

July/2011

FLEXIBILITY IN THE MODERN MANUFACTURING WORKPLACE

Introduction

Global trends over the last two decades have created huge competitive pressures as well as major opportunities for UK manufacturers. They have responded by moving their competitive offerings away from cost and towards innovation, new products and services.

Underpinning this transformation has been the ability of companies to move quickly to respond to changing market circumstances and to seize new opportunities.

A key factor in this speed of movement, and a traditionally important source of competitive advantage for UK businesses, is the UK's labour market, which remains relatively flexible in comparison to some of our major competitors in the developed world. This flexibility allows companies to adopt a range of people and production strategies in order to respond quickly to changing demand. During the recession, for example, the flexibility in the UK's labour market allowed many companies to take tough decisions, often in partnership with employees, which helped them to stay afloat and to prepare for future growth.

The UK's flexible labour market is also an important factor when it comes to compensating for other areas of economic concern for manufacturers – both short-term and more structural – such as access to finance, skills shortages and weakness in supply chains.

However, over recent years many manufacturers have expressed concern that the UK's flexible labour market, and consequently their wider scope to respond quickly to changing circumstances, has been steadily eroded. This report, based on a survey of our members that was undertaken in the spring of 2011, therefore looks at:

- why flexibility is important to manufacturers
- how they achieve it
- how manufacturers view the UK as a business environment to achieve this flexibility
- what needs to be done to ensure that the UK continues to provide the flexibility that manufacturers need

In addition, the report looks at what manufacturers can learn from what others in the sector have done, including case studies of exemplars in this area.

Summary and messages to policymakers

Why manufacturers need flexibility to compete

Manufacturers work in fast-moving global markets, where success is based on the capacity to provide solutions, exploit niches and respond to a growing and dynamic customer base. Innovation in products, service and processes, investment in modern machinery and the ability to tap into new export markets are cornerstones of competitiveness. And as manufacturers constantly strive to do things better against a background of shifting economic conditions, a flexible and adaptable workforce is crucial to achieving this success.

Embedding flexibility in the manufacturing workplace

Manufacturers can only achieve the flexibility they need through cooperation with their employees. They embed this cooperation into their business strategy through employee engagement and reward, and investing in multi-skilled staff. As they look ahead, companies are concerned about skills shortages, particularly in manufacturing-specific roles, but they are also looking to take steps to address these gaps themselves.

The flexibility 'toolkit' – how manufacturing managers manage

Companies use a range of practices to achieve day-to-day flexibility, the particular mix of which will vary depending on factors such as their market or size. Flexibility is often a case of give and take between employee and employer. Reflecting this, many companies operate flexible working arrangements for their employees. However, practical and manpower issues place a limit on the amount of flexible working requests that can be accepted.

Manufacturers are therefore looking for a regulatory environment which facilitates discussions between employers and employees to find the most suitable approach rather than one that inhibits it by imposing a 'one size fits all' approach. Many manufacturers are concerned about the future direction of travel, which has added more complexity and has taken a more prescriptive approach. These concerns are particularly felt by manufacturers in faster-changing and less-predictable markets.

Messages for policymakers

1. *Consider non-regulatory approaches first*

Recent years have seen an increasing number of legislative changes affecting the relationship between employers and their workforces. For example, recent or impending changes such as the Agency Workers Directive, the abolition of the Default Retirement Age and the Equality Act will all make the relationship between employers and employees more complex.

We therefore now need to see a pause in new employment legislation. The ability of manufacturers and their workforces to continue to reach flexible and mutually supportive arrangements needs to be preserved. The government's default position should be that intervention is only to be considered when other non-regulatory approaches have been tried and have failed to produce the desired outcomes.

2. *Any new measures should be outcomes-based*

Where the government is minded to introduce regulation, it must ensure that it follows an outcomes-based approach. This would set out only that which needs to be achieved and would allow delivery to be agreed on a company-by-company basis.

Many manufacturers already operate their own company policies to deal with flexible working which go beyond current entitlements. They should not suffer any administrative penalty where regulation subsequently intervenes. Whilst the provision of guidance can be of benefit, manufacturers and their workforces should be free to agree and change the processes under which regulatory objectives are delivered.

