicknesses and late cancellation in three cases, the research team had to conduct a small number of interviews by teleconference. All interviews have been recorded.

## The Sectors

### Finance

The financial sector covers banking, finance and insurance, business and legal services, and accounting and auditing. The sector creates ‘products’ such as convenient access, information, advice, strategic planning, management, financial instruments, or simply customer satisfaction.

The European Union is one of the world leaders in financial services with 5.6 million people employed in the sector (European Commission, 2009, p 11). The financial service sector is part of a fast-moving and versatile environment and has received increasing attention over the past decades. Since 1998, the banking market in the EU has tripled and the average premium in the insurance industry has increased by 95% between 1996 and 2006 (European Commission, 2009). The importance of the financial sectors varies across the EU Member States as seen in Table 1.

Table 1: *Number of people employed (in thousands) and percentage of total employment (hours worked) in the financial services sector*

Country	1998	2003	2008
<b>EU27</b>	5,785 N/A	5,827 2.7%	6,018 2.7%
<b>Czech Republic</b>	93 1.8%	83 1.7%	92 1.7%
<b>Germany</b>	1,255 3.5%	1,262 3.5%	1,179 3.0%
<b>Spain</b>	347 2.3%	368 2.0%	413 2.1%
<b>France</b>	725 –	773 N/A	798 N/A
<b>Austria</b>	N/A 2.8%	N/A 2.9%	N/A 2.9%
<b>Sweden</b>	90 2.1%	93 1.9%	96 2.0%

Source: Eurostat, *national accounts, 2010*

Note: In the database, not all figures are available for both thousands of people employed and hours worked; therefore, some information is marked as N/A.

As illustrated in the table above, the largest number of employees in the sector is in Germany, where it is an important sector in terms of the share of the employees relative to the overall economy. This is also true of Austria. Compared to 1998, employment has increased in all countries, where numbers are available, except for Germany and the Czech Republic. In the EU27, the financial sector contributes 2.7% of the total GDP. By comparison, the same sector contributes 4.7% of GDP in the USA (International Labour Organization, 2009).

Unfortunately, there has been no Eurostat data since the 2008 crisis. The banking and insurance sector took a hard hit in the crisis, but even before then, this sector was not generating much new employment:

*Financial services employment expansion has been slow, with overall EU27 growth at only 0.5% between 1996 and 2006. To put this into perspective, the increase of total employment of other services sectors during the period was 3%. The reason for this disparity in growth is explained in large measure by extensive mergers and acquisitions leading to consolidation and restructuring of the financial services sector as firms sought economies of scale and scope to increase their productivity and ability to compete on regional and global markets.*

(ILO 2009, p8)

Notwithstanding the low average rate of European growth, financial services employment did increase substantially in several countries including France, Spain and Sweden. Conversely, employment declined in Germany and remained stable in Austria (ILO 2009, p. 8) According to the Eurofound publication, ‘More and better jobs: Patterns of employment creation in Europe’, the employment creation that has taken place between 2003 and 2008 in the financial sector has mainly been driven by the new Member States (Eurofound, 2008, p58).

Table 2: *Gross value added (at basic prices) and gross value added per employee: Financial intermediation.*

Country	1998	2003	2008
<b>EU27</b>	375,977,300,000	423,831,900,000	523,372,800,000
<i>per employee</i>	64,993	72,736	86,966
<b>Czech Republic</b>	1,906,700,000	1,725,800,000	2,417,800,000
<i>per employee</i>	20,569	20,843	26,424
<b>Germany</b>	75,777,100,000	70,691,600,000	76,080,400,000
<i>per employee</i>	60,380	56,016	64,530
<b>Spain</b>	25,226,300,000	31,595,000,000	50,615,900,000
<i>per employee</i>	72,698	85,856	122,616
<b>France</b>	N/A	70,452,800,000	80,284,300,000
<i>per employee</i>	N/A	91,201	100,657
<b>Austria</b>	8,278,100,000	10,085,500,000	N/A
<i>per employee</i>	N/A	N/A	N/A
<b>Sweden</b>	9,119,800,000	11,260,600,000	12,975,400,000
<i>per employee</i>	101,897	120,952	135,868

Source: Eurostat, national accounts. ‘Euro, chain-linked volumes, reference year 2000 (at 2000 exchange rates)’

As can be seen in table 2, total value added as well as value added per employee has increased over the last decade. Each employee is thus producing increasingly more value, due in part to technological and organisational advances.

Table 3: *Employees' compensation and gross wages and salaries. (€) Financial intermediation*

Country	1998	2003	2008
<b>EU27</b>	156,443,600,000	203,516,200,000	276,914,800,000
<i>per employee</i>	38,067	53,616	71,933
<b>Czech Republic</b>	1,333,100,000	2,135,200,000	4,781,000,000
<i>per employee</i>	8,486	11,862	23,209
<b>Germany</b>	50,050,900,000	68,763,800,000	N/A
<i>per employee</i>	46,087	65,803	N/A
<b>Spain</b>	6,844,700,000	6,992,700,000	7,103,500,000
<i>per employee</i>	40,670	38,957	40,801
<b>France</b>	N/A	28,914,000,000	33,305,600,000
<i>per employee</i>	N/A	72,177	95,899
<b>Austria</b>	4,640,000,000	5,284,300,000	N/A
<i>per employee</i>	N/A	N/A	N/A
<b>Sweden</b>	6,499,800,000	5,032,800,000	6,979,700,000
<i>per employee</i>	64,498	55,920	N/A

Source: Eurostat, national accounts

The metadata for the Eurostat national accounts defines compensation of employees (at current prices) (ESA95, 4.02) as the total remuneration, in cash or in kind, payable by an employer to an employee in return for work done by the latter during the accounting period. Compensation of employees consists of wages and salaries, and of employers' social contributions.

Table 3 shows the change in remuneration to employees. This can be valuable as it shows the relative cost of the labour in relation to other inputs. The table also shows remuneration per employee. As can be seen, employees in the financial sector have gained considerably over the last decade. In the appendix, the numbers are given for all years between 1998 and 2008. Inflation is not taken into account and the real gain among employees is therefore difficult to assess. However, one can note two things. First, the increase in value added (also per employee) is considerably higher than the increase in remuneration. Secondly, the difference between countries is affected only marginally by differences in inflation, and it can be observed that the Czech Republic is catching up on the other countries.

Table 4: *Overview of conducted case studies*

Company	Country	Number of employees
<b>Česká spořitelna</b>	Czech Republic	10,300
<b>Crédit Agricole (Caisse régionale Charente)</b>	France	1,300
<b>Kutxa</b>	Spain	2,701
<b>Wüstenrot</b>	Austria	930
<b>Sparda-Bank München</b>	Germany	663
<b>Swedbank Sjuhärad</b>	Sweden	186

Source: Oxford Research 2010

For the financial sector, six case studies have been carried out in six countries. In general, the companies are well established in their respective countries, offering a range of services. Wüstenrot, established 1925 in Salzburg, is mainly active in home loan services, but also has an important insurance department. Crédit Agricole was started in 1894 by farming cooperatives that needed credit solutions, and it has since grown into a nationwide banking group with more than 2,500 branches. Kutxa is the youngest company in the selection, created in 1990 from a merger between two saving banks ('*cajas*') that were founded in the 19th century. It is now expanding and establishing branches across Spain. Swedbank Sjuhärads is the smallest company, employing 186 people, but is connected with a network of similar banks for some of its activities. It is very entrenched in the local community and businesses in its part of Sweden, offering both banking and insurance solutions. Similarly, Sparda-Bank München has a cooperative background and now has 44 branches in Bayern. Česká spořitelna is the biggest company in the selection, and is one of the most important financial companies in the Czech Republic. It is also the oldest in the sample – established in 1825 and is active in all financial fields.

### Electro-mechanical engineering

The electro-mechanical sector is, in many instances, not discussed or treated as a sector in itself, but included in many other sectors and activities. Trade unions and employer organisations are rarely specific to the sector, and national statistics bundle the sector with other industrial manufacturers.

This sector manufactures a wide range of goods, linking it to many different areas of the economy. According to the report *Electro-Mechanical Engineering*, the sector accounts for 21% of total EU exports to the rest of the world (European Commission, 2009, p. 8).

Table 5: *People employed (in thousands) and percentage of total employment (hours worked) in electro-mechanical engineering sector*

Country	1998	2003	2008
<b>EU27</b>	4,110 N/A	3,796 1.8%	3,850 1.7%
<b>Czech Republic</b>	157 3.0%	180 3.6%	206 3.8%
<b>Germany</b>	1,086 N/A	1,045 2.7%	N/A N/A
<b>Spain</b>	168 1.1%	180 1.0%	174 0.9%
<b>France</b>	421 N/A	401 N/A	347 N/A
<b>Austria</b>	N/A 2.2%	N/A 1.9%	N/A 2.0%
<b>Sweden</b>	100 2.4%	90 2.1%	82 1.8%

Source: Eurostat, *national accounts, 2010*

The percentage of total employment is calculated in hours worked, and the absolute numbers state the number of people employed in the sector. In the database, not all figures are available in both thousands of people employed and hours worked; therefore, some information is not available, marked as N/A

As seen in Table 5, the sector contributes 1.7% to total employment in the EU27. In the countries involved in this study, the relative share varies from 0.9% in Spain to 3.8% in the Czech Republic. Employment has decreased in the sector over the past ten years in all countries except the Czech Republic. This possibly reflects competition from other parts of the world, such as Asia, and an increasing automation of the industry.

The sector has experienced a growth in jobs for managers and professionals, increasing the demand for a relatively highly-educated workforce. Meanwhile, the need for manual and semi-skilled workers with vocational training has fallen (European Commission, 2009). Work-related injuries have steadily declined in this sector, but there are potential hazards from the continual use of visual display units and exposure to radiation and solvents (ILO, 2010).

Table 6: *Gross value added (at basic prices) and gross value added per employee: Manufacture of electrical and optical equipment (€)*

Country	1998	2003	2008
<b>EU27</b>	156,443,600,000	203,516,200,000	276,914,800,000
<i>per employee</i>	38,067	53,616	71,933
<b>Czech Republic</b>	1,333,100,000	2,135,200,000	4,781,000,000
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<i>per employee</i>	N/A	72,177	95,899
<b>Austria</b>	4,640,000,000	5,284,300,000	N/A
<i>per employee</i>	N/A	N/A	N/A
<b>Sweden</b>	6,499,800,000	5,032,800,000	6,979,700,000
<i>per employee</i>	64,498	55,920	N/A

Source: Eurostat, national accounts, chain-linked volumes, reference year 2000 (at 2000 exchange rates)

Table 6 demonstrates the value added produced by the sector from 1998 to 2008. Over that time span, productivity per employee increased substantially in all countries except Spain.

The electro-mechanical sector, especially when compared to the other sectors in the sample, is special because of the extent of its sensitivity to globalisation. This sector produces goods that are often easy to transport over long distances, and it is therefore more subject to new global divisions of labour than many other sectors.

Table 7: Employee compensation in the manufacture of electrical and optical equipment (€ thousands)

	1998		2003		2008	
	Total	Per employee	Total	Per employee	Total	Per employee
<b>CZ - Compensation of employees</b>	718,000	4.6	1,282,000	7.1	2,650,000	12.9
<i>Percentage change</i>			78.6%	54.3%	106.7%	81.7%
<b>DE - Compensation of employees</b>	43,673,000	40.2	50,450,000	48.3	N/A	N/A
<i>Percentage change</i>			15.5%	20.1%	N/A	N/A
<b>ES - Compensation of employees</b>	4,697,000	28.0	4,789,000	26.6	5,366,000	30.8
<i>Percentage change</i>			2.0%	-5.0%	12.0%	15.8%
<b>FR - Compensation of employees</b>	N/A	N/A	17,339,000	43.2	18,025,000	52.0
<i>Percentage change</i>			N/A	N/A	4.0%	20.4%
<b>AT - Compensation of employees</b>	2,978,000	N/A	3,258,000	N/A	N/A	N/A
<i>Percentage change</i>			9.4%	N/A	N/A	N/A
<b>SE - Compensation of employees</b>	3,948,000	39.5	4,516,000	50.2	4,338,000	53.0
<i>Percentage change</i>			14.4%	27.1%	-3.9%	5.6%

Source: Eurostat, national accounts, (€ thousands).

It is interesting to look at employee remuneration in the electro-mechanical sector in the context of the large increase in value added and global competition during the last decade in the sector, which have created a possible pressure on salaries.

The increase of remuneration varies widely between countries. Again, the numbers do not take inflation into consideration. However, the nominal increase is much more rapid in the Czech Republic than in the other countries.

Table 8: Overview of case studies conducted

Company	Country	Number of employees
<b>Osram</b>	Czech Republic	988
<b>Garabi</b>	Spain	17
<b>Microdeco</b>	Spain	94
<b>ACC</b>	Austria	925
<b>SICK</b>	Germany	1,800
<b>NOTE</b>	Sweden	85

Source: Oxford Research

The electro-mechanical sector is the only one in this project where two case studies have been conducted in the same country. Nevertheless, the case studies reflect experiences from different frameworks of social dialogue in Europe. What is striking about all the case studies is how heavily they have been affected by the financial crisis. All companies have had to reduce their number of workers, which has tested social dialogue within the companies. This also increased the difficulty of identifying companies for the purpose of this study, as many companies are currently in a sensitive phase of rebuilding trust and social dialogue, and were not willing to be interviewed. However, in the end, six interesting companies have been studied.

The selection covers all types of companies—from Osram, the multinational light bulb manufacturer in Prague, to Garabi, the small manufacturer of electro-mechanical parts for lifts and cranes in the Basque region of Spain. Microdeco is also located in the Basque region, where much of Spain’s manufacturing industry is concentrated. NOTE, located north of Stockholm, is a so-called contract electronics manufacturer, and the case study is made at plant level. ACC in Austria is one of the market leaders in making compressors for refrigerators. Finally, SICK in Germany are one of the leading producers of sensors and its products are used in automation technologies.

## Wholesale and Retail

The wholesale and retail sector is large and diverse with a dynamic environment. The sector is labour-intensive, generating 11% of the EU's GDP (Eurocommerce, 2010). Every third company in the EU belongs to the wholesale and retail sector, making up a total of six million companies, of which more than 95% are SMEs. The sector employs 30 million people in Europe and is one of the few sectors steadily creating employment across Europe (Eurocommerce, 2010). According to the report *Distribution and trade* (European Commission, 2009, p. 9) the sector provides 15.3% of total employment in the EU27 – 18.5 million of these jobs are in retail and 10.4 million in wholesale (European Commission, 2009).

Table 9: *People employed (in thousands) and percentage of total employment (hours worked) in the wholesale retail and repair sector*

Country	1998	2003	2008
<b>EU27</b>	29,855 N/A	31,656 15.3%	33,954 15.4%
<b>Czech Republic</b>	728 15.0%	716 15.1%	741 14.6%
<b>Germany</b>	5,896 15.2%	5,922 14.9%	5,979 14.6%
<b>Spain</b>	2,292 16.2%	2,709 16.0%	3,259 16.5%
<b>France</b>	3,049 N/A	3,390 N/A	3,401 N/A
<b>Austria</b>	N/A 15.0%	N/A 14.9%	N/A 14.7%
<b>Sweden</b>	508 12.9%	530 12.7%	557 13.0%

Source: Eurostat, *national accounts, 2010*

The percentage of total employment is calculated in hours worked, and the absolute numbers states the number of people employed in the sector. In the database, not all figures are available in both thousands of people employed and hours worked; therefore, some information is not available, marked as N/A.

The wholesale and retail sector is the most important sector in terms of share of employment. For the EU as a whole, it contributes to 15.4% of the employment, which means 34 million employees, or one in seven Europeans, who are active in the labour market, work in the wholesale and retail sector. These statistics also include sale and repair activities of motor vehicles, which is not included in this study. Employment is steadily increasing in the six countries, although the share of total employment is rather stable, and the relative importance is also strikingly even across the countries.

According to the 2007 Labour Force Survey, almost 6% of men and women in the wholesale and retail sector reported work-related health problems in the previous 12 months (70% complained of either bone, joint or muscle ache and 10% of problems were stress-related).

Table 10: *Gross value added (at basic prices) and gross value added per employee: wholesale and retail trade*

Country	1998	2003	2008
<b>EU27</b>	896,193,100,000	1,025,365,400,000	1,143,969,100,000
<i>per employee</i>	30,019	32,391	33,692
<b>Czech Republic</b>	7,199,700,000	9,349,600,000	14,034,100,000
<i>per employee</i>	9,884	13,054	18,929
<b>Germany</b>	191,901,400,000	208,368,900,000	221,941,200,000
<i>per employee</i>	32,548	35,186	37,120
<b>Spain</b>	59,811,100,000	68,663,400,000	81,764,200,000
<i>per employee</i>	26,091	25,343	25,090
<b>France</b>	N/A	139,711,200,000	150,117,000,000
<i>per employee</i>	N/A	41,214	44,144
<b>Austria</b>	23,404,500,000	25,868,600,000	N/A
<i>per employee</i>	N/A	N/A	N/A
<b>Sweden</b>	22,063,400,000	28,358,100,000	35,266,900,000
<i>per employee</i>	43,406	53,516	63,373

Source: Eurostat, national accounts, 'Euro, chain-linked volumes, reference year 2000 (at 2000 exchange rates)'

Again, the Czech Republic stands out in relation to the other countries, showing the extent of its transformation during the last decade as new Member State (NMS). However, the Czech Republic is still somewhat behind the EU27 average in terms of value added per employee, although the difference is decreasing quickly. In other countries in the sample, the most important of the sectors have been rather stable in terms of gross value added. Sweden has increased production in the sector relatively more than other countries in the EU15 when compared to its production in the nineties, and has gone from just slightly above average to almost double the average for the EU27.

Table 11: *Employee compensation and percentage change, wholesale retail and repair sector*

	1998		2003		2008	
	Total	Per employee	Total	Per employee	Total	Per employee
<b>CZ - Compensation of employees</b>	2,607,000	3.6	4,069,000	5.7	8,041,000	10.9
<i>Percentage change</i>			56.1%	58.3%	97.6%	91.2%
<b>DE - Compensation of employees</b>	127,285,000	21.6	141,310,000	23.9	149,110,000	24.9
<i>Percentage change</i>			11.0%	10.6%	5.5%	4.2%
<b>ES - Compensation of employees</b>	23,905,000	10.4	40,928,000	15.1	58,033,000	17.8
<i>Percentage change</i>			71.2	45.2%	41.8%	17.9%
<b>FR - Compensation of employees</b>	N/A	N/A	98,825,000	29.2	114,206,000	33.6
<i>Percentage change</i>			N/A	N/A	15.6%	15.1%
<b>AT - Compensation of employees</b>	12,812,000	N/A	14,698,000	N/A	N/A	N/A
<i>Percentage change</i>			14.7%	N/A	N/A	N/A
<b>SE - Compensation of employees</b>	15,010,000	29.5	18,488,000	34.9	21,605,000	38.8
<i>Percentage change</i>			23.2%	18.3%	16.9%	11.2%

Source: Eurostat, national accounts, Thousands of euros.

Employee remuneration follows the growth of gross value added per employee quite well. This indicates that the sector is relatively dependent on its employees and that it is difficult to invest in productivity increases without investing in the employees. It can be valuable to keep this in mind when assessing the findings from the case studies in this sector.

Table 12: *Overview of case studies conducted*

Company	Country	Number of employees
Senior & Cie	France	169
Pfeiffer	Austria	2,870
REWE	Germany	16,000
Colly components	Sweden	31
El Corte Inglés	Spain	65,000

Source: *Oxford Research*

The selection of the five cases reflects the diversity of companies that operate in the sector. Colly Components is a small wholesale company that sells highly specialised screws to manufacturing companies. REWE is a German wholesaler of food; one of the most important in Europe. Pfeiffer deals both with retail and wholesale in Austria, and Senior & Cie is a clothing mail-order catalogue company. The large retail group, El Corte Inglés is perhaps the most prominent in the study, as it is one of the biggest retailers in Europe.

## Food manufacturing

According to the reports, ‘Size and structure of the business economy’ (Eurostat, 2009) and ‘Enterprise and Industry: Food Industry’ (European Commission, 2010) the European food and beverage sector, with more than 4.645 million employees, is one of the largest employers in the manufacturing industry in the EU. The European Commission report adds that the sector is highly diverse and fragmented, with a large share of SMEs and a smaller number of multinational enterprises (MNEs).

Table 13: *People employed (in thousands) and percentage of total employment (hours worked) in food, beverages and tobacco manufacturing sector*

Country	1998	2003	2008
<b>EU27</b>	5,047 N/A	5,051 2.5%	4,986 2.3%
<b>Czech Republic</b>	172 3.2%	149 2.9%	148 2.6%
<b>Germany</b>	929 N/A	979 2.7%	N/A N/A
<b>Spain</b>	418 2.8%	437 2.4%	473 2.3%
<b>France</b>	561 N/A	577 N/A	557 N/A
<b>Austria</b>	N/A 2.3%	N/A 2.0%	N/A 1.9%
<b>Sweden</b>	69 1.8%	66 1.7%	58 1.4%

Source: *Eurostat, national accounts, 2010*

The percentage of total employment is calculated in hours worked, and the absolute numbers states the number of people employed in the sector. In the database, not all figures are available in both thousands of people employed and hours worked; therefore, some information is not available, marked as N/A.

The two manufacturing industries in the sample, (electro-mechanical engineering and food) face employment decline in the EU27 as a whole. This decline in employment is also evident for all the countries with data in the table above, except Spain. The relative importance of the sector in terms of employment has also decreased, even in Spain.

Table 14: *Gross value added (at basic prices) and gross value added per employee: manufacture of food products, beverages and tobacco*

Country	1998	2003	2008
<b>EU27</b>	182,477,100,000	187,842,300,000	199,983,400,000
<i>per employee</i>	36,158	37,190	40,111
<b>Czech Republic</b>	1,543,000,000	1,880,900,000	1,879,400,000
<i>per employee</i>	8,981	12,590	12,733
<b>Germany</b>	33,569,500,000	34,259,100,000	N/A
<i>per employee</i>	36,135	34,994	N/A
<b>Spain</b>	13,865,100,000	14,377,500,000	15,326,100,000
<i>per employee</i>	33,154	32,893	32,436
<b>France</b>	N/A	27,738,200,000	27,515,900,000
<i>per employee</i>	N/A	48,040	49,374
<b>Austria</b>	3,787,000,000	4,112,000,000	N/A
<i>per employee</i>	N/A	N/A	N/A
<b>Sweden</b>	3,944,800,000	4,184,400,000	4,433,800,000
<i>per employee</i>	57,171	63,304	76,709

Source: Eurostat, national accounts, 'Euro, chain-linked volumes, reference year 2000 (at 2000 exchange rates)'

Table 14 illustrates the growth of gross value added in the food manufacturing sector over the period of 1998 to 2008. Compared with growth in other sectors, the Czech Republic is not making the same impressive catch-up in the food manufacturing sector relative to the other countries, at least not since 2003.

Table 15: *Employee compensation: manufacture of food products, beverages and tobacco (€ thousands)*

	1998		2003		2008	
	Total	Per employee	Total	Per employee	Total	Per employee
<b>CZ - Compensation of employees</b>	788,000	4.6	1,064,000	7.1	1,576,000	10.6
<i>Percentage change</i>			35.0%	54.3%	48.1%	49.3%
<b>DE - Compensation of employees</b>	21,762,000	23.4	24,700,000	25.2	N/A	N/A
<i>Percentage change</i>			13.5%	7.7%	N/A	N/A
<b>ES - Compensation of employees</b>	8,032,000	19.2	9,399,000	21.4	11,834,000	25.0
<i>Percentage change</i>			17.0%	11.5%	25.9%	16.8%
<b>FR - Compensation of employees</b>	N/A	N/A	15,809,000	27.4	17,368,000	31.2
<i>Percentage change</i>			N/A	N/A	9.9%	13.9%
<b>AT - Compensation of employees</b>	2,245,000	N/A	2,321,000	N/A	N/A	N/A
<i>Percentage change</i>			3.4%	N/A	N/A	N/A
<b>SE - Compensation of employees</b>	2,184,000	31.7	2,457,000	37.2	2,356,000	40.6
<i>Percentage change</i>			12.5%	17.4%	-4.1%	9.1%

Source: Eurostat, national accounts, Thousands of euros.

Remuneration in the food manufacturing sector is slowly but steadily increasing. The Czech Republic has the steepest increase, which is increasing faster than the increase in added value per employee. In Sweden the wage increase is much smaller than productivity increases during the last decade.

Table 16: Overview of case studies conducted

Company	Country	Number of employees
Plzeňský Prazdroj	Czech Republic	2,353
Fandler	Austria	25
Münsterländische-Margarine-Werke (MMW)	Germany	130
Norrmejerier	Sweden	460

Source: Oxford Research

In the food and beverages sector, four case studies have been conducted. The large Czech brewery, Plzeňský Prazdroj represents beverages. Two companies from the dairy sector are Norrmejerier in Sweden and MMW in Germany, both with a strong links to the local community. Finally, Fandler in Austria is a small manufacturer of nut oil.

## Overview of links studied

The links analysed in the case studies are summarised below. The overview indicates a number of observations that will be elaborated in the subsequent chapters.

Table 17: Overview Table

Company	Type of measure	Result	Effect on HR outcome	Intermediary effect	Indirect impact on performance	Direct impact on economic performance
<b>Finance</b>						
Česká spořitelna (CZ)	Skills Health Work-life balance	More knowledge sharing More satisfied employees Psychological contract	Less stress Less sick absence Less voluntary staff turnover	Reduced cost of sickness Reduced cost for training new employees More efficient work	Higher productivity Increased sales No staff reduction during crisis	Higher return on equity
Wüstenrot (AT)	Health Flexible working hours Job security	Worker involvement Better workplace atmosphere Higher job satisfaction Loyalty and sense of belonging	Engaged workforce	Higher quality of work		Increased economic performance
Sparda-Bank (DE)	Health Work-life balance Skills	Satisfied employees		Better service to customers	Customer satisfaction	Increased economic performance
Kutxa (ES)	Learning Health Flexible working hours	Employee satisfaction Loyalty Trust Better ambassadors for the company	Less sick absence			Increased economic performance

## Links between quality of work and performance

Company	Type of measure	Result	Effect on HR outcome	Intermediary effect	Indirect impact on performance	Direct impact on economic performance
<b>Finance</b>						
<b>Crédit Agricole (FR)</b>	Health			Higher quality of work	Customer satisfaction	Higher profitability
<b>Swedbank (SE)</b>	Health Skills		Less sick absence Better recruitment		Customer satisfaction	Higher profitability
<b>Electromechanical</b>						
<b>NOTE (SE)</b>	Work organisation Health Skills Work–life balance	Job satisfaction	Low sick absence Low voluntary staff turnover		Customer satisfaction Productivity	
<b>Microdeco (ES)</b>	Skills Work flexibility Health	Influence on work	Reduced stress Low sick absence Less work-related accidents		Customer satisfaction Productivity	
<b>Garabi (ES)</b>	Work organisation	Worker involvement Mutual trust Job satisfaction	Reduced stress Low sick absence		Increased sales Higher productivity	Higher profitability
<b>SICK (DE)</b>	Career/employment security Health Skills Work–life balance	Job satisfaction	Low sick absence			Higher net income
<b>ACC (AT)</b>	Health Training Work–life balance	Worker involvement Motivated and satisfied staff	Low sick absence Low voluntary staff turn-over		Higher quality of work Customer satisfaction Higher productivity	Quicker recovery from crisis
<b>Osram (CZ)</b>	Career/employment security Health Skills Work–life balance	Improved employee health Motivated workers Employee satisfaction	Low sick absence Low voluntary staff turnover	Less costs for training new employees Less costs for replacing sick employees	Increased productivity Higher quality of work	Better economic performance
<b>Wholesale and Retail</b>						
<b>Senior &amp; Cie (FR)</b>	Health Training		Reduced sick absence	Lower insurance costs Higher quality of work	Increased productivity	
<b>REWE (DE)</b>	Health Work–life balance	More engagement Job satisfaction	Less voluntary staff turnover		Customer satisfaction	

Company	Type of measure	Result	Effect on HR outcome	Intermediary effect	Indirect impact on performance	Direct impact on economic performance
<b>Wholesale and Retail</b>						
<b>El Corte Inglés (ES)</b>	Career/employment security Health Skills Work–life balance	Healthy and happy workers	Reduced stress Less voluntary staff turnover Less sick absence	Better service to customers Better quality of work	Customer satisfaction Increased sales Increased productivity	Increased economic performance
<b>Colly Components (SE)</b>	Reorganisation of work Work–life balance Health Skills	Job satisfaction Pride	Reduced stress Low sick absence Low voluntary staff turnover	Less costs to train new employees	Less hit by economic crisis than competitors	Increased net result High profitability
<b>Pfeiffer (AT)</b>	Health Skills	Satisfied workforce Increased loyalty			Higher productivity Less hit by economic crisis than competitors	
<b>Food</b>						
<b>Prazdroj (CZ)</b>	Skills Health Work–life balance	Higher motivation Pride Psychological contract	Low sick absence Low voluntary staff turnover	Motivated sales force		Higher profitability
<b>Norrmejerier (SE)</b>	Reorganisation of work	Increased involvement and responsibility Employee satisfaction	Lower rate of injury Low sick absence		Customer satisfaction	Better economic performance
<b>MMW (DE)</b>	Career/employment security Training Work–life balance	Worker influence on time planning	Low sick absence Low voluntary staff turnover			Better financial performance
<b>Fandler (AT)</b>	Health and safety Work–life balance	Worker involvement Loyalty Sense of belonging Satisfied staff Less injuries	Efficient workforce Low voluntary staff turnover Low sick absence		Higher productivity	Higher profitability

Source: *Oxford Research*

The links listed vary with respect to their documentation. Some links are supported by hard evidence and others are merely supported by qualitative statements. The overview table lists all links reported despite the rather weak level of verification in some instances.

Second, the links listed are those which are observed and recognised by the companies themselves.

Some companies are aware of the whole chain of links such as Česká spořitelna, which views their efforts to improve the quality of work with respect to skills, health and work–life balance (reconciliation of working and non-working life) as sources for more knowledge-sharing in the company, more satisfied employees and the development of a psychological contract between management and staff.

The psychological contract, which the HR Manager referred to, is an increasingly common aspect of workplace relationships and wider human behaviour. Descriptions and definitions of this contract first emerged in the 1960s, notably in the work of organisational and behavioural theorists Chris Argyris and Edgar Schein. Primarily, it refers to the relationship between employer and employees, and specifically concerns mutual expectations of inputs and outcomes. It is distinguishable from the formal written contract of employment which, for the most part, identifies only mutual duties and responsibilities in a generalised form. The psychological contract is usually seen from the standpoint or feelings of employees, although a full appreciation requires it to be understood from both sides. Simply, in an employment context, the psychological contract is the fairness or balance (typically as perceived by the employee) between:

- how the employee is treated by the employer;
- what the employee puts into the job.

Česká spořitelna sees the latter as contributing to less stress, fewer sick absences and lower voluntary staff turnover, which, in turn, means reduced costs for sicknesses and for training new employees as well as more efficient work. Česká spořitelna takes the chain of links even further and attributes, at least in part, increased productivity and increased sales to the reduced costs and more efficient work. They also feel the latter two were responsible for no staff reduction during the recent economic crisis. Last, but not least, Česká spořitelna traces the chain of links still further to a higher return on equity. Other companies do not recognise a whole chain of links but note only that, for example, an improvement in health conditions has led to fewer sick absences.

Third, the overview table illustrates what Jungblut (2010) refers to as ‘bundling’. Most companies implement a number of improvements in quality of work in different areas and at more or less the same time. Therefore, it is impossible to distinguish the effect of one improvement on the different links in the chain leading to improved performance. In fact, some of the companies studied may even have more initiatives for improving the quality of work than was reported to the researchers during the case studies.

Fourth, the overview table indicates that the whole chain of links between quality of work and performance is better understood, and therefore better measured, in some sectors than in others. One has to be careful in generalising from a limited number of case studies, but it seems as though the full chain of links is better understood in the finance and in the food sectors than in the electromechanical and wholesale and retail sectors.

Fifth, and last, the overview table indicates that in some countries (for example the Czech Republic) certain topics under national debate, such as the concept of psychological contracts between management and staff, are reflected in how the companies view the chain of links between quality of work and performance.

Measuring the links between improvements in quality of work and the performance of a company is difficult due to the five observations listed above.

Measuring the links is also difficult due to the limited availability of comparable hard data. As far as the effect on HR outcome is concerned (such as absenteeism, recruiting, retaining, motivation and assessment of job satisfaction) data are not available at sector levels and seldom at company level. The ‘Work Environment Surveys’ reveal some information on training, absenteeism and job satisfaction but there are substantial data gaps both in terms of countries, sectors and years.

Financial data on performance are a bit more elaborated. On sector levels Eurostat publish a range of financial data and, in the Amadeus database, financial data for companies are recorded from annual financial accounts. However, even here there are substantial gaps in terms of specific companies, years and details of information.

# 2

## Training, skills and employability

### Introduction

The European Centre for the Development of Vocational Training (CEDEFOP) has produced a significant body of knowledge concerning the need for and benefits of investing in training, skills and employability. The matter also gets well-deserved recognition from policy makers, social partners and academia. For example, during the 2010 European Year for Combating Poverty and Social Exclusion, in March, social partners at the European level concluded an agreement on an inclusive labour market. The Framework Agreement on Inclusive Labour Markets sees vocational training and skills development as a vital aspect for promoting upward mobility in the labour market. The Europe 2020 strategy sees education, training and lifelong learning as one of the key action areas for ensuring a smart, sustainable and inclusive growth.

In the literature, skill development is not always seen as a direct contributor to lower voluntary staff turnover and increased performance. By increasing the employability of an individual, his or her 'value' in the labour market increases, and this can increase the temptation of switching to a new job. It can therefore be risky for an employer to invest large amounts of financial resources in training employees. If the employee leaves shortly after being trained, the investment would have been in vain. It might even have benefited a competitor. This way of thinking may result in a market failure where too little training is provided to employees. Because society as a whole benefits when employers provide training, the losses and gains of skill investments should even out among employers in a well functioning labour market. It is striking that, among the sample of companies studied in this research project, most of the companies provide a lot of training, which indicates that the companies have a long-term perspective on their investments, and that it is possible to combine skill-enhancing activities with good performance.

There are several ways that skills training and increased employability can increase performance, not only for the economy as whole, but for an individual company. In CEDEFOP's publication 'Impact of education and training' (Descy and Tessaring, Eds, 2004), most articles look at the macro-economic benefits of vocational training. However, a report by Hansson et al (2004, p. 299) focuses on company performance gleaned from the literature, as well as survey results, and concludes that investments in training contribute to increased performance even if the skills gained can be used in other firms. It is also indicated that training affects performance and not the other way around.

*'Increasingly, studies provide evidence that training generates substantial gains for employers. The most compelling evidence is presented in several recent papers connecting training investment with changes in productivity, profitability and stock market performance. The majority of these studies also establish the direction of the relationship, for example, we can, with reasonable confidence, maintain that training generates performance effects and not the other way around'.*

Hence, the companies studied in this report show strong performance because they offer training, rather than the reverse. In spite of the bold statement on the causal link between training and performance, which is backed up by several reports in CEDEFOP's study, less is known about how training and skills contribute to increased workplace performance. Employers in different sectors face different challenges, which they have decided to cope with by offering training to their employees (often through social dialogue agreements). The general point is that training is used to keep ahead of competitors, regardless of whether general skills (which can be used everywhere) or specific skills (only possible to use within the company) are learned.

Jungblut (2010) concludes from a correlation analysis based on the European Company Survey that training seems to be the one aspect of quality of work that has the most significant impact on working climate, labour productivity and the economic situation of a company.

*'..., training has an immediate positive impact on worker productivity if the training aims at specific skills as well as on workers employability and market value, when elements of general skills are provided. Indeed, much of in-company, on-the-job and even more so off-site training, provides specific as well as general skills, as is now widely recognised. Thus the association is equally high with HR dimensions and with company performance' (Jungblut, 2010, p 27).*

Moreover, there are other aspects of training shown by the case studies:

- In the electromechanical engineering and the financial sector, employees have to be able to adapt to rapid technological developments to perform well, and this is achieved through training.
- It is more economically efficient to train established employees for new positions than to recruit new employees as it gives a higher return on investment. Thus training is also a component of employment and career security, which will be developed in the next chapter.
- In the financial sector, training is also used to cope with the challenge of ever more demanding and knowledgeable clients. Similarly, high requirements for good customer service in the wholesale and retail sector, which are often in the business strategy of the firm, also demand training.

## Case study findings

The cases in the financial sector support the above hypothesis, although it is difficult to establish a link all the way through to economic performance. However, three of the banks examined use training to cope with technological developments and an increased knowledge and demand among the clients. Training was used by Swedbank Sjuhärad, which is a local community bank in Sweden that offers banking and insurance solutions and has 186 employees; by Crédit Agricole Charente-Périgord (CACP), a regional bank with 1,300 employees within the larger network of Crédit Agricole; as well as Česká spořitelna, a retail bank in the Czech Republic with primarily private clients and 10,300 employees. Respondents from the financial companies in France, Sweden, Austria and the Czech Republic state that this increase in knowledge among clients is challenging for the employees and a potential source of stress. To cope with this, skill-enhancing measures are taken. As a large share of the employees in these companies have customer contact, investments in training to improve customer contact have an immediate impact. The results in terms of performance are a lower rate of voluntary staff turnover and higher employee satisfaction, which is further commented on below. Additionally, some qualitative statements about improved labour productivity are also given.

The financial sector is one of the sectors with the greatest demand for lifelong learning measures. The sector, and its demands on employees, is rapidly and continuously changing. During the last decade, for instance, the dramatic growth of computerisation has changed work methods among financial workers, and many of the respondents in the interviews state that this can be demanding for staff, especially older workers. Two specific examples given by all respondents in the French financial company are the rise of electronic communication and the increased sophistication of the clients.

### Crédit Agricole

The French bank Crédit Agricole uses training to cope with the challenges identified above. According to the company's HR director and the employee representative, the clients have an increasing knowledge of financial options. In some cases, clients are nearly as knowledgeable as the employees. The HR director and the general manager believe the

employees and the organisation itself will need to find areas where it adds value through its expert advice. The employee representative states that more education and training is needed if the employees are to keep up with their clients.

According to the HR director and the employee representative of Crédit Agricole, working in retail banking involves a greater range of activities that employees must perform. Electronic banking, for example, has supplemented traditional face-to-face interactions. For example, 83% of all loan requests were performed online.

Given the changes in the industry, Crédit Agricole has invested in education to help employees move into higher-value aspects of its operations. In 2009, the bank invested in education and training for its employees at a rate equivalent to 6% of the average annual salary, resulting in the equivalent of 5,700 days of training. Crédit Agricole has also invested in training employees in their 'second half of the career' (older workers) in modern office procedures based on electronic record keeping.

The bank's general manager states that there is a definite link between the quality of work and client satisfaction, but the link is too difficult to measure quantitatively. This statement is in line with the views of the HR manager and the employee representative.

### Swedbank Sjuhärad

In Sweden, where the banking industry is bound by heavy regulation (for example regarding money laundering and safety issues), Swedbank Sjuhärad is required to continually train and test employees. The bank has also ensured that employees without formal training have received different forms of paid training via cooperation with the School of Economics, Business and Law at Gothenburg University. The management found that it was necessary to increase the knowledge of university-trained employees as the corporate customers in many cases have a higher formal knowledge and understanding within certain business areas than the employees. This training was therefore simply a way to keep up with customers' demands as well as to increase employees' formal knowledge of economics, business and finance. Numerous additional courses such as stress training have also been given to managers and other staff members. Through a joint venture with the University of Gothenburg, staff without a university degree had the possibility to obtaining the equivalent of a year of university studies. According to management, this raised the quality of work among the staff, and likely also helped to increase the economic performance of the bank. The bank's economic performance is impressive. Their constant goal is to have a better return on equity than the four stock-listed companies in Sweden, which are Svenska Handelsbanken, Nordea, SEB and Swedbank (central). The bank has managed to do this for the last six years, and says it is on its way to doing it again this year. The bank's substantial investments in training are considered an important contributor to its strong performance.

### Česká spořitelna

The Czech bank studied, Česká spořitelna, has two main initiatives within skills and education: one for branch-level employees and one for management. Also, it focuses on helping employees adapt to increased demands from clients through, among other things, training in new technology to reduce time spent on administration.

As a result of a slowed economy, employees in the branches have had to address clients in a new and more creative way. They have needed further training in client relations and communication. Older workers, used to more traditional methods, find this way of working very difficult. The bank acknowledges this and ensures that older employees receive special support during training in new client-communication methods.