Currently, many requests for flexible working which fall outside the scope of the current right to request are dealt with informally, speedily and cooperatively. In contrast, some of those that are made with the force of the statutory right can be burdensome, slow, overly complex for both employers and employees and can undermine a positive workplace relationship. Extending the right to request universally is likely to exacerbate this, with employers and employees being required to sacrifice an informal process which very often works well for a cumbersome statutory one.

3. *Certainty instead of confusion, simplicity before complexity*

The complexity and volume of new regulation means that there is now less clarity for both parties about where they stand in respect to the law. This uncertainty can lead to conflicting opinions or disagreements which potentially undermine current positive and flexible relationships. The government needs to create a clear, simple and accessible framework that reduces the opportunities for dispute and supports continuing good relationships.

The current proposals for flexible parental leave are overly complex and, at their extreme, likely to lead to confusion. A system of paid maternity leave, paid paternity leave, paid and unpaid parental leave, where some elements may be shared between parents and other elements reserved, needs simplification. Whilst it supports valuable goals, it will be misunderstood by many who, as a result, are unlikely to benefit from the policy objectives.

4. *The impact of European regulation*

Much of the current domestic employment regulation that is now in force has its origins in Europe – working time, aspects of maternity leave and TUPE are all examples of this. Currently, there is little sign of any reduction in appetite from the European institutions to introduce new regulation. Key areas of concern that will impact on flexibility include the Review of the Working Directive and potential measures that would place further restrictions on the use of temporary workers. It is vital that the government remains active on these and other issues and commits the necessary resources to ensure that it engages with Europe at the earliest stage when new Directives are being proposed, and holds it to account in ensuring that any new proposals are founded on a firm evidence base.

5. *Preserving the ‘two-way’ street for employers and employees*

It is vital that the government, in its efforts to promote greater access to flexible working for employees – particularly through its current Modern Workplaces Consultation – takes account of the need to preserve the two-way street in flexibility. It needs to avoid an overly prescriptive, formal approach to the right to request flexible working. In particular, it must ensure that such discussions, at least initially, can

be dealt with informally without leaving employers at risk of being penalised for this. It must also preserve the ability of employers to plan ahead for periods of maternity and paternity leave. At the same time, the government should look at how to make it easier for employers to vary employees’ terms and conditions, by allowing them to change their working patterns for the benefit of the workforce and the business as a whole.

6. *Building a world-class skills base*

The importance of matching companies’ efforts to climb the value chain with continual improvements in the UK’s skills base is not in question. However, constant rounds of reforms and changes to the skills system and the instability that this has created have hindered rather than helped companies’ efforts to invest in employee skills. The foundations have been laid for a greater emphasis on apprenticeships, and the direction of travel towards a demand-led system of training has been set. While this is a welcome start, the incidence of skills shortages is both a concern and a reason for impatience amongst companies that are looking for demand-responsive training provision. Momentum behind reforms to deliver this provision must be maintained.

However, there is also a pressing need to join up ambitions to deliver greater numbers of apprentices with priorities in compulsory education. An agenda for those aged 14 to 19 must equip these young people with the economically valuable skills and qualifications which employers are seeking in apprentice recruits. It must look to deliver candidates of ever-increasing abilities in order to enable the UK to continue to compete globally in the future. This must be supplemented by a system of careers advice and guidance that covers the breadth of opportunities available. While manufacturers want to see some stability in training provision beyond compulsory schooling, change is needed in how we prepare young people for careers in industry.

7. *Limit the use of employers to achieve social change*

Employers are taking steps that are delivering positive outcomes for their employees by, for example, investing in training opportunities or providing flexible working arrangements. These moves will contribute to the government’s wider

social objectives such as opening up opportunities for a range of employees or improving family life.

However, the government must respect the limits to which it can place responsibilities on employers to achieve these objectives. In many cases, unnecessary government intervention is likely to produce unintended consequences and impede the ability of employers to provide flexible working arrangements for their staff and to create jobs, and may impact their future prosperity. For example, extending the right to request flexible working universally may in time dilute the ability of employers to agree to requests from the groups that are currently prioritised.