It is a continuing challenge to organise training in a way that does not interfere with opening hours, other work obligations and employee schedules. The company after trying different methods has found it best that the branch management involve employees through social dialogue at workplace level in the decision on scheduling the trainings, as this give higher employee satisfaction. According to the collective agreements, training is offered during working hours when possible.

The other part of Česká spořitelna's training programme targets managers. All managers have a 360 degree evaluation and feedback every year that affects their yearly bonus, of which 75% is determined on 'hard' indicators and 25% on 'soft' indicators including the 360 degree feedback. On the basis of the evaluation, a tailor-made development programme is designed. This programme develops managers' skills and improves their management style (from management to leadership), which the HR manager is sure will improve the quality of work.

According to the HR manager and head of accounting the skills development of employees directly increases sales. This is because Česká spořitelna has introduced training programmes where employees learn better ways to communicate with clients. Furthermore, Česká spořitelna has developed a new strategy that moves away from selling products to selling solutions for clients. This means selling the financial solutions that clients need and focusing less on targets of selling all products to all clients. The employees in the branches have received training in how to adapt to this new approach.

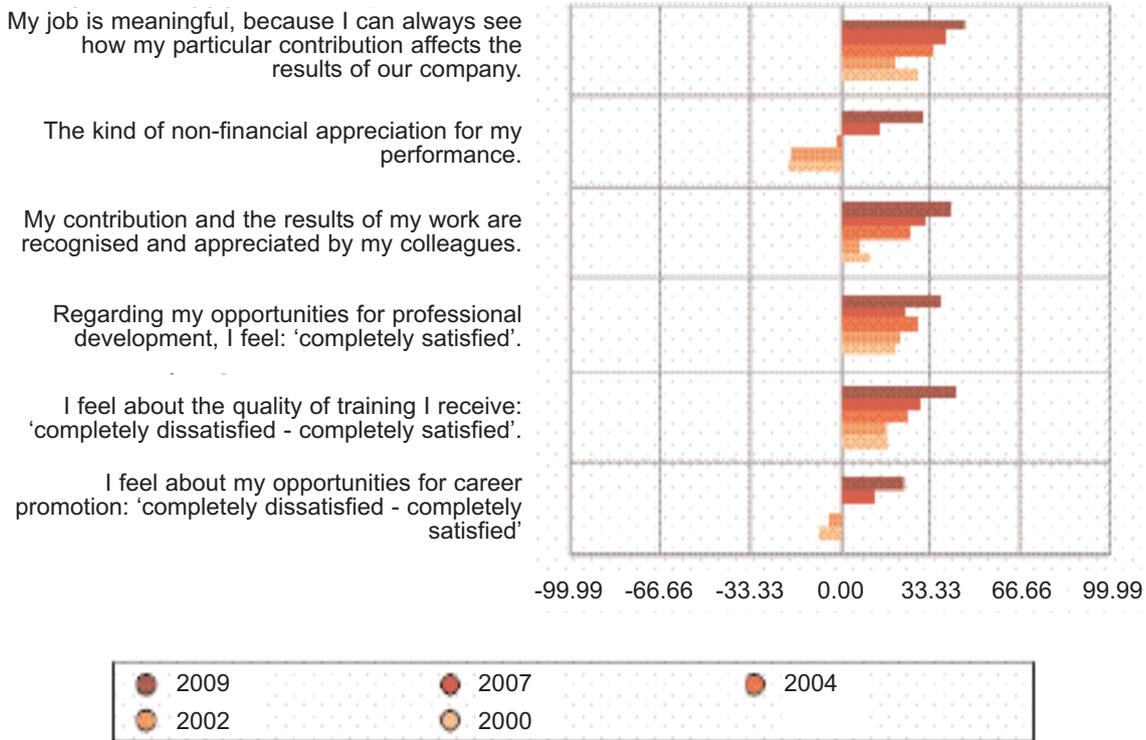
This training should, according to the HR manager, the head of accounting and the employee representative, make it easier for the employees to sell products that fit the clients' needs. Furthermore, the training has given employees a better understanding of the products as well as their clients' needs. Therefore, when the training increases sales it should also increase labour productivity. Unfortunately, Česká spořitelna does not measure labour productivity, so it is not possible to assess this indicator.

By increasing the skills of employees in the financial sector, the employees are more able to perform well and better meet the often complex demands of the sector. There is no doubt that training in new products or financial tools will improve employees' abilities to satisfy their clients, and thereby have a higher labour productivity. Customer service is an important part of the work tasks for many financial employees. In the French bank Crédit Agricole, for instance, 76% of the employees have customer contact.

It is also self-evident that the employees in the sector, as well as in other sectors, need constant vocational training to keep up with technological developments. The case studies in this sample—mainly the Swedish, French and Czech banks—also indicate that vocational training can contribute to increased employee satisfaction.

From the employee survey conducted in the Czech financial company, it becomes evident that employees are satisfied with Česká spořitelna's skill and education programme. The satisfaction rate has been steadily increasing since 2000. Furthermore, employees consider that there are good career opportunities within Česká spořitelna, which is a strong motivation factor and can result in less voluntary staff turnover. The level of satisfaction with skills and career development can be seen in Figure 4.

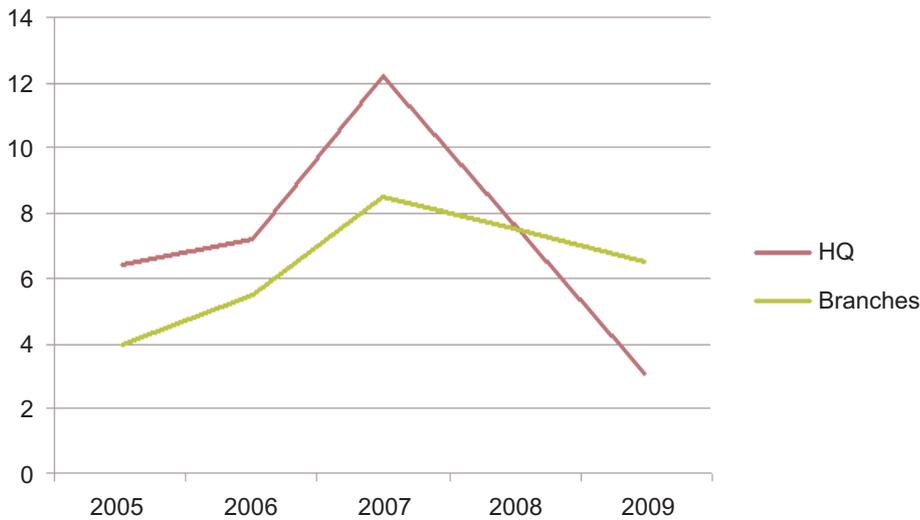
Figure 4: Satisfaction with skills and career development in Česká spořitelna 2000–2009



Source: Česká spořitelna's employee survey 2009

According to the HR manager at Česká spořitelna, the job market within the banking sector was volatile in 2006–2007, which meant that even small problems could cause employees to change jobs.

Figure 5: Voluntary staff turnover for Česká spořitelna 2009–2010



Source: Oxford Research, 2010 — based on the interview with Česká spořitelna (2008 numbers are missing)

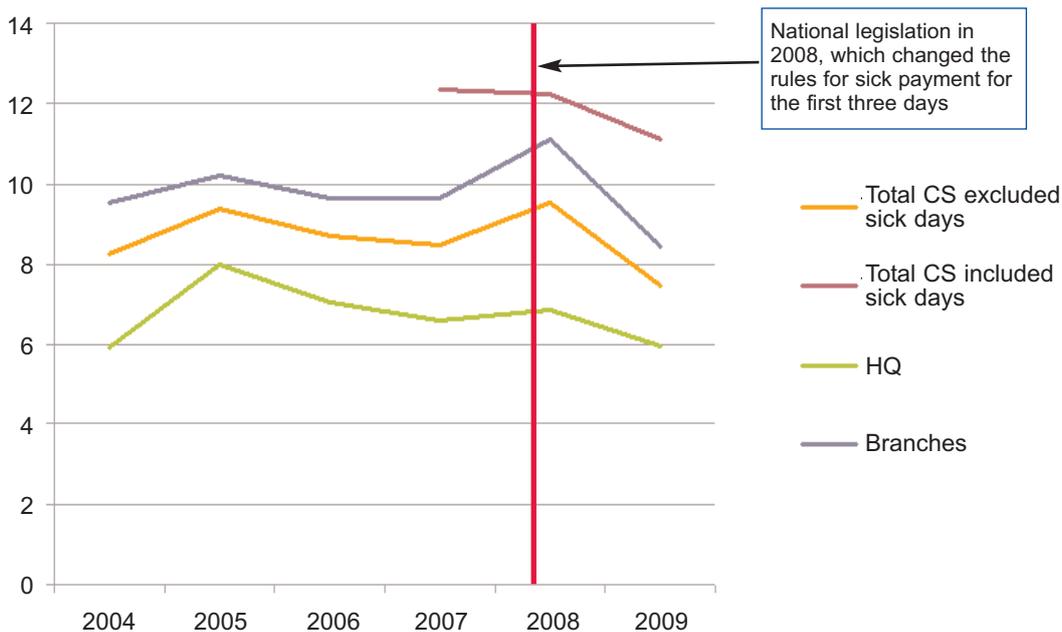
Providing a high quality of work with regards to skill development is an important element in motivating people to stay at Česká spořitelna. It is an important motivating factor for employees to see that they can gain skills and advance their career within a company. Therefore Česká spořitelna's skills programme is an important element for keeping employees.

A lower voluntary staff turnover can positively affect economic performance in several ways. As training new employees is costly, a lower voluntary staff turnover can reduce the cost of training new employees.

Furthermore, the HR manager at the Czech bank points out that new employees make more mistakes and work more slowly than experienced employees who have worked in the same position for a longer period. Turnover also affects the ability to team-build among co-workers. Therefore, work is often less efficient when new employees are introduced to the work team, which in turn affects labour productivity.

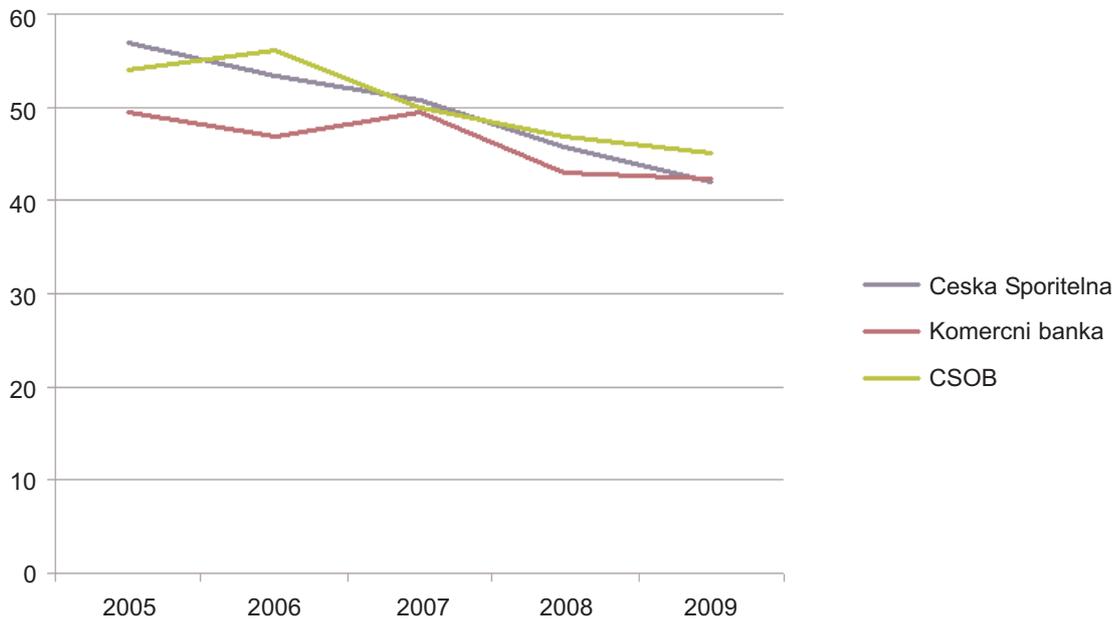
The figure below shows the changes in cost/income ratio for the three main retail and saving banks in the Czech Republic. The figure shows a general trend of improvement in regards to the cost/income ratio. Česká spořitelna follows this trend in the retail banking sector in the Czech Republic. It also shows that Česká spořitelna has improved the most during 2005 to 2009 (from 56.9% to 42.0%). This could be related to the large improvements in Česká spořitelna in regards to sick absence and voluntary staff turnover.

Figure 6: The development of sick absence in Česká spořitelna



Source: Annual reports for Česká spořitelna

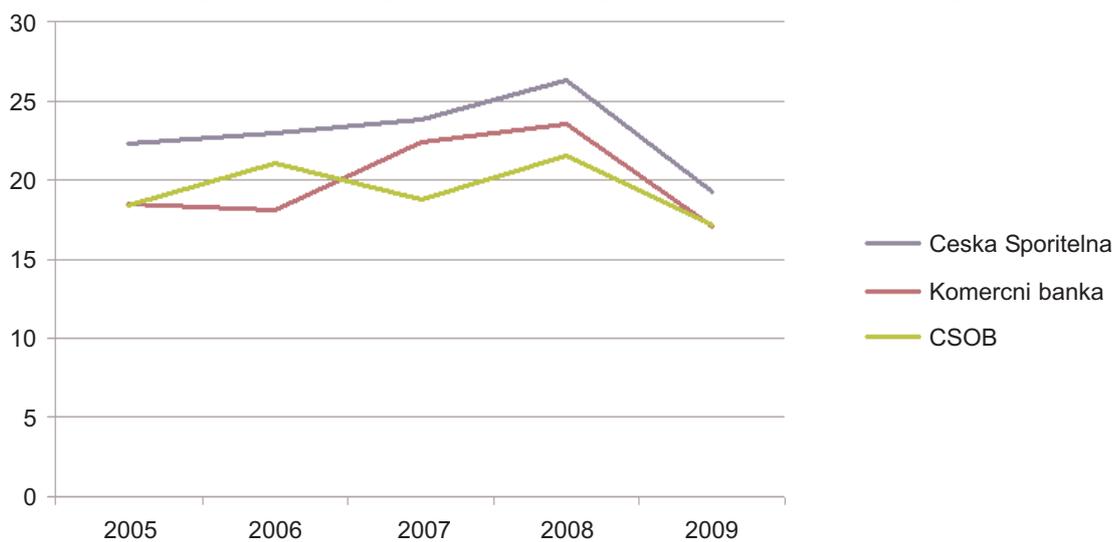
Figure 7: The change in cost/income ratio in the three largest retail banks in the Czech Republic 2005–2009



Source: Oxford Research 2010. Annual reports for Česká spořitelna, Komerčni banka and CSOB, 2005–2009.

The return on equity for Česká spořitelna peaked in 2008 and decreased significantly in 2009. As seen in the figure below, this is a general trend among the three largest retail banks in the Czech Republic. Česká spořitelna follows the trend in the retail banking sector in the Czech Republic, which seems to be caused by the financial crisis. However, the figure also shows that Česká spořitelna has been doing better than two other large retail banks.

Figure 8: The change in return on equity in the three largest retail banks in the Czech Republic 2005–2009



Source: Oxford Research 2010. Annual reports for Česká spořitelna, Komerčni banka and CSOB, 2005–2009.

In terms of economic performance indicators, a direct link with the improvement of quality of work is not completely evident. This is because it is impossible to separate the impact of other factors on economic performance, such as the financial crisis and a slow market, from the impact caused by improved quality of work. However, financially, Česká spořitelna outperformed the sector as a whole, which suggests that improved quality of work may have had a positive effect on economic performance.

Thus, training, skills and employability (irrespective of the content of the training itself) seems to impact on general performance by increasing employee satisfaction (which has positive effects on performance) and decreasing voluntary staff turnover (high voluntary turnover means lower performance).

The electro-mechanical companies in this report are represented by Osram Czech Republic, a global producer of light bulbs and part of Siemens group with 900 employees, and the much smaller Microdeco in the Basque region of Spain which produces electromechanical parts for lifts and cranes, with a little less than 100 employees. The companies use vocational training to cope with a number of challenges.

1. By training the employees, it is possible to reduce the time that expensive machinery is not used or is used incorrectly, thereby increasing labour productivity. In the case of Microdeco, productivity is stated to increase by 20% as a result of the training measures, although the manager's statements are the only proof. At Osram, training is used to enable a reorganisation of work, based on the LEAN model, which aims to increase labour productivity.
2. The most common challenge in the Spanish electro-mechanical sector is the lack of opportunity for the company to develop employability. Employers cope with this challenge by increasing training. At Microdeco for instance, employees were taught English and German to be better able to communicate with customers and subcontractors abroad.
3. It is difficult and costly to get new employees to become as productive as more established employees in firms with a complex production process. At Osram, training is also used to promote career development and decrease the need for new recruitment. This is an important way of increasing performance at Osram, as is described below.
4. There is a need for vocational training in the Spanish electro-mechanical engineering sector. A Spanish survey on the quality of life in the workplace (2009) showed that training and opportunities for promotion within the company cause the most dissatisfaction among Spanish manufacture workers in technological industries. Increasing training and internal development can thus increase employee satisfaction, as outlined above.

According to the HR manager of the Spanish company Microdeco, there is quite a large number of training programmes, both vocational and professional. In 2009 there were 4,600 hours of professional development training affecting around a 60% of the workforce. Microdeco has always invested in training, doubling the minimum quota established by law. The employee representative stated that, on the shop floor, there are only a few sporadic training courses, but that there are more at the office level. The HR manager confirms that the focus is mainly on office workers.

The quality and customer service manager argues that there is a link between improving the quality of work and the performance of the company, but that it is more difficult to see a direct link at the moment. However, in the past when skills improved through greater knowledge of how to use existing machinery, the economic results of the company improved by 20% and productivity of workers increased by making better use of the machines at hand (such as shorter stoppage time for reloading or getting the machine ready).

### Osram

All new employees in the Czech division of the global electro-mechanical manufacturer Osram go through an extensive and costly training programme. This programme teaches all new employees, including white-collar workers and managers, a thorough understanding of the company's production processes. As it is very specific, all blue-collar workers need extensive training, no matter their educational background or previous experience within the sector. Even though this training is expensive, it is essential for the quality and efficiency of production. However, because it is so costly, it is advantageous for profitability purposes to minimise staff turnover as much as possible.

Osram also has an extensive educational programme for existing employees, including university education, LEAN basic training, qualifications training, law training, communication, management training and language courses.

According to the HR manager, this is a way to improve the quality of work and thereby improve the quality of the final products. Improvement of qualifications can directly improve the quality of the work done by employees, just as LEAN basic training can make the employees more efficient. Furthermore, the training and educational programmes are a reaction to the challenges in recruiting skilled labour that Osram has previously experienced. The programmes make it possible to train employees for new positions, instead of the more expensive exercise of recruiting from outside. Osram has managed to decrease sick absences and voluntary turnover substantially, which is detailed in the chapter on career and employment security. Training has been a significant ingredient in the company's improved performance, manifested through lower voluntary turnover (from 15.5 % in 2002 to 3.5 % in 2009).

### El Corte Inglés

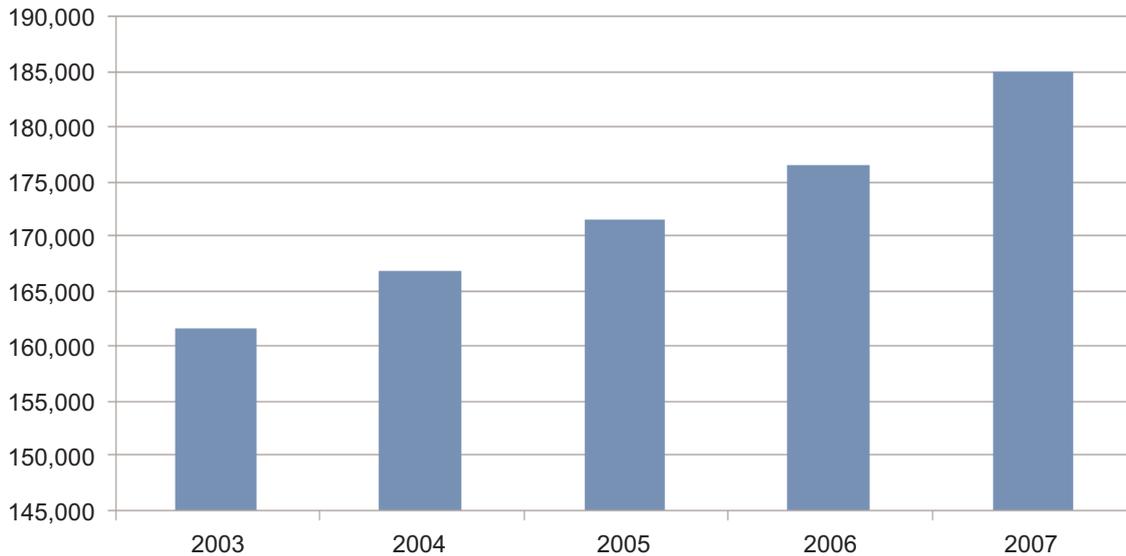
The Spanish retailer El Corte Inglés, which employs 65,000 people in its department stores, makes substantial investments in skills development. The main benefit from this, in terms of performance, is that the company provides skills development as a way of securing career advancement within the company. It is somewhat difficult to establish a direct link between training and improved economic performance, but it is evident that the company has better and more stable economic growth than its competitors, and that the practices adopted by the company are copied by its competitors. El Corte Inglés is regarded as a first mover, and many of its new practices are subsequently included in national collective agreements. The company thus uses training as a way to keep ahead of competition and to be regarded as an attractive and prestigious employer.

Most newly recruited employees at El Corte Inglés are low-skilled workers with often, at most, an upper-secondary education. The HR manager states that the company sees skills development and training as a pivotal factor for the success of the company. This is especially true since the company has branded itself as giving a high level of service, where customers receive expert advice from well trained employees. The group therefore provides in-house training in centres all over Spain. In 2008, more than 9,900 courses were organised and attended by more than 116,000 people. The entire group has 104,000 employees, which means that some employees attend more than one course. Moreover, the company allows employees to study at university by paying the fees for the first year and letting employees work part-time. The programmes with universities are evaluated on an annual basis by a group-wide committee. The committee discusses, among other things, what degrees receive support and how much funds will be earmarked for the upcoming year. In 2007, a total of 714 degrees were completed by employees of El Corte Inglés. The degrees were primarily within economics, business and administration but also in other areas such as law, IT engineering and areas where it might benefit the company and thus the employee's (internal) career development.

As employment levels have been quite stable over the past years, one can easily argue that the labour productivity at El Corte Inglés has increased. This can also be seen by looking at the figure on turnover per employee presented below. From 2003 to 2007, the productivity of workers grew from around €160,000 annually per employee to almost €185,000. This stable growth suggests that the company's expansion, coupled with improvements in quality of work and job

satisfaction, have increased labour productivity. A comparison with the sector figures is difficult to make as these figures are displayed in gross terms.

Figure 9: *Turnover per employee in euros*



Source: *Oxford Research based on El Corte Inglés data*

El Corte Inglés, like many other companies, has been severely affected by the crisis. This is apparent when looking at the net turnover figures from 2003 to 2008. The company had, up until 2007, an increasing turnover. In 2008 the turnover dropped as a result of a slump in demand and sales also decreased by 3.5% year on year. However, this was not as bad as the overall drop in Spanish retail sector's sales, which was 7.2% during the same period. This shows that it is possible to combine an ambitious training and skills programme with better-than-average performance.

# 3

## Career and employment security

### Introduction

Improved career and employment security increase employee engagement, reduce voluntary employee turnover and diminish anxiety and resistance to organisational change. The key is to establish ‘ownership’ (Søndergård Kristensen, 2010 pp. 19–20). Employees with a sense of co-ownership perceive company success as personal success, and therefore strive for better performance. One of the factors necessary for the sense of co-ownership is a well-developed career and employment security (see also Dirks and Ferrin, 2002). The link between ownership and performance has been identified in Heskett’s research (Heskett et al, 2008). Huselid (1995, pp. 635–675) showed how worker influence and motivation, combined with reward systems, correlated strongly with low voluntary staff turnover, higher productivity and increased profitability in a survey of 1,000 companies. Furthermore, Gant & Shaw (2001) show how different levels of worker involvement in similar production plants correlated positively with productivity and performance. Focusing on career and employment security this chapter illustrates the links with increased productivity and performance. It also shows that external consultants have helped to define more transparent, and thereby more fair, policies and programmes for career and employment security.

Figure 10: *Link between career and employment security and performance*



Source: *Oxford Research*

The case studies illustrate that the same reasoning is used by HR managers, financial managers and employee representatives alike. There is also a clear link, in the case of Osram and Münsterland, that improved career and employment security contributes to a strengthened commitment between the employee and the company and thereby decreases staff turnover, contributing to better economic performance.

### Case study findings

#### Münsterland Margarine Werke

The German food manufacturer Münsterland Margarine Werke (MMW), which has 130 employees and produces margarine and milk products, has worked to increase employment security, with positive results. The German case indicates that employment security can be a contributing factor to increased performance. The employees in the food manufacturing sector have previously been affected by seasonal ups and downs in production, which resulted in insecure employment. The new model at Münsterland has resulted in low voluntary staff turnover, which seems to contribute to the performance of the company. With more stable employment, efficiency and profit margins have increased.

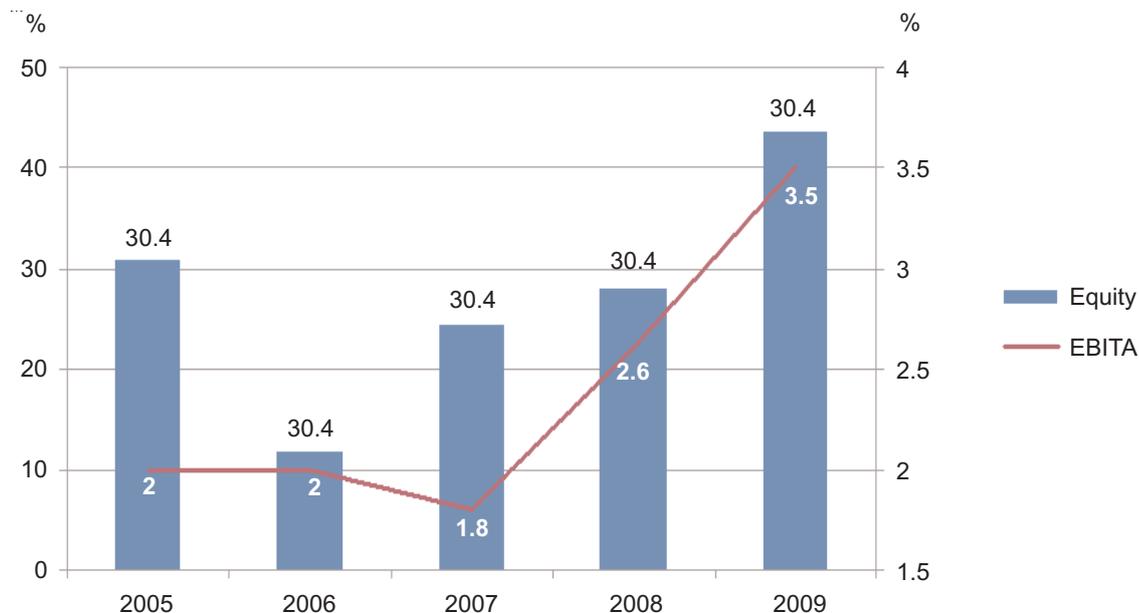
The new work-time models originated from a suggestion from the works council but the CEO also brought in an external consultant to help work them out. The company’s production year can be divided into three seasons: low, medium and high. Previously, this meant that the company often had to dismiss employees in the low season. The new work-time models are adjusted to the different seasons.

The external consultant was from the company Technologieberatungsstelle (TBS), a subsidiary of various unions in the region of Nordrhein-Westfalen and is supported by the Ministry of Work, Health and Social Affairs. The aim of the company is to help firms restructure their work models in order to improve working conditions in different sectors across the region.

The consultant from TBS and four employees (three of whom were from the works council) formed a project group to work out MMW’s new work-time model. The new model meant that the workers have the same amount of hours, but they are distributed differently during the year according to the season of the products and thereby the load of work. This prevents the dismissal of workers in times of low production thereby enhancing employment security. Finally, a conference for 35 employees was held to identify the future challenges and needs of the employees. Two years later, a similar conference was held to identify the needs of the employees with particular focus on improving working conditions within the company.

The voluntary staff turnover is close to zero at MMW. The CEO sees this as proof of the company’s good quality of working practices. The figure below shows Münsterland is performing well with rising profit margins over the last three years. The profit margin in 2009 was 3.5%. A reason for the increased effectiveness of the company, according to management, is attributed to the restructuring explained above. A better use of the employees has resulted in larger profit margins. Also, the company’s equity has gradually increased, which means that the company has decreased its debts in the last couple of years.

Figure 11: Equity and net result 2005–2009



Source: MMW financial data

### Wüstenrot

The Austrian financial case of Wüstenrot, a bank which provides home loans and insurance, and employs 930 people, shows that by prioritising employment security, the company has been recognised as a reliable employer. This has helped give the company an advantage coming out of the crisis.

During the crisis and the restructuring within the Wüstenrot group, several employees were relocated from the building society to the insurance department. The employee representative was in close dialogue with management throughout this transition period. This assured the employees of their job security, which in some cases likely fostered stronger employee loyalty to Wüstenrot. This has created a sense of belonging to the company, since management has demonstrated a willingness to look out for employees even in hard times.

According to a statement on 31 May 2010 by Sussane Riess, CDEO of *Wirtschaftsblatt*, Wüstenrot is doing very well and has pulled itself out of its deficit. It is the best result Wüstenrot has experienced in its 85 years in business. According to the CSR manager, the company's good image is the reason why Wüstenrot managed to be less affected throughout the crisis than its competitors.

The annual report from Wüstenrot explicitly shows a steady increase in performance. Despite the crisis, Wüstenrot Bausparkasse has turned a profit. The HR manager also stated that previous employees sought to come back to Wüstenrot during the crisis, as they had felt more secure there than in their new jobs. It is likely that the link between employment security (via ownership) and performance is manifested here.

### Garabi

Garabi is a small electro-mechanical manufacturer in Spain with only 17 employees. Garabi was, like most other companies in the sector, heavily affected by the recent economic crisis. According to data from the National Statistics Institute, almost all activities in 2009 in the production of computers, electronics and optical devices experienced inter-annual decreases by more than 40%. As for Garabi, the economic crisis led to a reduction of staff from 25 to 17 (a decrease of 32%). An additional seven employees reduced their working time by 50%. The resulting decreases in salary were replaced by unemployment benefits and a promise from the company to repay its employees. The past three to six months have been quite profitable, and the company is returning employees back to full-time employment. Also after having introduced employment security measures, a decrease in sick absences has occurred.

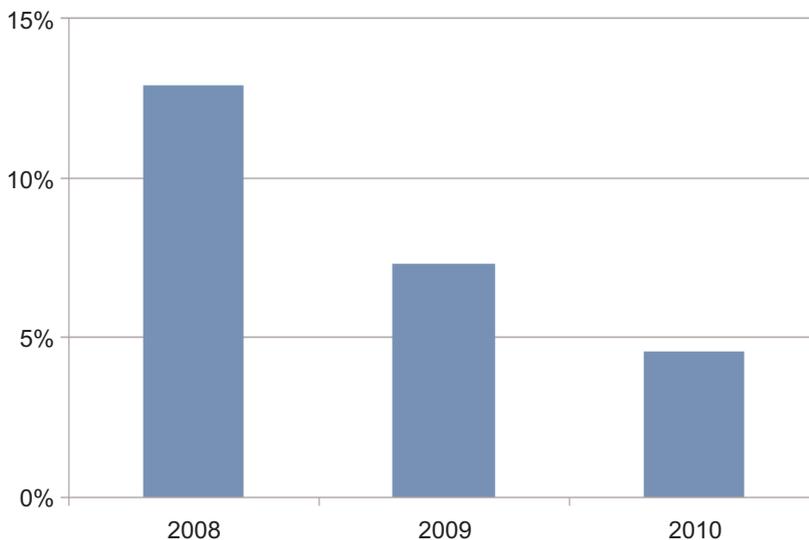
The measures taken to combat the crisis offer an example of how employment has been valued in the company. In 2008, Garabi, as well as the economy as a whole, experienced a considerable decline in client demand. As a result, the company was forced to dismiss eight employees. Additionally, the Basque government and law allowed the company to reduce the working time of seven of its employees by 50%. Because of unemployment benefits available from the unions, employee salaries were only cut to 85% and the company agreed a deal to pay back the remaining 15% when the economy recovered. The affected employees included three female employees in the office and four additional technicians from Garabi Mantenimiento. The female workers expressed concerns about their reduced working time and how it coincided with their part-time maternity leave. Because the partners had some difficulties in finding a solution, affiliated employees consulted the trade union LAB. The union helped to clarify the workers' rights and it also participated in several meetings with management and the employees. Garabi is now experiencing greater demand and has, as a result, been able to increase the number of working hours again.

Both the employee representatives and management declare that the process of reaching a solution was characterised by understanding and cooperation, and with a shared goal of saving the company. Management also had an interest in keeping skilled and experienced staff. This cooperative understanding is interesting as, by law, management was not obliged to consult the employees on this issue. Nevertheless, the trade union representatives were called in by both the management and the employee representative.

The implementation of the prevention plans and the reorganisation of the organisational structure at Garabi, have had very positive effects within the company. Increased responsibility, flexibility, and an ability to balance private life and work, have created a sense of participation among the staff. The feeling of participation has, in combination with the new prevention plans and the diversified tasks, lowered sick absences. In 2008 the sick absence rate was quite high at 12.9%. In 2009, it had decreased to 7.31% and in 2010 it had further decreased to 4.58%. The sick absence rate at Garabi is, as of 2010, on a par with the average absenteeism rate in Europe, which is 4.6% (www.elfinanciero.com). The EFR Observatorio report *Absentismo laboral* (2009) shows that it is also quite low compared to the Spanish average of 5.3% and figures from the Spanish Ministry of Industry, Tourism and Trade show that it is particularly low compared to the Spanish sector average of 6%.

Thus, over the past few years, there has been a remarkable decrease in the sick absence rate at the company; from being well above the average of all other benchmarks to being lower than both the Spanish economy and the corresponding sector.

Figure 12: Rate of sick absence at Garabi



Source: *Garabi*

### Osram

Osram, which features in the electro-mechanical case presented in the previous chapter, has honoured its commitment to increase salaries every year, even during the financial crisis. The finance director stresses the importance of having a competitive level of salary in order to keep the level of voluntary staff turnover low. The salaries for the head of employees, technical staff, assistants, tool setters, electricians and mechanics are on par with or above the average level for these positions in the region. However, in 2009, the salaries for workers were significantly below the average in the region.

Osram has seasonal fluctuations in orders, which results in busy times in production during the winter and slow times during the summer. As a measure to secure stable employment, Osram was in dialogue with the public labour office and other similar companies in the region to discuss the possibility of exchanging employees, allowing Osram employees to work at other companies during the summer and allowing employees from other companies to work at Osram during the winter. Unfortunately, the other companies in the region had similar seasonal fluctuations, so an exchange of employees has not yet been possible, but it is still Osram's ambition to find suitable companies.

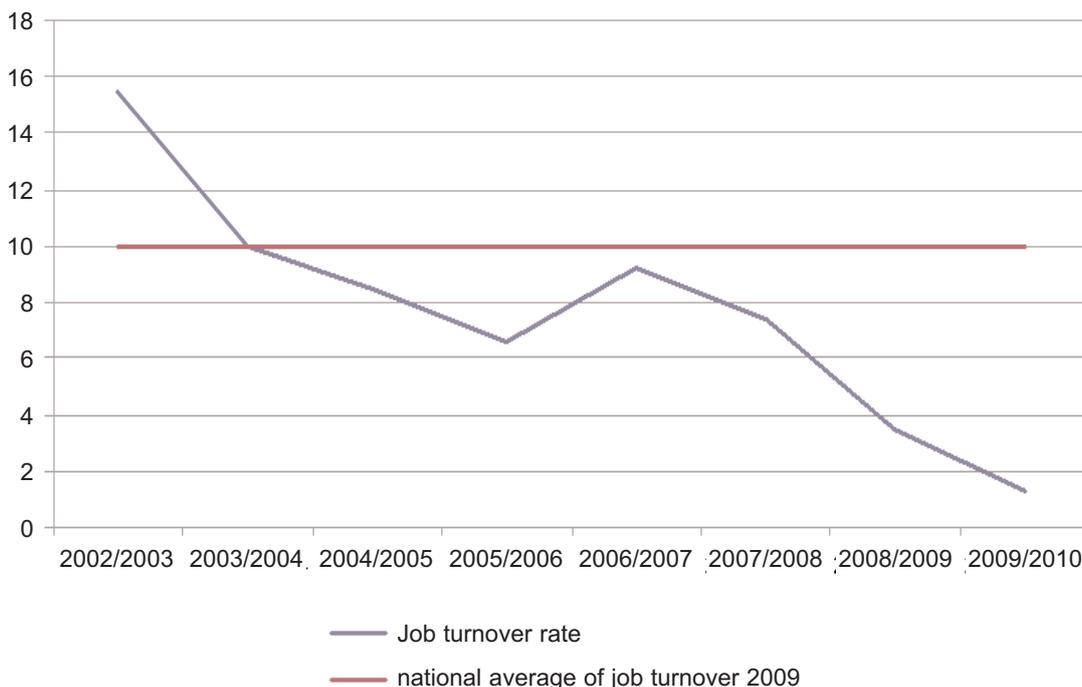
Furthermore, interviews with the HR manager are scheduled for employees in order to discuss career development. Osram's skills and education programme, described in the previous chapter, is also an important step in career development. The improved quality of work, through training activities and career and employment security has improved performance. This can be seen most clearly by looking at the performance indicator of voluntary turnover, as described in more detail below.

### Lowering voluntary turnover at Osram

In the past, Osram has had a hard time recruiting new employees, particularly for engineering positions. However, in recent years, this problem has disappeared, partly because they have created links with schools and university. For instance, Osram currently has partnerships with two technical universities. However, there are more explanations to the positive trend in this aspect.

The level of voluntary staff turnover has decreased since 2002/2003. As is evident in the figure below, staff turnover has decreased from 15.5% in 2002/2003 to 3.5% in 2008/2009. The HR manager estimates that voluntary staff turnover in 2009/2010 is at 1.3%. As seen in the figure below, the voluntary staff turnover is significantly below the average of all of the Czech Republic.

Figure 13: Change in job turnover rate at Osram 2002–2010



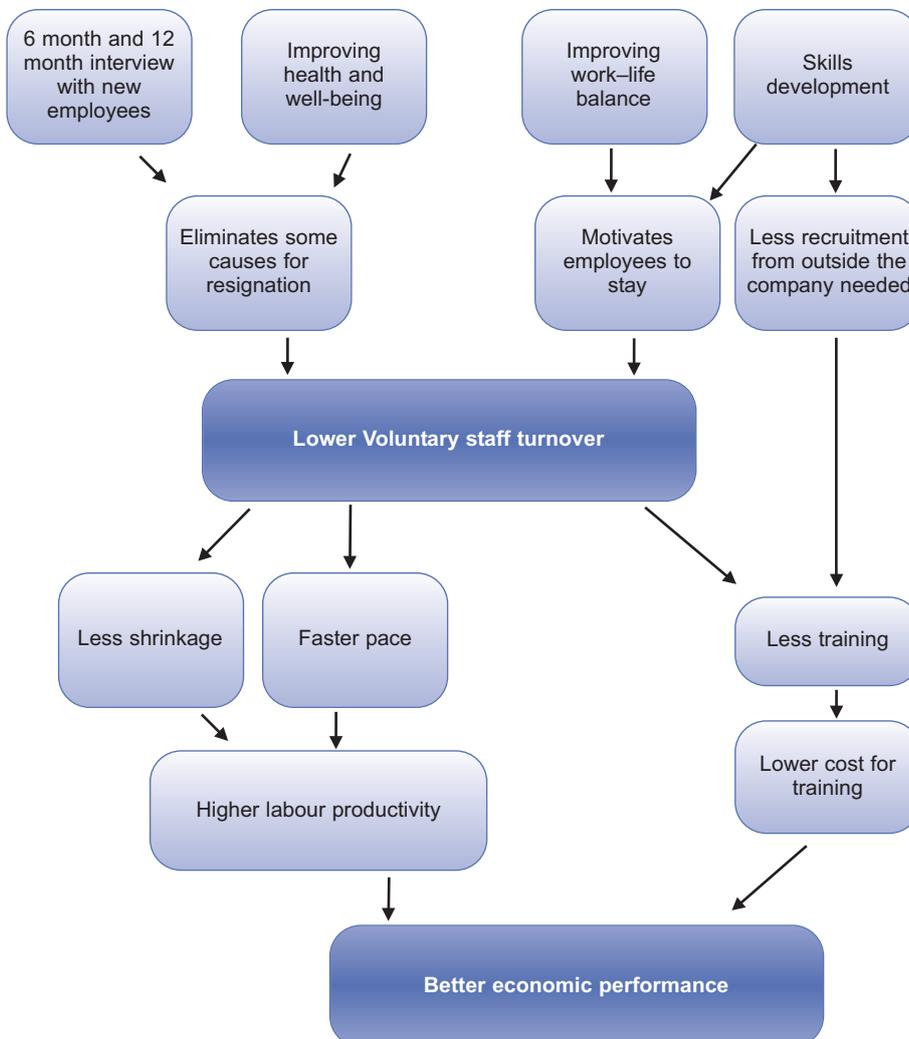
Source: *Oxford Research 2010 based on financial data provided by Osram*

In order to decrease voluntary staff turnover, Osram has implemented a policy of interviews between an employee and the HR manager after six months and after one year of employment. Earlier, there was only a scheduled talk between the new employee and the HR manager after the three-month trial period. These talks are designed to give the new employee the chance to talk about any issues and also to evaluate the employee's time at the company and discuss possible career plans. Another measure that has been implemented, specifically to reduce voluntary staff turnover, is an interview with employees leaving the company. The HR manager explains that the most common reason for leaving Osram today is relocation. Previously, the most common reason was the level of salary, but which has increased every year since 2002.

In addition, several other measures, such as skills development and improvements of health and well-being, made to improve the quality of work, have positively impacted voluntary staff turnover. This is because employees that cannot cope with hard physical work, or whose health is damaged by the low quality of work, will look for another employer. Similarly, a low prospect of reconciling work and non-work life can also cause employees to resign. Therefore, improving the possibilities of work–life balance will eliminate one of the causes for resigning.

The educational programme makes it possible to train employees for new positions and therefore minimises the need for the recruitment of skilled labour outside Osram. The programme is also a strategy for ensuring that employees stay at Osram longer and thereby minimise voluntary staff turnover. According to the HR manager, employees are more interested in staying longer with the company when there are possibilities for advancing within Osram and when there are opportunities for further education.

Figure 14: *The process of lowering voluntary staff turnover*



Source: *Oxford Research 2010*

When looking at the success Osram has had in reducing voluntary staff turnover, it seems likely that the measures it has taken to improve work quality have had a large impact on this trend. However, it is important to take into consideration that part of the reason for the exceptionally low voluntary staff turnover rate at the moment is due to the financial crisis. It is reasonable to assume that a job market with rising unemployment rates will make people less likely to change jobs. Nevertheless, the employee representative, the HR manager and the finance director stress that the measures taken to lower voluntary staff turnover have had an important impact.

A reduction in voluntary staff turnover has a direct impact on productivity, because employees that have worked at Osram for a long time are more efficient and productive, as they are more experienced and know the production process better. Furthermore, it is costly to recruit and train new employees.

At the Spanish retailer El Corte Inglés, employment and career security is a key component of HR practices in the company. In fact, it is one of the three cornerstones of the company values. Career and employment security is used to strengthen employees' satisfaction and loyalty and to contribute to their sense of ownership. Employees have the opportunity of developing inside the company. For instance, it is common for a shop floor worker to become a manager, and for managers to become branch managers or attain high positions at company headquarters. As mentioned in the previous chapter, El Corte Inglés has managed to create an attractive workplace and is considered a prestigious place to work. This contributes to more engaged employees, which is indicated in the results that show a steady increase in labour productivity, as outlined below.

El Corte Inglés's size is, in this sense, a positive factor as it offers a wide range of work assignments and positions within the group. Furthermore, shareholders must be employed at the company. This ensures that every shareholder is in contact with the company that they own, and that no external parties can step in and take over the company. Middle managers are also automatically offered the option of buying shares in the company when they are hired or promoted.

According to the HR management, El Corte Inglés takes pride in providing employment protection for its workers. Around 94% of the employees are on permanent contracts, compared to 75% in the sector (HR management's estimate). The proportion of permanent contracts is very high considering that 25.1% of all employees in Spain are on temporary contracts. The HR management states that this high level of permanent contracts is a way for the company to make sure that it provides employment protection as promised in the core values of the company. Despite the decreased flexibility one could argue that this leads to, the company has strong economic performance and has fared better in the crisis.

From 2003 to 2007, the productivity of workers grew from around €160,000 annually per employee to almost €185,000, as seen in Figure 9. This stable growth suggests that improvements in the quality of work and job satisfaction, coupled with numerous other factors, have increased labour productivity. It has not been possible to make a comparison with the sector figures.

## Introduction

OSHA, the European agency for Safety and Health at Work, has carried out several studies on the importance of good health at work, as well as how this relates to a company's performance. Good health policies at the company are said to benefit the company in several ways, as is seen in the figure below.

Figure 15: *Links between a healthy workplace and performance*



Source: *Oxford Research 2010 based on OSHA 2007 'The business benefits of good occupational safety and health'*

This chapter will test to what extent this assumption is true. In the definition on health, safety and well-being used for this study, work organisation is also included. In Elovainio et al (2005 pp. 1501–1512) the links between organisational uncertainty, injustice and health were examined for a sample of 31,400 full-time employees in the Finnish public sector, showing a distinct relationship between work organisation – in terms of predictability, transparency and justice – and personnel health.

The case studies presented below support the arguments made by OSHA. The cases, across sectors and countries, show that measures to improve health, safety and well-being spans from prevention of occupational hazards, ergonomic reorganisation of the workplace and anti-stress programmes to flexible working time, reorganisation of work into self-managing teams and new production technologies. The outcome spans lower sick absences, decrease insurance costs, increased employee satisfaction and loyalty, to increased brand value. In different ways, all these aspects contribute to improved economic performance. The time lag involved differs also. The effects of a measure can quickly be manifested in employee satisfaction, and relatively quickly in lowered sick absences. Insurance payments are often based on sick absence rates from the year before, while improving brand value is a long-term endeavour. The case studies also indicate that improved health and well-being have positive effects on voluntary staff turnover. The employees seem reluctant to leave a healthy workplace.

## Case study findings

Workers in the financial services sector often carry out a wide variety of functions including customer support, accounting, banking advice and analysis, stock-brokering, and insurance claims. As a result, there are differences in the work environment in stress-related areas such as customer contact. However, there are a few characteristics common to most jobs within the sector. Working conditions in the financial services sector are, for example, generally much better than average in terms of physical disorders, but worse or on par with averages for stress.

### Kutxa

For the Spanish savings bank Kutxa, which has 2,701 employees, its systematic work to improve health and well-being, both physical and psychological, has resulted in a comparably low sick absence rate (below 3% compared to national average of over 5%). The bank, according to Standard & Poor's (2010) is also better than average on all aspects of economic performance, compared to other companies in the sector. Its figures show that it ranks:

- first for equity on the balance;
- tenth for return on assets (ROA);
- seventeenth for balance;
- twentyfirst in efficiency;
- seventh for branch benefits;
- sixth in investment per branch;
- third in customer deposits per branch.

This case study thus supports the hypotheses outlined above.

The company has an action plan to prevent health problems and risk exposure. The most remarkable achievements in the improvement of work-quality are in the area of services for the prevention of occupational hazards (PRL). The measures include setting up a Health and Safety Committee that involves the HR manager, six prevention delegates who represent workers and two PRL service technicians from the departments responsible for construction, maintenance and safety.

Figure 16: *Health, safety and well-being at Kutxa*



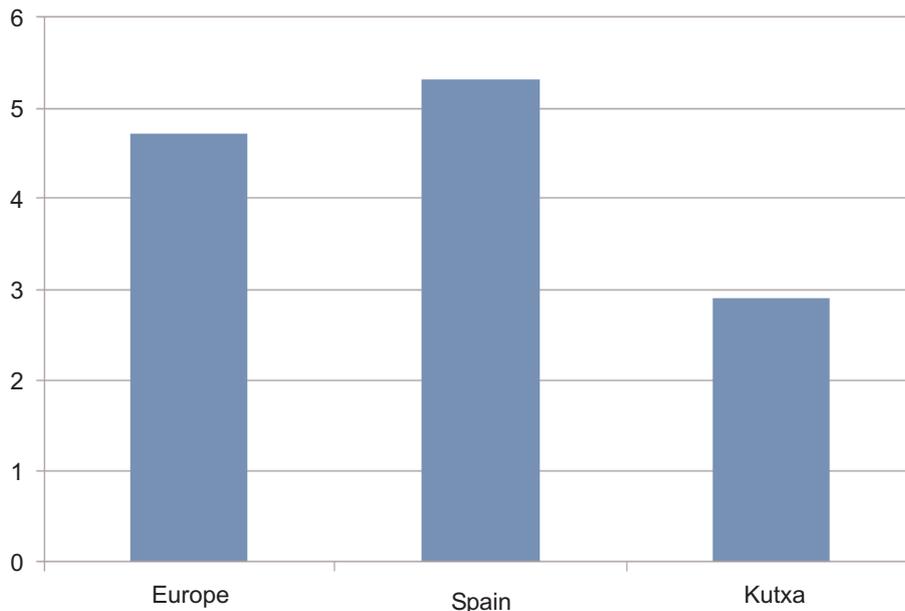
Source: *Oxford Research 2010*

The focus of the action plan is mainly on stress and musculoskeletal disorder (MSD). Some of the initiatives to improve the physical work environment and minimise risks consist of introducing more ergonomic chairs, and changing the organisation of tables and screens. Headphones are provided to prevent neck pain, with wireless headphones being given to people who have to move. Additionally, book rests and foot rests are provided. Every time a worker complains about some kind of muscle pain, they are examined, and an ergonomic evaluation of the workplace is conducted to ensure that workers are sitting according to the chair's correct positioning and a proper distance from the computer screen, keyboard, mouse and printer. Workers are also provided with reasons why he or she should work in a particular position.

Sick absences at Kutxa have decreased significantly. Its most recent figure on absenteeism is 2.88%, which decreased from last year's rate of 3.01%. The HR manager considers the decrease in sick absences to be due to the measures taken to improve work quality, particularly the physical aspects of work. The decrease in the rate was also due to the reforms in working times, which caused a 35% reduction in the absenteeism rate. More about the working time reform follows in the next chapter.

Kutxa's absenteeism rate is lower than the average rate in Spain and Europe. The absenteeism rate in Europe is 4.6% and the average in Spain is 5.3%.

Figure 17: Absenteeism rate comparison (%)



Source: Oxford Research 2010

It is reasonable to believe that the low sick absence rate is a result of the company's systematic work with health issues, both physical and psychological.

### Swedbank Sjuhärad

Another systematic strategy can be seen in the Swedish case of Swedbank Sjuhärad, which has led to a substantial decrease in sick absences in the company, and clearly contributed to the strong economic performance (mentioned in the skills training and employability chapter).

The bank has used social dialogue and external expertise to improve the physical workplace and prevent work-related injuries. Social dialogue is well established between management and employee representatives in the company. The

Financial Sector Union (*Finansförbundet*) has two representatives on the board of directors and one on the executive body, and the union representatives hold two meetings per year with the CEO and the assistant manager to discuss recent trends and employee sentiments.

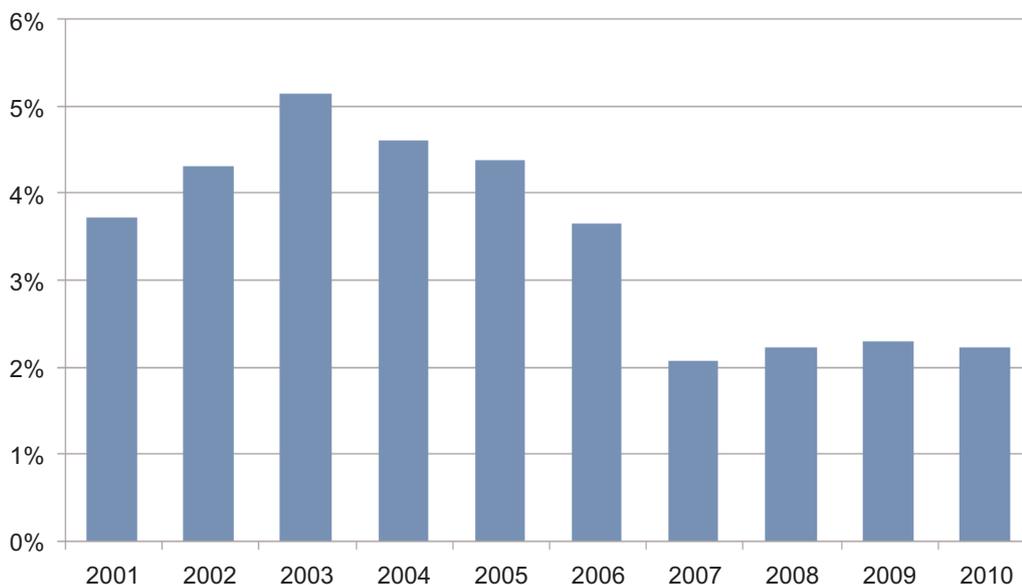
In Swedbank Sjuhärad, management and employee representatives collaborated on an initiative to redesign the bank's offices. They also undertook an additional review of the work environment in cooperation with the new company health and wellness provider, Previa (which offers medical services mainly focused on prevention). The redesign resulted in, among other things, an improved overall work environment and the implementation of individual work environment plans.

The individual work environment plans have been made by the employees themselves in cooperation with Previa, and the purpose has been to make the work environment suitable for each individual by, for example, the ergonomic arrangement of desks, and better lighting and ventilation. In addition to this, the bank has also created a health and wellness subsidy. As of now, about half of the bank's staff use this subsidy, which in combination with the individual work environment plans has resulted in fewer back and shoulder-related MSDs than before, according to the HR manager.

The company's previous care provider relied mostly on reactive health care, while Previa, the provider since 2004, relies on proactive measures such as regular check-ups and health and wellness training. All together, the measures are considered to have decreased the number of MSDs, as well as the number of employees on sick-leave. The mechanism of using an external contractor is praised by both the HR department and the employee representatives, who say that it has improved the health and wellbeing of the employees.

The long-term outcome of remodelling the workplaces, the implementation of the individual work-environment plans, and the collaboration with Previa is that the bank has acknowledged the importance of using proactive health and wellness training. Figure 17, a comparison of absenteeism rates show a distinct change of trend from 2003 to 2004 when Previa and the bank began working together. It is therefore clear that the contract with Previa and the preventative measures taken to improve health and wellness, as well as the remodelling, have lowered sick-leaves and improved company health and wellbeing.

Figure 18: *Sick-leaves in percentages at Swedbank Sjuhärad*



Source: *Annual reports Swedbank Sjuhärad 2004–2009*

The HR department stresses the importance of constant effort to reduce stress and it highlights the training that the managers and other leaders have received from Previa. The training, in addition to the implementation of monthly progress meetings between individual employees and their managers, has taught managers to be alert to signs of stress and how to deal with it. The employee representative agrees that this training has been valuable as he has noticed that his own boss's ability to 'see stress' has improved.

In Swedbank Sjuhärads, physical training and wellness is also a part of the effort to minimise future illnesses. Both Swedbank Sjuhärads and Kutxa implement measures on a collective, as well as on an individual, level, which includes engagement from the company as well as from the individual employee. When a larger measure or project (such as remodelling) is initiated, the bank usually appoints a project group with representatives from management and employees. In the case of the reconstruction and the additional review of the work environment, social dialogue played an important role through these formalised project groups. Representatives from management and the union dealt with everything from project planning to collecting information on employee opinions. The HR manager stresses the importance of having the employee representatives 'on board' at an early stage in these kinds of projects. This was the working method throughout the project. Employees participated by giving feedback as the project went on. The value of the project groups was therefore to establish clear channels of command and communication between the management and the employees so that the reconstruction would satisfy both the budget and employees' needs.

### Česká spořitelna

The Czech financial company Česká spořitelna has taken several measures to ensure better health and well-being among its employees. Measures taken at Česká spořitelna to improve health and well-being include:

- an anti-stress programme;
- a bonus for exercising;
- flexible working time;
- support for employees exposed to robbery;
- refurbishment of offices.

However, it is difficult to see any impact on performance in accordance to the hypotheses above regarding the link to health and well-being, as both the rate of sick leave and employee satisfaction can still be improved upon. It shows that the link is not always direct or clear-cut, but in some cases, there is a delayed improvement in performance as a result of improved health and well-being. The most significant improvement at the company was the programme combating stress, which was not in place until 2009. It is therefore likely that the expected impact on performance has not yet appeared in performance indicators, although evaluations made at the company show that the measures have reduced stress.

Stress is the greatest challenge to good psychological health among employees at Česká spořitelna. In turn, customer contact is the main cause of stress at Česká spořitelna. In 2009, an anti-stress programme was launched in order to prevent stress and give employees the tools to cope with it. The programme is open to all employees, but is mainly targeted at employees at the branch level who have a lot of customer contact. It teaches employees how to recognise symptoms of stress, how to cope with stress and to decide whether professional help is necessary.

In many cases, the tools provided by the programme are enough to solve the stress problem, but if professional help is needed, a company psychiatrist is available. The anti-stress programme is paid for by the company; however, an employee who needs to see the company psychiatrist must pay for the sessions.

When Česká spořitelna was bought by Erste Group in 2000, major changes to the physical environment of Česká spořitelna were initiated. As Česká spořitelna is an old bank, many of the branches were outdated, which contributed to a poor quality of work. Small offices and worn furniture put employees in strenuous positions during work hours, which contributed to poor health and well-being.

The refurbishment of the branches, which began in 2000 and is continuing, has resulted in open work spaces, which improve air quality as well as encourage employees to share knowledge. It has also resulted in new ergonomic furniture, such as chairs and height-adjustable tables. According to the employee representative and the HR manager, this has had a big impact on the physical well-being of employees.

Another way to minimise physical risks is changing working processes so they involve less strenuous positions and repetitive movements. Česká spořitelna also encourages employees, by the use of bonuses, among other things, to exercise after work in order to stay healthy and to minimise physical risk.

Another source of psychological stress is crime. When robberies occur, Česká spořitelna supports employees with psychological support, a bonus and time off.

Both the Swedish and the Spanish companies which have systematic strategies to deal with health issues, show strikingly low sick absence rates. Česká spořitelna does not have the same impressive sick absence rate. The average sick absence rate has fluctuated between 8.24% and 9.51% between 2004 and 2008. This rather stable rate thus still has plenty of room for improvement.

Česká spořitelna has conducted employee surveys every second year since 2000. This employee survey measures employee satisfaction, employee motivation and loyalty, as well as negative and positive drivers for change. The employee survey in the Czech bank from 2009 also shows in which areas there is most room for improvement. Even though between 2007 and 2009 there was a decrease in employees feeling pressured at work, the rate is still relatively high. This supports the assessment by the HR manager and employee representative that stress is the main challenge to the quality of work at Česká spořitelna. The 2007–2009 decrease can be connected to the range of measures taken by Česká spořitelna to improve the psychological well-being of employees. Also, it is interesting to note that voluntary staff turnover is steadily decreasing, as was seen in Figure 5, indicating that the measures taken also have a positive effect on this indicator. It is possible to see the change in voluntary turnover occurring at the same time the stress initiative was taken.

### Crédit Agricole

Crédit Agricole, the French financial company, has been investing significant amounts in measures to reduce stress since 2006. It is interesting to look at how this is seen by the company to improve performance where mostly brand value is highlighted. It is a long term strategy of the company to be a reliable financial actor with a respected brand that is connected to and entrenched in the region. Improving quality of work is seen as a tool to achieve this.

In 2006, Crédit Agricole launched an initiative to combat stress in the workplace, '*Santé et qualité de vie au travail*' (health and well-being in the workplace). Both the HR director and the employee representative believe that the project has contributed to better quality of work. The examples given include:

- investing in new automated tellers;
- developing a system of retaining replacement workers;
- adjusting the indicators used in performance management;

- streamlining communications;
- providing better training to the employees to help them adjust to electronic banking.

The driver behind these investments was the need to address the high levels of stress among employees at the bank. One change relates to aligning performance goals with client-focused service. There has been a wave of anti-consumerist sentiment in France, according to the HR director. This has caused the financial sector to shift from a 'logic' ('un logie de production') of producing more value for the bank, to trying to be more aware of the clients' needs. In the past, the indicators used to measure employee productivity were biased towards sales and did not focus on the extent to which the employees met client needs. The focus on sales put employees in a very stressful situation, according to those in the company who were interviewed. Now there is much more emphasis on how the processes are working. Client satisfaction has improved from around 5.0 to 7.0 on a scale from 0–10.

Another change that stems from the stress initiative relates to the system used for replacing employees who are absent temporarily. Given the small size of many of the local branches, a single absence due to illness, family obligations/maternity leave, or even vacation, can affect the functioning of a branch. According to the employee representative, it is difficult to replace the missing team members, who have built up significant knowledge of their local clients' needs. The replacements have tended to be under-prepared which results in stress for the remaining team members and a poorer client service. The solution to this problem was to create a dedicated pool of short-term replacement employees with training in specific positions related to the work of the company.

This anti-stress programme has many effects. The stated reasons for the programme include maintaining a high level of professionalism, assuring a continuity of client service, and preserving standardised procedures as per training. The programme also addressed the needs of the replacement employees by maintaining employment stability instead of remaining in temporary positions. As mentioned above, the general manager states that there is a definite link between the quality of work in the company and client satisfaction, but the general manager also states that the link is too difficult to measure. This statement is consistent with the views of the HR manager and the employee representative. Voluntary turnover and sick absence have been stable during the last years. The economic crisis slowed overall growth temporarily from 2007–2008 but growth returned by 2009. Crédit Agricole currently holds a market share of 44% in the region, which is the highest market share of all financial institutions. What we can see from the limited evidence we have is that performance indicators such as annual turnover, client satisfaction, and net results have remained relatively stable. This should be seen in the context of the worst financial crisis in France since the 1930s, where the rest of the sector has faced severe difficulties. It is quite remarkable that a company has sustained its high level of performance while simultaneously investing a substantial amount of financial resources into improving the quality of work.

### **Wüstenrot**

Wüstenrot has implemented a health scheme during the last couple of years in the midst of the financial crisis. The link between the health initiative and improved performance seems to be part of the company brand. Wüstenrot completes an employee survey every three years. The last survey was in 2007 and led to the development and implementation of the health programme.

The programme features, among other things, seminars on how to improve employees' health. Healthy food has been introduced in the canteen, and Wüstenrot also offers the employees a massage for an hour every week. An exercise scheme, encouraging employees living in town to cycle to work, was also presented to the employees. Employees are also encouraged to participate in various sports events such as the Wüstenrot sports day. The health programme has improved the health of the employees as well as their job satisfaction. They have also become more socially active through recreational activities across departments, which has led to an improved team spirit. The sense of belonging is important and facilitates a more engaged workforce, improving both work quality and performance.

These measures have resulted in several positive outcomes. Employees were included in the development of the health programmes through social dialogue between HR and the employee representative, which also helped to establish an improved overall social dialogue. Moreover, the employees felt that they met more of their colleagues at the activities, which has improved the relationship across departments. This has led to a better work atmosphere at Wüstenrot.

Table 18 gives a brief overview of the financial situation at Wüstenrot over the past two years. The turnover has almost doubled, exhibiting clear improvements since the crisis. The net result has improved as well, though not to the same degree. When looking at the table below one should bear in mind that the health programme was introduced after the employee survey in 2007.

Table 18: *Economic data Wüstenrot, (in euros)*

	2009	2008
<b>Turnover</b>	222,346	119,829
<b>Ordinary Results</b>	136,930	79,863
<b>Extraordinary Results</b>	5,104	3,422
<b>Net Result</b>	4,992	4,183

Source: *Oxford Research 2010 based on Wüstenrot financial data*

The annual report suggests that business for Wüstenrot has been steady, even in the face of the crisis. Since 2003, total assets have steadily increased, although there was a slight slowdown in turnover due to the financial crisis.

According to the CSR manager, the reason why Wüstenrot managed to pass through the crisis while being less affected than its competitors is due to its good image as a socially aware company. Recruitment has also been the most notable improvement during the last years, with many people applying to work there.

### Microdeco

As stated above, organisation of work is a key aspect of health and well-being. In the Spanish company Microdeco for instance, the ‘mini companies’ or autonomous working groups have been studied. Performance has improved through these more empowering work processes, although the financial crisis has hit the company so hard so that effects from improved quality of work are impossible to single out from the negative business climate of the company. While the sector in general decreased by more than 40% in terms of sales from 2008 to 2009, Microdecos sales decreased less than 20%. However, qualitative statements that support the positive experience from the new organisation of work have been made by both employee representative and the HR manager.

All employees work in self-managing improvement teams, and they monitor and enhance the results of all processes. Thus, these groups or ‘mini companies’ determine their own training, management structures, and work and process planning, with the support of the management board, and an external actor called Becaer. The new work organisation set-up reduces stress, according to both the employee representative and HR manager in the company, as the employees now have more ownership of their daily work. They can prioritise tasks and decide work tempo and so on, without discussing the details with management.

When the new organisational structure of ‘mini-companies’ or autonomous teams was implemented, a new incentive system based on tasks and processes was applied, in order to equally benefit all employees. This new system, the so-called IGO (‘Incentivo General por Objetivos’), is meant to motivate workers and increase satisfaction rates among employees, giving rise to a better work environment. During the process of development and implementation of the IGO

system, all staff categories as well as the works councils took part in the negotiation, so all workers had the opportunity to give their opinion and participate in the process. The employee representative believes that the issues of cleanliness and order improved because of this. In general, the overall structure of the company also improved.

The other Spanish electromechanical company Garabi, mentioned in the previous chapter, has also reformed work organisation. In 2003, a new management decided on radical changes to increase worker participation and decrease top-down management. The rationale for this was that the employees were, according to management, mere ‘tools’ of the management and thus employee potential and output of the were not fully utilised. The project was very ambitious and 20% of the annual turnover from 2003–2006 was invested in the reorganisation. By 2006, the reorganisation had been fully implemented with excellent results in terms of sales, performance, and quality of work.

The reorganisation meant a flatter organisational structure with fewer obstacles such as unnecessary managerial decisions. The decentralised decision-making power and the involvement of workers led to more independent departments that could make more efficient decisions related to client contact, working time, and holiday planning, among other things. This made the employees more able to take control of their own responsibilities, thus increasing employee involvement and commitment. It also, according to the employee representative, widened the workers’ tasks and boosted their confidence. Trust between management and the employees also increased as a result of the shared liability, but also because of shared success through a bonus system. Before, the employees used to complain about management making the wrong decisions, but now they are also responsible.

As mentioned in the previous chapter, a significant reduction of sick absences has been observed in the company; it was reduced from 12.9% in 2008 to 4.6% in the first half of 2010. This can probably also be attributed to the preventive policy against work-related injuries at the company. The initiatives involve a formalised step-by-step standard procedure including planning, inspections, investigations, training, emergency measures, and responsible employees. The steps are carried out according to an annual schedule where management, office workers and technicians have equal responsibility. These also include new lifts or work methods that come as a response to accidents as well as efforts to reduce MSDs.

### **NOTE Norrtälje**

The Swedish company NOTE Norrtälje is an electronics company that employs 85 people. The biggest improvement in health, safety and well-being in recent years is undoubtedly the move to the new facilities in Norrtälje in 2007.

Management states that the move was ‘a substantial improvement, particularly in terms of air quality and heating in the winter.’ The overall safety and health of the facilities have also been improved through consultation of an ergonomist who evaluated all work stations and ensured that, for instance, that there was nothing to endanger employees’ health. In addition to the move, the company has several health and wellness benefits for their employees. One is a subsidised massage during working hours. Another is a subsidised exercise benefit that all employees are given.

Similar to most companies in its market segment, NOTE has been hard hit by the global economic crisis. The sharp downturn in demand made a number of component suppliers cut their output rate, which affected NOTE with delivery delays and price increases on isolated items. NOTE is therefore being squeezed from both their customers and their suppliers.

The economic crisis is not the only thing that has had an impact on NOTE’s economic performance. The entire market has been in profound transformation over recent years. The key drivers of change have been price pressure on components, the search for cheap labour, a faster production chain from initial idea to sales, and robust economic progress in growth regions, with the resulting emergence of new final markets.

The sick absence rate at NOTE Norrtälje is very low. In 2009 the sick absence was at 2.3% compared to 3.8% for all employees in the Swedish economy. Also, voluntary staff turnover is remarkably low at the company and has been hovering around 1% for the last four to five years.

The financial manager at NOTE Norrtälje is worried about the company's poor performance over the last couple of years. In 2005 the plant had a turnover of €51.3 million (SEK 450 million as at 21 February, 2011) and that had dropped by 33% percent to €34.2 million (SEK 300 million) in 2009. He emphasises that the Norrtälje plant was built to accommodate 300 employees and with this number of workers the production would be better. However, the turnover per employee is high compared with the average in the sector. In the electro-mechanical sector, the turnover per employee is €0.1 million (SEK 0.9 million) and NOTE Norrtälje more than triples that figure with a turnover of €0.39 million (SEK 3.5 million) per employee.

### ACC

In the Austrian company ACC, an electro-mechanical company with 925 employees that makes compressors, an ambitious health project bolsters the theory advanced at the beginning of the chapter that higher labour productivity can be achieved partly through improved quality of work.

The Workplace Health Project at Austrian ACC has been a success story. There are several works councils within the company, who have monthly meetings, or when required. The election for the works councils is held once every four years. The heads of these councils have been heavily involved in the health project team, although the person mainly responsible for the project, who is now also responsible for finances in the controller department, was hired specifically to develop and implement the project. The works councils have good insight into their departments and were therefore important in the development of the programme. In order to develop the programme's ability to address challenges efficiently within working conditions, a health survey was carried out in 2008 among the staff at ACC. A total of 98% of employees completed the survey and 50% of the activities implemented at ACC have been inspired by the survey. Moreover, the survey also explored the employees' work environment. This led to improved light fixtures in the offices and storage areas. The production hall was equipped with lifts and other machinery to reduce physical strain on employees. Employees in the offices also received improved work stations in the form of customised chairs and tables.

The Workplace Health Project leader was supported by a project team and eight work groups (representing different work areas) with seven to eight employees in each. The work groups received training to assist them in finding solutions to the challenges experienced in their work areas and then reported their findings to the project team. External support was received from various organisations and institutions. A doctor, physiotherapist and a safety expert were included in developing the programme. Furthermore, a professional health insurance company (Gebietskrankenkasse, GKK) supported the programme as well as a health fund (Fonds Gesundes Österreich, FGÖ). ACC has a new area of focus every year. In 2010 it was MSDs, or more specifically, backache.

There has been a striking increase in labour productivity at the company during the last years. According to the HR manager, the production plant now produces 6.1 compressors per employee working hour. This is an improvement over the past five years when fewer than five compressors were produced per employee working hour. Staff turnover is low at 1.4%.

### Osram

At Osram, several measures have been taken to improve physical work quality and minimise risk. These include an in-house physician, special mats for employees who have to stand most of the day, softer floor surfaces, ergonomic chairs, job rotation, and more breaks in repetitive work tasks. This has contributed to reduced sick absences and, in accordance with the theory described above, increased potential for high economic performance.

The sick absence rate at Osram has decreased significantly since 2002–2003. As seen in the table below, the sick absence rate decreased from 10.2% in 2002–2003 to 4.0% in 2010. The HR manager and employee representative consider the decline in sick absences to be due in part to the measures taken to improve work quality, particularly physical work quality, as well as to new national legislation that was implemented in 2008 that meant that the first three sick days were no longer paid.

Nevertheless, it is possible to separate the impact of the national legislation by only looking at the change in sick absences in the period before the introduction of the new national legislation in 2008. From 2002–2007 the sick absence rate decreased from 10.2%–7.6%. In this period a significant range of measures were implemented to improve the physical quality of work, such as job rotation and a doctor in the plant.

However, it is notable that the sick absence rate at Osram in 2009 is almost half the sick absence rate of the manufacturing sector in general, as seen in Figure 12 above. Therefore, the decrease in sick absence after 2008 must be partly due to improvement of quality of work and partly due to the new legislation.

After the national legislation was implemented in 2008, the sick absence rate has decreased further. During the same period, additional measures were introduced with regards to health and well-being and skills development. It is not possible to separate the impact of the national legislation from the impact of improved quality of work. However, as the sick absence rate at Osram is much lower than the average for the manufacturing sector as a whole, it seems likely that these additional improvements in quality of work have had a positive impact on voluntary staff turnover.

### Senior & Cie

Senior & Cie is a clothing mail order company with 169 employees in the wholesale and retail sector. The big challenge in the sector is MSDs. The company has thus taken actions to cope with this problem, and a significant reduction in sick absences has been observed, and insurance payments have decreased accordingly. Furthermore, a 20% increase in labour productivity was achieved soon after this programme (detailed below) was initiated in 2006.

A workplace survey was conducted at Senior & Cie in 2006 to identify risks at the company. Among those surveyed, 80% reported lifting heavy loads every day and 94.7% of the employees said they stood for long periods. Other results showed 55.3% of the employees surveyed had to reduce their level of activity due to work-related strain, with 50% consulting a doctor or kinesiologist in the year prior to the survey. Furthermore, 34.2% had to get medical treatment due to work-related injuries (such as broken bones) in 2006. Time off and/or medication was taken by 86.85% of the employees because of lower-back strain, and 13.2% of the employees had to be re-assigned within the company because they could not cope with strenuous activity.

These risks led to a significant loss of working days due to illness, injury, or accident.

As a result of the survey and advice from outside experts, Senior & Cie is introducing equipment upgrades and process changes to reduce risks associated with MSD. .. Ideas for the initiative came from the management, the employees, and the experts. There are 15 specific changes to be made within six action plans (*plan d'actions*). Examples include:

- facilitating access to products;
- changing the distribution of tasks between occupational positions or departments;
- changing the layout of spaces;
- changing equipment;

- changing working positions;
- limiting the weight of the articles to be lifted;
- introducing a new handcart.

As was stressed by both the HR director and the employee representative, there is a pay-for-performance system in place, where a bonus is paid if employees meet their monthly targets. As such, the employees resisted the changes stemming from the MSD initiative because they preferred to continue with their current functions, as they have become proficient from years of experience.

To address this limitation to the MSD initiative, the company is introducing a skills-development initiative entitled '*gestes et postures*' (movement and posture) that is aimed at reducing workplace strain and improving overall productivity by training employees on the effective use of the new technologies.

The table below outlines the growing problem of workplace illness and injuries. There was a dramatic spike in the number of employee absences per year related to workplace injury and illness. Between 2003 and 2007, before the initiatives were launched, the number of missed days had risen from 313 to 2132 per year. The results for 2009 show a dramatic decline in days of absence due to accidents/injury and illness.

Figure 19: *Accident and injury-related absenteeism at Senior & Cie*



Source: *Oxford Research based Senior & Cie data*

Given the significance of the issue, the human resources department was able to obtain support from key authorities in the organisation. According to the HR manager, it is necessary to present improvements to working condition as investments that will result in better economic performance. In addition to the missing productivity due to employee absences, the insurance system in France requires companies to pay an indemnity to the social protection system, which constitutes an indirect cost stemming from the prevalence of injury and illness.

The logistics industry is labour-intensive and involves physical work such as lifting and transporting heavy items. Prior to the initiative in 2006, the MSD survey found that the use of productivity-enhancing tools was limited; processing orders relied on manual processes. For example, in 2006, the survey respondents stated that they did not use mechanical or technological assistance in undertaking lifts or transporting materials from one area to another. Nor was there equipment to assist in the lifting of heavy clothing bins used in the packaging department.

Concrete outcomes include an initial 20% improvement in productivity, with expectations that the education programme will result in even greater increased productivity. As a result of this drastic increase in productivity at Senior & Cie, a saving of 1,500 full-time equivalent (FTE) hours within a period of four months was achieved. As such, the case shows the potential of improved quality of work.

### REWE

The German food wholesaler REWE West, with 16,000 employees, has a tradition of projects to improve working conditions. Over the years, temporary decreases in sick absences have been observed, but they then have risen to average levels again. This case thus shows the importance of a continuous focus on health, safety and well-being to achieve improved performance.

By 1995, REWE had already started a new project to lower employees' level of sickness and absenteeism. For this project, an external expert and 25 people from all levels of the company discussed how to overcome the problem of sickness and absenteeism by making the management more secure and capable of discussing these issues with employees. The improved communication led to the development of a new culture within the company and the rate of sick absence declined in the following two years. However, in the next two years after this the absenteeism rate rose again. The company's *Gesundheitszirkel* (health circle) programme was implemented in 2004–2005 and in 2006–2007. Actions that needed to be taken were identified and a catalogue of all actions was put together. There have not been any immediate results from this initiative and HR manager Ricardo Brenke explains that the reason for the reoccurrence of absenteeism and *Gesundheitszirkel*'s seeming lack of success is due to the fact that there was no follow up on initiatives, which suggests that constant training and initiatives are necessary to change the culture within a company.

At REWE, work-related MSDs are mainly found in the logistic sector where heavy loads are common. A company report, 'Projects Health Management', shows that around 26% of employee absences in the REWE group can be attributed to MSDs (REWE Group, 2010). REWE, together with a health insurance company, has now arranged initiatives to combat this, including free Nordic walking courses and free health checks once a year. Furthermore, a masseur, paid for by the company is available to help employees for a small amount of time.

The sick absences among the employees, especially among the logistics workers is still fairly high at REWE Region West, and only after the health initiative back in 1995 was it significantly lower for some years. In the logistic departments, the sick absence rate is now approximately 6% and in administration, it is approximately 3%.

REWE's turnover has grown by 2.1% for the franchises and 1.6% for the stores owned by the company itself. Positive figures for a company in the retail and trade sector in Germany were uncommon in 2009 and the average growth in the sector was negative (-0.125%, German Federal Statistics Office 2010).

### Pfeiffer

The Austrian wholesale and retail group Pfeiffer, with 2,870 employees, introduced a health programme in 2005.

With the intention of improving the health of and the working conditions for employees, the Pfeiffer Group started a fitness initiative called Pfiff in 2005 in cooperation with the HR department and the works council. Pfeiffer employs a

doctor and physiotherapist but not a psychotherapist as it felt employees would not admit to needing one. Seminars to help employees quit smoking are also available. These seminars, courses and treatments are offered at a reduced rate for employees, though not free of charge.

Every six months, a calendar is published listing all the activities, which are very cheap, offered through the Pfiff programme. The activities vary in intensity (for example yoga, volleyball and gymnastics). The courses and seminars have different aims, in areas such as relaxation, mental training, movement, food and nutrition as well as first aid. The courses target all employees regardless of the background, area of work, interest and fitness levels.

The employee organisation AK (Arbeitskammer) and the trade union GPA DJP (the main union in Austria for white-collar workers in the private sector) completed a study on safety at work, where 15 companies including Pfeiffer took part. The result was a handbook for works councils and safety personnel. The handbook is in accordance to the Austrian law on workplace safety and exhibits the general state of working conditions. A broad selection of areas was addressed regarding quality of work such as stress, MSDs, and physical and psychological strains.

The table below shows the most common forms of strains discovered by the survey.

Table 19: *Workplace Injuries by type*

Ranking	Strain	Percentage
1	Stress	54.0
2	Posture/position	43.5
3	Many assignments at one time	37.3
4	Noise, heat, dust	33.4
5	Lack of recognition	24.1
6	Too much responsibility	23.0

Source: *Oxford Research based on GPA DPJ data, 2010*

For the last five years Pfeiffer has gone to great lengths to improve the working conditions of its employees. Air conditioning has been installed in offices to improve the temperature during summer. Also, storage facilities have been rebuilt and extensions added, because the business is growing. The economic situation at Pfeiffer has been positive over the past years despite the crisis. The Pfeiffer Group has expanded in all areas of business and in all subsidiaries and has claimed a strong share of the market, according to the HR manager.

Table 20: *Pfeiffer revenue 2009*

Areas of Business	Millions in euro	% difference to the year before
C+C Pfeiffer	320.5	+3.4
Pfeiffer Grosshandel	124.8	+0.6
Unimarkt	225.3	+5.5
<b>Pfeiffer Group total</b>	<b>670.6</b>	<b>+3.6</b>

Source: *Oxford Research based on Pfeiffer financial data, 2010*

The company's total turnover steadily improved from €624 million in 2006 to €670.6 million in 2009.

Overall, employment and turnover has been increasing, judging by the figures supplied by the Pfeiffer Group. This is especially true since the introduction and implementation of the health scheme and an age management initiative.

### **Norrmejerier**

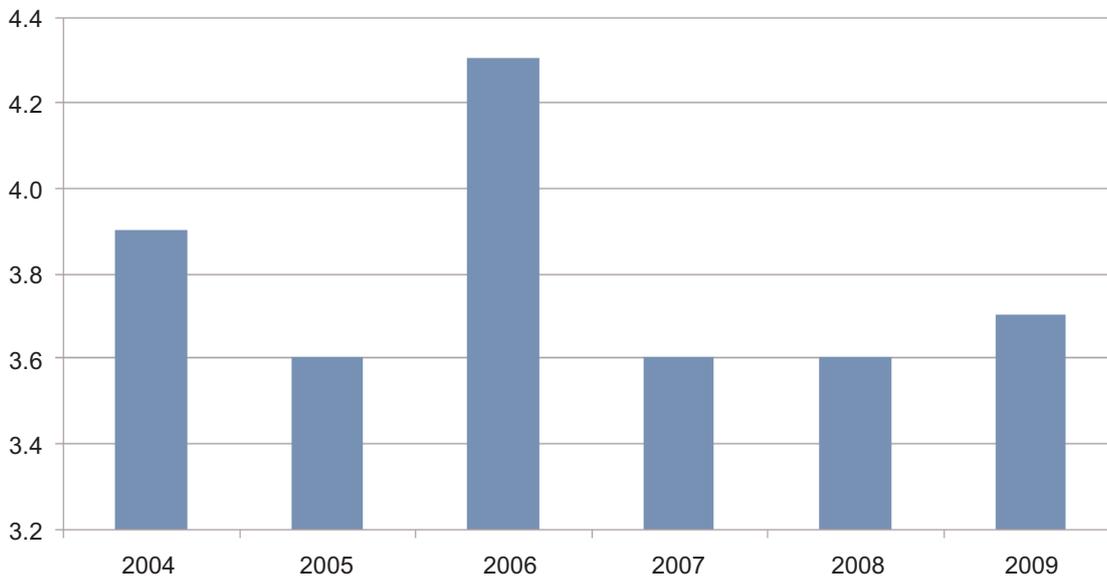
The Swedish dairy Norrmejerier has mainly improved quality of work through a more modern and empowering work organisation. The company is also at the forefront of implementing new technology that contributes to a better work environment. This has created a low sick absence rate and contributed to good economic performance, thus confirming the hypothesis of this chapter.

Norrmejerier's HR manager says the largest recent improvement in quality of work is the introduction of the LEAN philosophy in all aspects of work. By doing this, individual employees are given more responsibility and a greater chance to improve their own working conditions and not to become victims of the circumstances around them. The HR manager is also convinced that the introduction of LEAN production has led to better quality of work through safer and less stressful working conditions.

The employee representative also agrees that the work at Norrmejerier for blue-collar workers is no longer all about production. The employee representative views this change as positive and feels that most employees feel the same way. According to the employee representative, the most successful improvement in quality of work at Norrmejerier is the technical advancement which has led to less lifting and repetitive motions. Almost all of production is currently run by robots, and both respondents claim that Norrmejerier today is a first mover when it comes to introducing new technology on the production line. This began in the 1980s when Arbetsmiljöverket (The Swedish Work Environment Authority), union representatives and management agreed that the working conditions at the company were not good enough and needed to be improved. 'This way the company has been able to save money, both through higher production but also through maintaining peoples' health', states the HR manager.

The sick absence rate was introduced as a performance indicator in the Norrmejerier's annual report in 2005. The company was able to lower the sick absence rate from 3.9% in 2004 to 3.6% in 2007. The achievement was attributed to ergonomic improvements, which have reduced heavy lifting drastically, and to the greater emphasis on making the employees feel more included and stimulated. In 2006, the sick absence rate rose by 20% to then fall back in 2007 to the same low levels of 2005. The high sick absences in 2006 coincided with changes introduced that year. The HR manager points to a cost-saving programme that was introduced that year that forced the company to lay off 20 workers. The HR manager says that since then the company does not work with cost-saving programmes any more but instead aims for constant improvements.

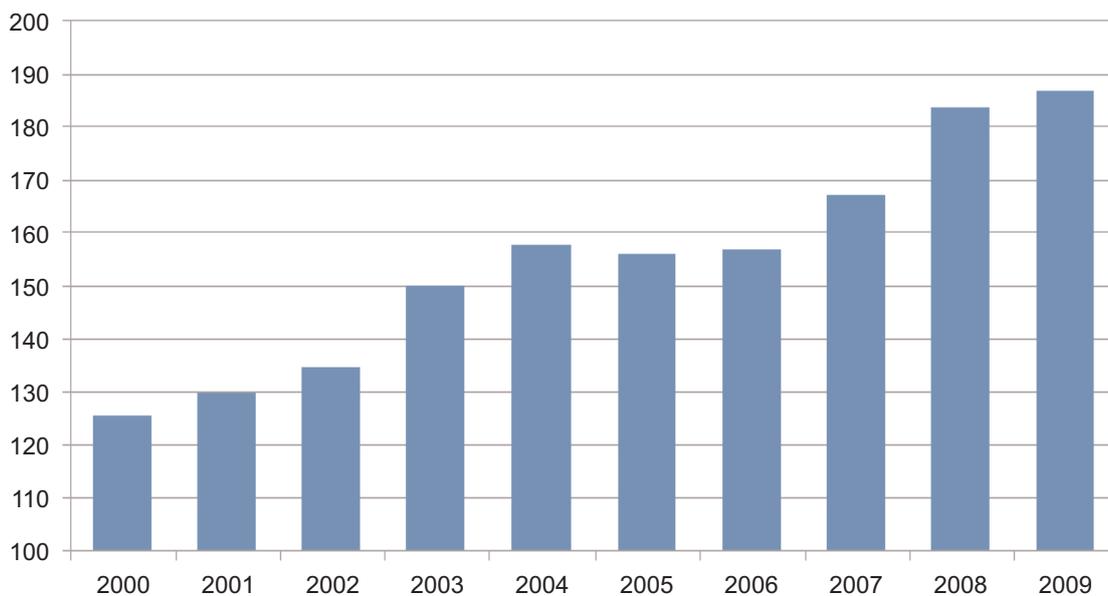
Figure 20: Sick absences at Norrmejerier %



Source: *Norrmejerier*

Net turnover has risen steadily over the last nine years except for a small slump in 2005 and 2006. This was mostly due to large investments in marketing in order to align the company profile with low-priced brands and lower prices of milk because of increased competition. However, many studies confirm that LEAN production contributes to strong performance, and that is most probably also the case here.

Figure 21: Net turnover at Norrmejerier (€ millions)



Source: *Norrmejerier*

### Plzeňský Prazdroj

Similarly, the main improvement at the Czech case in the food sector – the brewery Plzeňský Prazdroj, which has 2,353 employees – has been in the physical workplace. Here again, a lower sick absence rate can be observed.

In order to improve the quality of health and well-being in the Czech brewery Prazdroj, the company employs a doctor to give employees regular check-ups. Furthermore, Prazdroj monitors the quality of health and well-being through a Committee of Occupational Hygiene that brings issues to the attention of the management and the Corporate Committee.

The modernisation of production, which was initiated when SABMiller bought Prazdroj in 2000, has significantly improved the quality of health and well-being, according to the employee representative and HR manager. This is because there was a significant reduction of hard manual tasks, which were replaced with mechanisation. This has reduced the physical risks and work-related injuries at Prazdroj. Furthermore, Prazdroj pays for all employees to have two days of health activities, such as a massage and wellness activities. All employees receive a ‘vital pass’, which can be used for recreational purposes, such as wellness and fitness in a company that Prazdroj has a contract with. The employee representative emphasises that this is an important measure for ensuring a high level of health and well-being among employees.

According to the HR manager, the sick absence rate at Prazdroj is exceptionally low: 3.05% in 2010. This is significantly below the average sick absence rate for the manufacturing sector in general in 2009, which was 7.76% (CSU, 2009). As seen in the table below, the sick absence rate at Prazdroj is on the same level as the Czech national average. According to the HR manager, the sick absence rate has significantly decreased since 2000 when SABMiller bought the company. According to the HR manager, the sick absence rate at that time was about 6%.

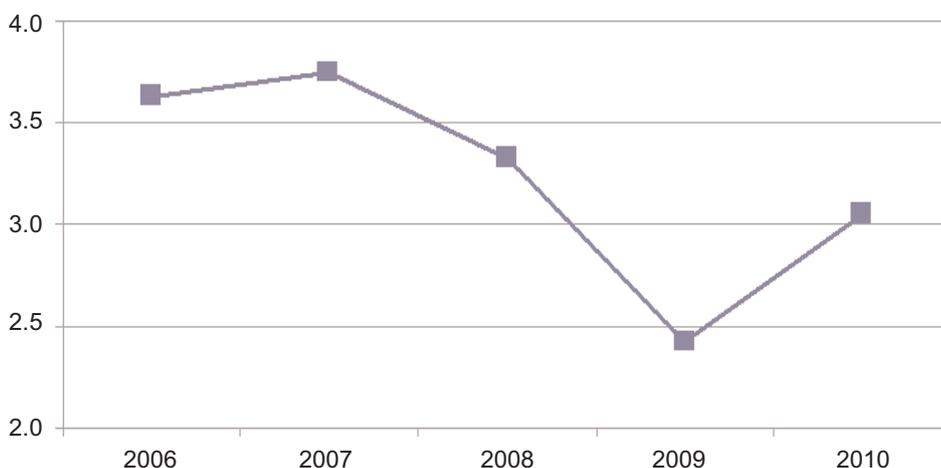
Table 21: Sick absence in 2009, Prazdroj, sector and national average

	Prazdroj	Czech manufacturing sector	Czech overall average
2009	2.43%	7.76%	3.1%

Source: Oxford Research 2010 and CSU (2009)

Figure 22 shows a fairly stable sickness rate for last five years. This is because the major improvements in health and well-being were before 2006.

Figure 22: The occurrence of sick absences at Prazdroj 2006–2010



Source: Oxford Research 2010 – based on interview with Prazdroj

The major reduction in sick absences was during the period of mechanisation and modernisation of production, which dramatically improved the employees' physical health and well-being, and directly reduced the rate of sick absences. The finance director at the company pointed out that the company has the highest productivity within the SAB Miller group. However, it must be remembered that changes in national legislation, implemented during 2008, are also likely to have led to the reduction of sick absence. This underlines the difficulties involved in deducing links between quality of work and performance, as so many factors have an impact.

## Introduction

Work–life balance is a term used to describe a state of equilibrium between an individual's work and personal life. A satisfactory work–life balance is achieved when an individual's right to a fulfilled life inside and outside of paid work is accepted and respected as the norm, to the mutual benefit of the individual, business and society (Eurofound Industrial Relations dictionary).

Beauregard and Henry, in the journal *Human Resource Management Review*, tried to establish the link between work–life balance and performance (Beauregard and Henry, 2009, pp. 9–22). They found that the most evident link is the one between work–life balance and facilitated recruitment. But there are also other mechanisms involved that contribute to better performance. These are psychological, and include increased engagement, social capital and ownership. Increased labour productivity can be observed, as employees work longer hours because flexible arrangements increase their availability for work and reduce their commuting time, or because they are exchanging leisure time for flexibility. Employees take greater responsibility and choose to be available during peak periods. These psychological aspects can be gathered under the term psychological contract (Søndergård Kristensen, 2010, pp. 14–15), which is the expectation that employees and employers have with each other. When employers trust the employees and improve the terms and conditions in the psychological contract, the employee contributes with a higher involvement and commitment.

In this context, work–life balance is believed to contribute to better performance by facilitating recruitment and improving the psychological contract, as shown in the figure below. This should be manifested in lower voluntary staff turnover and increased employee satisfaction. Both factors contribute to better economic performance. Beauregard and Henry also point to the fact that improved work–life balance is often a cheap investment for the companies and gives a high return on investment.

However, work–life balance measures cover a broad spectrum of initiatives, as illustrated in this chapter. One measure is flexible working hours, which, according to Jungblut (2010), exhibits a high correlation with both working climate and labour productivity.

## Case study findings

### Sparda-Bank München

Sparda-Bank München, the German financial case with 663 employees, is a company where improvements in quality of work mainly have been in working time to achieve a better work–life balance. This has resulted in an increasingly lower voluntary staff turnover, which is in accordance with the theories presented in the introduction.

The fact that Sparda-Bank München has more than 100 working-time models shows that reconciliation of work–life balance is of great importance to the management. As most of the employees are women, many of its initiatives are directed towards them. One new measure mentioned by both HR representatives and the works council representatives was the opportunity for parents to receive €150 per month for two years after their child's first birthday. This is to help pay for day care, so parents do not have to stay at home after their parental leave is over. This was an initiative spearheaded by management, but developed in conjunction with the works council. The original plan was to create a childcare centre near the main office in Munich, but because the branches are spread throughout the whole region, the centre would not benefit employees working far from Munich.

In 2010 Sparda-Bank München was, for the fourth time, voted one of Germany's best workplaces, an award that, among other things, is based on questions to the employees about their job satisfaction. The good quality of work at Sparda-Bank, and the continuing effort the bank makes to improve, results in employee satisfaction. The flexible working-time models are especially important for this.

In addition to the increase in employees following the growth of the company (572 employees in 2006 and 663 in 2010), the bank's employment trend follows two directions. In the back office, the trend has been toward specialisation, while the front office personnel have had to take on a broader range of tasks due to costumers' use of internet banking and the company's strategy to expand its local divisions. As can be seen in the table below, voluntary turnover is decreasing in the company.

Table 22: *Level of voluntary turnover 2006–2010*

	Employees leaving	Number of employees	New employees	Voluntary turnover
2007	28	609	47	4.27%
2008	27	629	38	4.05%
2009	22	645	43	3.20%

Source: *Oxford Research on data provided by Sparda-Bank München*

### Kutxa

Kutxa very recently reformed its work-time structure to improve work–life balance. The reform has, as expected from the hypotheses above, achieved increased employee satisfaction. The reform, which was not fully implemented until spring 2010, is still too new to have produced changes to the bottom line.

Creating a healthy work–life balance has been one of Kutxa's most critical points. It has caused a lot of worker dissatisfaction, and, consequently, led to a large amount of time taken off. Complaints from workers to their representatives in the works council were forwarded to the employers, and Kutxa subsequently decided to take action to remedy the problem. Kutxa and the different trade unions met over the course of 18 months to reach a solution that would improve the quality of work for their employees. It should be noted that the matter of work–life balance is a problem in the financial sector in Spain, and a common source of dissatisfaction. There is thus much to gain for a company like Kutxa in improving this area.

The main problem before the reform was that the working day ended at 20:00, which left no time for any kind of private activity. Accordingly, Kutxa and the trade unions gradually reached an agreement that moved the end of the working day to 16:50. According to the marketing and finance department manager, the company agreed to these measures because studies indicated that customers were carrying out most operations and transactions before 16:00. Agreeing to the new schedule was satisfactory for workers and customers, and therefore also the employers.

According to the HR manager, annual surveys are conducted both among employees and customers. This year's employee survey demonstrated the lowest level of dissatisfaction in the history of the company. In other words, the satisfaction level of workers has been continuously improving over time, and was particularly high after the work–life balance reforms were carried out. The job satisfaction survey is done using measures including work–life balance, loyalty, satisfaction with pay, working conditions at the workplace and trust.

According to the HR manager, improvements in the above mentioned areas have led to an increase in worker satisfaction, which is reflected in improved worker productivity, because the initiatives eliminate constraints to worker productivity. The employee representative stated that the level of employee satisfaction has improved mostly because last year's results were very poor due to work–life balance problems. With the recent changes in working times, satisfaction has improved as well. The planning and costs manager agrees that workers' inner satisfaction has improved mainly due to the changes in working times.

## SICK

The German electromechanical company SICK, one of the leading producers of sensors, which has 1,800 employees, has taken a type of life-cycle approach towards work–life balance that is especially focused on older workers. This has greatly benefited the company through better usage of the potential of older workers, and it therefore supports the hypotheses above.

SICK has – as part of a research project – created an employee policy called 'lifelong healthy work' (Lebenslang gesund arbeiten) that focuses on the demographic challenge, and is seen as an attempt to prevent recruiting problems for the company now and in the future.

In 2004, 'time accounts' were established. Employees who have worked overtime can choose to invest the pay from those hours into their pension fund or they can choose to save up the hours in a so called 'flexible time account.' This account gives employees the opportunity to take time off within a minimum of three months for reasons such as a wish to travel or family commitments. Last year 20 employees used their flexible time account to take time off.

These 20 employees form only a small portion of the total employees, and, at the same time, the measure requires employees to think ahead with regards to the life cycle of their career. This change in perspective for the employees may mean that the measure requires a longer time before it is adopted by more employees. In any case, the measure may be seen as an option that gives the employees more choice.

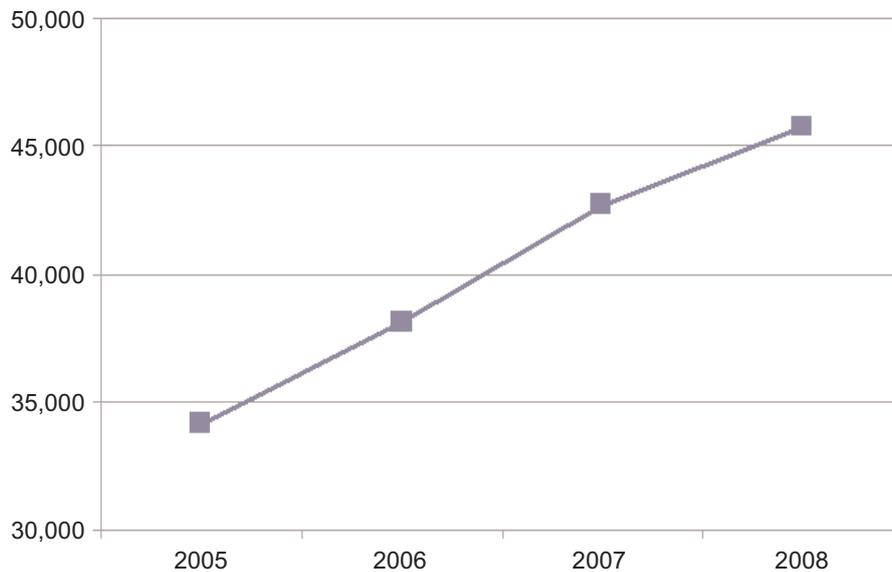
Measures have also been taken affecting night shifts. According to HR manager it is very profitable for the employees to work the night shift, but as it is not healthy in the long term, the HR management and works council have made a new set of regulations on this issue. Now an employee is allowed to work night shifts for a maximum of one year, and after that the employee must work day shifts. The project is a part of a research project at the ISO Institute in conjunction with the Federal Ministry for Education and Research.

There is now a conscious effort to create a company culture where management acknowledges employee experience, specifically that of older workers and identifies how their skills contribute to the different development processes. At the same time, they focus on a culture of open communication with a high degree of loyalty and responsibility to the company and its products.

It is difficult to establish a clear link between quality of work and performance in the case of SICK. As with all electro-mechanical companies in the sample, the financial crisis has hit the company hard.

Nevertheless, SICK has experienced positive economic growth. As shown below, a steady increase has occurred during the years 2005–2008. Unfortunately, more recent numbers are not available but it was stated in the interview with the manager of taxes and group accounting, that there was a 20% decrease in 2009 due to the economic recession. However, they estimate a growth of 10 to 11% within the next three years.

Figure 23: *Development in net income at SICK*



Source: *Oxford Research (using data from 'Konzernabschluss zum Geschäftsjahr vom 01.01.2008 bis zum 31.12.2007' and 'Konzernabschluss zum 31. December 2006')*

### Osram

Osram has improved work–life balance through the reduction of four shifts to three on the production line. The low voluntary staff turnover and low rate of sick absences at Osram were outlined earlier and it is difficult to single out the exact contribution of different factors in achieving this. It is likely that good work–life balance has had an effect, but, as previously mentioned, the health and well-being measures and skill-enhancing activities have surely contributed. Furthermore, external factors such as the financial crisis and national legislation have also played a role.

Osram has made several provisions to improve its employees' work–life balance. Osram introduced the cut in production shifts after carrying out a survey on working time among employees in 2006. Furthermore, employees voted to keep a rotation between the morning, evening and night shifts. The female employees considered this the best way of securing their family life.

It is however possible for employees to opt for only one type of shift. This is offered in order retain employees, such as older workers who are not able to work the three shifts. This flexibility over shifts is one of many factors that reduces voluntary staff turnover.

Employees are also entitled to five weeks' vacation; a week more than the statutory requirement, which is also considered by the company's HR manager to help increase the motivation of employees.

### Colly

The Swedish wholesaler Colly, which specialises in selling screws to manufacturing industries and has 31 employees, has improved work–life balance through flexible working time. This has achieved improved employee satisfaction, which will contribute to a better economic performance. In the case of Colly, a close relationship between employee satisfaction and economic performance can be found.

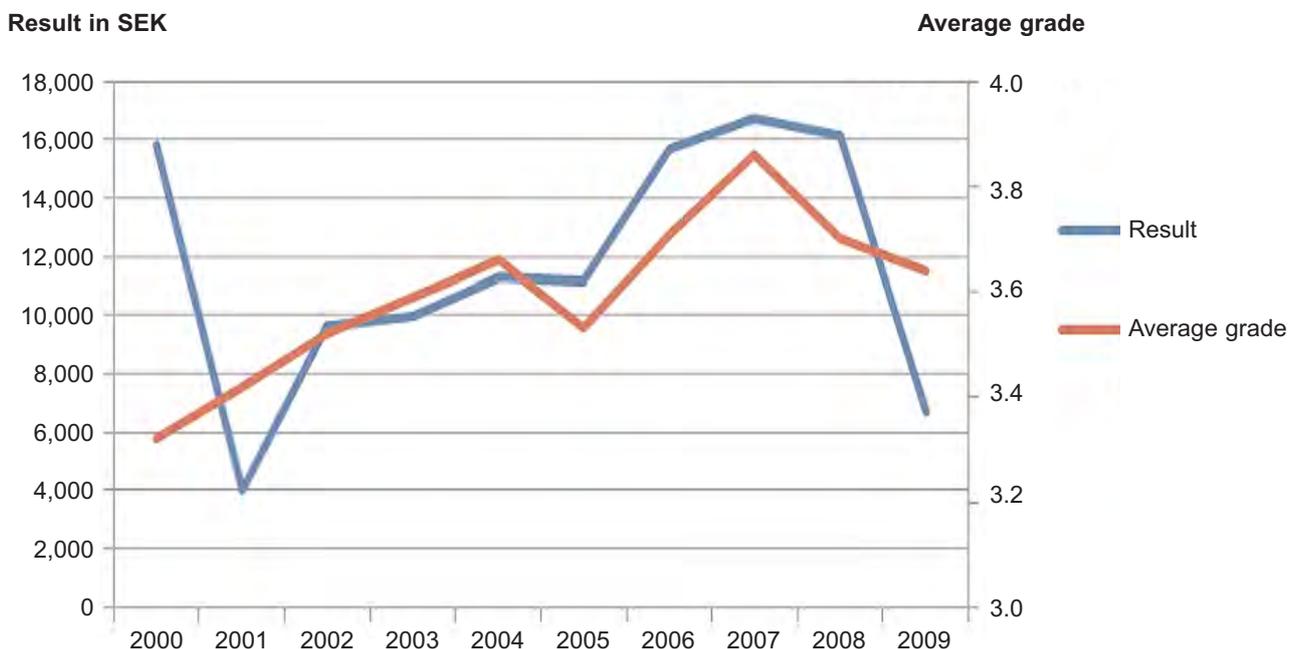
Colly has a 37.5 hour working week compared to 40 hours for the majority of Swedish workplaces as well as six weeks of vacation compared to the Swedish standard of five. One year in the 1970s, when inflation was high in Sweden, employees (then entitled to only four weeks vacation) were offered the choice between a 12–16% salary increase or a fifth week of holidays. In consensus the employees chose the extra week and when a fifth vacation week was introduced nationally in 1978 Colly employees got a sixth.

In the area of flexible time arrangements, Colly Components is, according to both the HR manager and the union representative, open to employees' needs. The company has flexible working hours with an upper limit of 10 hours per day, both in order to give the employees more flexible working hours and also to make sure that the employees do not work too much. Employees with children who live nearby have received permission to start at 7:00 and end at 15:30 so that they can spend more time with their children. It is also possible for parents to reduce their working time by 25%.

When it comes to job satisfaction, Colly Components performs yearly surveys among the employees to assess the general work climate at the company. The survey is divided into 14 areas where the staff are asked to grade their satisfaction on a scale from one to five.

In the years of economic recession at the beginning of the decade, the average grade in the survey was lower than the average in the years up to the current crisis. Figure 24 shows Colly Components's net result and the ranking of the company's working conditions survey over time. The figure indicates a relationship between the two.

Figure 24: Colly's net result and average grade from the working condition survey



Source: Colly Components 2010

### El Corte Inglés

El Corte Inglés is a most influential company in the Spanish retail sector with an annual turnover of €17.4 billion (figure from 2008). The company is, in many ways, a role model for the rest of the sector, both in terms of quality of work improvements, size and performance.

Both the HR management and the employee representative highlight the modifications made to the working-time schedules in September 2009 as a success story. The modification was brought up for discussion by the management as it was required by the newly formalised Article 41 of the State Collective Agreement for Large Companies in the Wholesale and Distribution sector. After a long discussion between employee representatives and management, a company agreement was signed at the inter-centre committee's general meeting for the modification and rationalisation of timetables. Before this change, all employees worked the same number of hours in the morning and the same number of hours in the afternoon/evening, without taking into account if it was Monday or Saturday. Thus, the distribution of hours was inflexible. Other factors, such as the balance between the private and personal life of the individual worker, were not taken into account.

The new organisation of working time signalled a substantial change for the employees – changes that were unpopular among some of the staff. Nevertheless, both the employee representative and the HR management believe that the reorganisation has been for the good of the employees and the company. Positive outcomes of the new working time arrangements was that they reduced stress by reorganising workloads and by eliminating the possibility of a new ERE (*'Expediente de Regulación de Empleo'*), which can be translated as 'redundancy plan' or 'dismissal programme'). This outcome was, according to both the HR management and the employee representatives, particularly good when taking into account the past years' economic and financial turmoil.

It is, according to the HR management, too soon to see any effects of the implementation of the new working time schedules on sick leave or other indicators. Nevertheless, the HR management and the employee representative believe that one can, although only intuitively, see positive effects on working conditions. The ability to plan and make schedules for months ahead has had a positive effect on work–life balance. In addition, the agreement offers special assistance to parents of infant children and employees who have care responsibilities for disabled relatives. The agreement is also, according to the employee representative, pioneering in the sense that it is the first in sector and that it allows employees to take 12 weekends off per year.

In order to highlight the importance of the issue of working time, a commission, established by the general meeting, has a mandate to follow up on and evaluate the implementation of the new working time arrangements.

As stated in the section on training, skills and employability, El Corté Ingles performs better than competitors and has coped with the crisis reasonably well. However, it is unlikely that the work–life balance improvements are solely responsible for this, as they were made in the autumn of 2009 and it is thus too early to see any links to performance.

### Fandler

The Austrian food manufacturer Fandler, which produces nut oil and employs 25 people, has, like Colly, introduced flexible and individually adapted working hours. Both a low sick-absence rate and voluntary staff turnover can be observed, as well as a good economic performance.

Fandler has flexible working hours in order to accommodate all its employees. There are several women that, due to childcare responsibilities, are part-time workers. Recently, an employee reduced his working hours in order to take care of a sick family member. The employees have agreed that should a person in one department need to take time off, colleagues will try and cover the time. It is not necessary to go to management or HR to ask for time off. The employees, along with their department, are in charge of scheduling and organising working hours. The flexibility of working hours results in a healthy work–life balance and a good quality of work, according to the employee representative.

Moreover, if the employees work overtime one day per week, they can take the time off on another day. The initiative for flexible working hours is an understanding between HR manager and the employees. The HR manager realised that

there are positive effects of flexible working hours and employees can now freely approach the head of their department to agree independently on working hours. In the case of the employee taking care of a family member, it was a natural decision to take, in light of the pre-established policy on working hours.

Older workers are also taken into consideration at Fandler. They are kept employed due to their experience and knowledge of the company and the oil production processes. They are offered reduced hours rather than retirement. One older employee receives support from a younger colleague in his daily work activities in order to ease his work burden and to keep him at Fandler. Lastly, older workers are allowed more sick leave than other employees.

The outcome of flexible working hours is a more satisfied staff due to a good work–life balance. For the same reason, Fandler has a workforce that is more efficient, according to the HR manager.

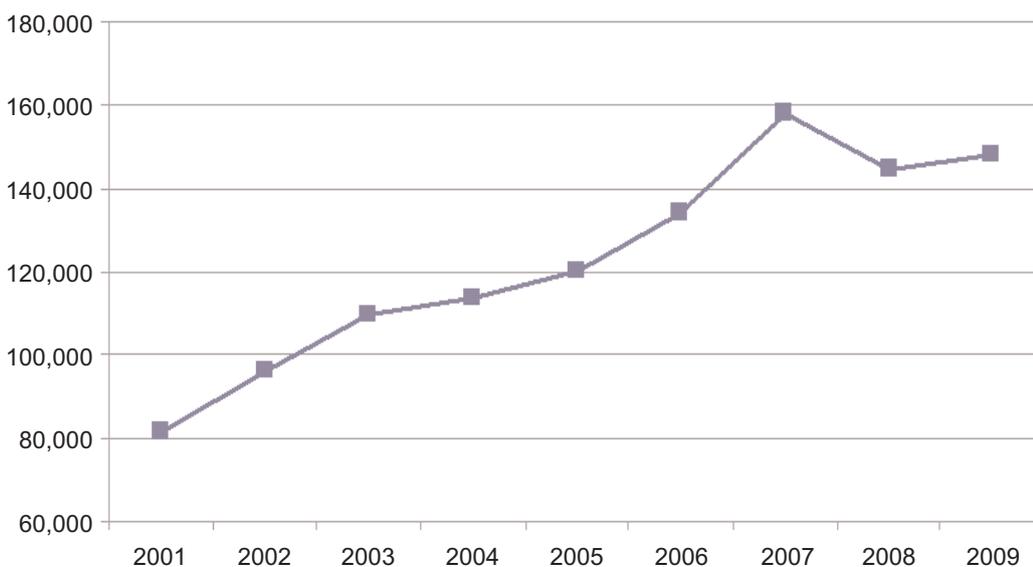
Table 23: Absences due to illness at Fandler

	Sick absence (days)	Sick absence (%)
2006	171	4.35
2007	90	2.29
2008	176	3.62
2009	149	3.19

Source: Oxford Research 2010 based on Fandler data

The table above demonstrates the change in the level of absences due to illness. The graph below demonstrates an increasing productivity at Fandler since 2001. This clearly indicates that, as improvements have been made to the production hall and general working conditions at Fandler, the performance has also improved. There seems to be a link between the quality of work and performance as productivity has almost doubled over the past decade.

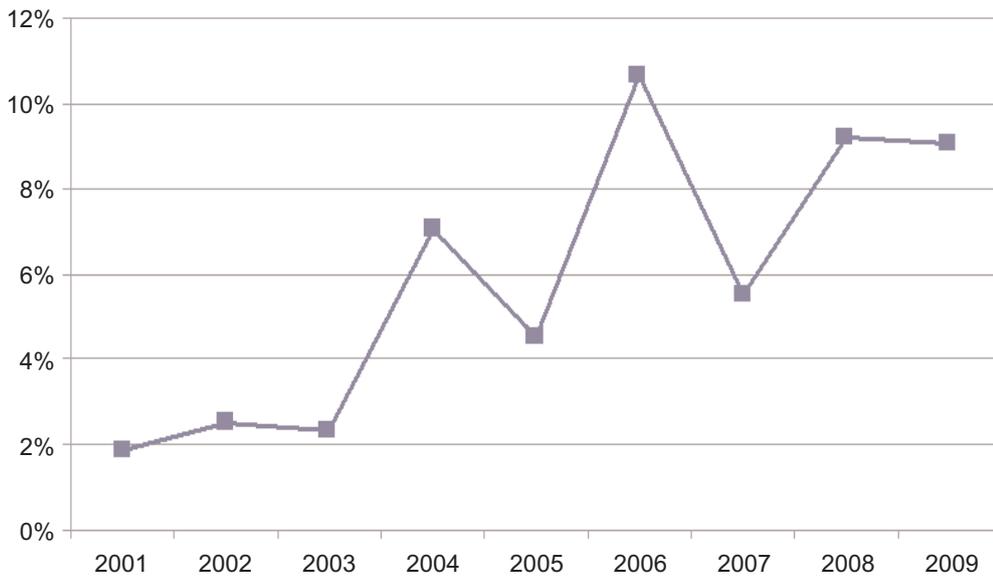
Figure 25: Productivity at Fandler (in Euros)



Source: Oxford Research based on Fandler financial data

It is interesting to compare Fandler to the rest of the food sector in Austria. In 2003, the average annual labour productivity was €189,488.60 whereas Fandler was at €109,574.21. Although Fandler is below the sector average, it has improved more rapidly than the sector. (In 2008 the sector labour productivity average was €200,099.50 and at Fandler it was €144,711.29) Fandler demonstrates it has increased its productivity at a faster rate than the national sector average. The figure below exhibits the trend in profitability since 2001. Although it is not a stable trend, profitability at Fandler has been steadily increasing since 2001. It fell slightly during the financial crisis when consumers spent less money on luxury goods.

Figure 26: Profitability (%) at Fandler



Source: Oxford Research based on Fandler financial data

# Conclusion and perspectives

# 6

The research question, and thus the objective of this study, was to investigate the links between quality of work on employee and workplace performance.

This report has laid out both theoretical and empirical proof, firstly that links exist and secondly offers some indications on the nature of these links.

It is very difficult to discover a direct link between investments in quality of work – whether the result of social dialogue or unilateral measures – on economic performance through qualitative research such as case studies. However, this research project has shed some light on how improved quality of work, achieved mainly through social dialogue, can contribute to enhanced performance. It should be mentioned that the case studies were conducted in a very volatile economic environment, as the financial crisis is still impeding stable economic development in Europe at the time of research.

A report by Fulmer et al concluded that companies with a high level of employee satisfaction (based on high rankings concerning criteria such as trust and social capital) perform better over time (Fulmer et al, 2003). Not only do the companies have lower voluntary turnover, fewer sick absences, and more applicants per available position, but they also give shareholders higher dividends and perform better in the stock market (Lyman, 2008). In all the case studies above, it has been shown that factors such as perceived co-ownership, commitment or a ‘psychological contract’ between employers and employees are important for the performance of the company. In the cases in this report, it has been documented through financial data, HR data or qualitative statements from the HR manager, employee representatives, or financial managers, that company performance has improved due to measures taken to improve quality of work, and that the company performs better or on par with the sector or national figures.

Regarding training, skills and employability, the link between performance and training, skills and employability, has become clearer over the last decade through research. However, more clarity is needed on how training in general contributes to better performance. The case studies showed that the companies use training to cope with a number of challenges.

Rapid technological changes in today’s working life demand continuous training. This is true in the financial sector where an increasing share of the financial services is carried out online. This is equally true in complex manufacturing processes in the electro-technological and food manufacturing sector where increased automation and new work organisation schemes, such as LEAN, put new demands on the employees.

Training is also used because the potential alternative, recruitment, is a less optimal investment. It is difficult and often expensive for the companies to recruit potential employees, and internal career development through training is a more beneficial solution, both for the company and the employees who benefit from increased employability.

In the financial sector, clients have increasingly higher demands on what type of service they expect from the financial employees. The clients themselves are becoming more knowledgeable about the financial market and it is important for the success of the financial company that the employees receive a sufficient amount of training to keep up with the dynamic supply of services available in the sector. In wholesale and retail, the close and essential contact with clients may also create a need for training, depending on the business strategy of the company.

Training contributes to better performance through increased ability to use technology and to meet customer demands, but also through creating mutual trust because the employers show that they are ready to invest in the employees. The connection between mutual trust and performance has been made clear in a number of studies (see for example Oleson et al, 2008).

Career and employment security contributes to improved performance in a similar way. By ensuring that the employees are secure in their employment and that there is a mutual understanding that career advancement is possible in the company, employees increase involvement, loyalty and ownership towards their work. This has many potential benefits. The employees recommend the work to jobseekers, they act as ambassadors for the company, and they treat company success as a personal success. The case studies are only indicative in this context, but the companies perform well in combination with well-developed career possibilities and employment security, proving that the two elements are possible to combine.

Health, safety and well-being contribute to improved performance through decreasing sick absences and insurance payments. But they also increase employee satisfaction and decrease voluntary staff turnover, according to the indicative findings in the case studies. Furthermore, health and well-being is used by the companies, seemingly successfully, to improve brand value in the regions where the companies operate. In some cases, the link is quite evident, where improved health, security and well-being have resulted in a 20% increase in labour productivity, in addition to a positive impact on sick absences.

Work–life balance contributes to better performance in a similar way to career and employment security in that it is difficult to establish immediate effects on sick absences or profit margins. Nevertheless, research finds, and this round of case studies confirm, that well-developed work–life balance policies have a positive impact on performance. Not only is it easier to recruit, which is confirmed by the case studies, but the employees also have an increased tendency to devote work effort to the company when it is most needed. Employee satisfaction is also seen to increase with better work–life balance. The flexibility benefits both parties.

This project has shown that improved quality of work correlate with better performance of the companies. The specific links between quality of work and performance are challenging to outline since most companies bundle a number of quality of work initiatives and achieve a series of performance benefits without being able to single out the specific relationship between them. However, the cases illustrate that improving quality of work and achieving better financial performance are two sides of the same coin and not conflicting goals.

### Policy pointers

The case studies, even along with results from previous research, do not constitute a sufficiently strong base of evidence for drawing actual policy recommendations. However, some policy pointers can be identified for further elaboration.

#### Support base-line studies and longitudinal research

Ex-post studies of links between improvements in quality of work and better financial performance encounter serious challenges as illustrated in this report. First of all, companies seldomly implement only one improvement to the quality of work. Most often improvements in the quality of work are implemented in bundles and they are implemented continually. That is one reason why specific links between an improvement in quality of work and better performance are difficult to identify. Second, performance of a company is influenced by many factors other than the quality of work as illustrated by the case studies in this project. In times of economic turbulence better performance might mean that a well performing company does not have to lay off staff while average performing companies do.

To provide the best conditions for studying links between improvements in quality of work and better performance one should consider conducting ex-ante or baseline studies rather than ex-post studies and then to follow the case companies closely for a period of time. A base-line and longitudinal approach would allow for close recording of all events and incidents in the company relevant to understand the links between quality of work and better performance. Approaching the deeper understanding of these links using this approach could lead to the development of ‘the perfect business case’,

which in turn would have paramount importance for dissemination of information to the broader labour market and business community.

### **Disseminate information to the broader labour market and business community**

The case studies illustrate that companies broadly acknowledge that better quality of work leads to improved performance. However, the links between quality of work and performance are often only vaguely or partially understood and probably never really monitored. At the same time the cases illustrate that a broader debate on the labour market or in the business community actually has an impact on the mindsets of HR Directors, financial directors and employee representatives such as the debate on ‘a new psychological contract’ in the Czech Republic.

In order for more companies to engage in improving their quality of work and thereby achieving better performance, it is necessary to change mindsets by disseminating information on links between quality of work and performance.

Disseminating information to the broader labour market and business community can take different forms and shapes from workshops, seminars and conferences to brochures, leaflets and manuals.

### **Move social dialogue to the next level**

Social dialogue in Europe has gone a long way from regulating the ultimate expressions of antagonism between employers to employees such as strikes and lock-outs. Modern social dialogue, though with national differences, has moved towards a more consensus-oriented approach with respect to salaries and working conditions. In the broader social dialogue the increase in employment has been a common goal for decades. The more information is disseminated to the broader labour market and business community on links between quality of work and better performance the more the social dialogue might move to the next level where the common goals will include increasing quality of work.

Another overview report has also been produced focusing on the links between social dialogue and working conditions. From that report it is clear that, in some cases, social partners play a crucial role in improving working conditions or broader quality of work. Social partners provide the backbone for the local dialogue in the company and, especially in the case of SMEs, they often provide professional expertise on specific elements of quality of work.

Moving social dialogue to the next level where quality of work is as important as employment will certainly be a substantial contribution to the goals of the Europe 2020 strategy and goals.

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