In this respect, the government's decision to make voluntary the reporting of differences in pay between genders is sensible. However, the imposition of compulsory gender pay audits on any employer that loses an employment tribunal on equal pay grounds is both heavy-handed and unnecessary, given the breadth and reach of existing discrimination legislation. Similarly, the government must not impede its drive to open up opportunities to win public sector contracts by placing on potential bidders a raft of responsibilities that are tied to social objectives.

Why manufacturers need flexibility to compete

Section summary

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Flexibility in the global economy

Manufacturing has always operated in international markets, but the nature, breadth and increasing integration of these has evolved at a startling pace. Global competition has been intensified by technological change and the rise of emerging economies, although these have also opened up huge opportunities for UK manufacturers.

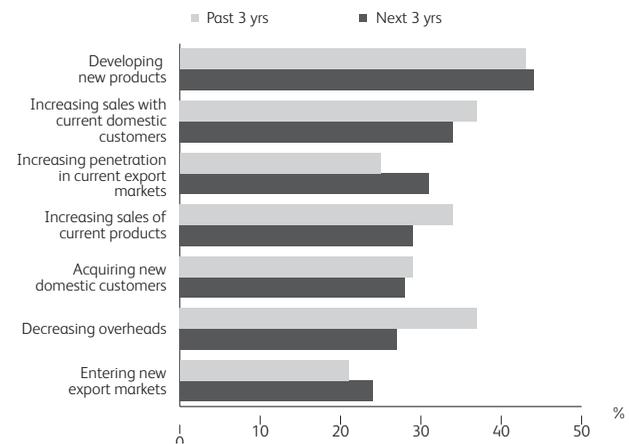
Today, manufacturers in the UK produce everything from simple components to cutting-edge, world-leading technologies. They are integrated into the global economy in a variety of ways – accessing multiple overseas markets, for example, and sourcing components from a variety of locations. With this has come the potential for increased mobility, with manufacturers continually reviewing which markets to serve, where to invest and how to build reliable supply networks.

UK companies are often less able to compete on cost, so they have increasingly adopted other approaches to maintain their competitiveness. Recent EEF research¹ explored manufacturers' priorities for future competitiveness. Following the recent downturn, during which companies were focused on reducing their cost bases, customer-centric strategies have returned to the fore. Examples of such strategies are the development of new products and increasing penetration in export markets, both old and new (Chart 1).

Chart 1

Companies focus on new markets and products

% of companies



Source: EEF Shape of British Industry survey 2010

The continuing success of UK manufacturing is therefore based on a competitive formula which marries design with agile production and customer service throughout the lifespan of a product. Innovation and investment in modern machinery have become critical components of competitiveness which allow manufacturers to differentiate themselves on the basis of quality and customer service rather than cost.

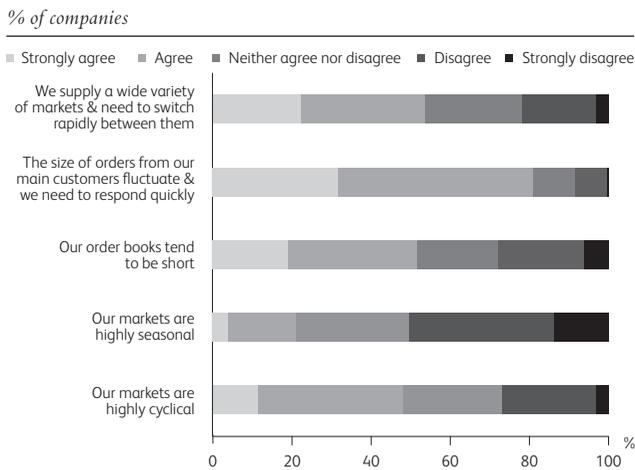
Accessing new markets has become vital to manufacturing competitiveness. Nine in ten EEF members are exporters and 40% of those companies derive half of their turnover from exporting. Moreover, the majority are involved in multiple markets; over half of respondents export to six or more overseas locations. And while traditional markets such as the EU and North America remain important, manufacturers have been making progress in a range of emerging markets, which provide them with huge growth opportunities.

¹EEF/RBS, The Shape of British Industry – growing from strong foundations, November 2010

Manufacturing markets are not just geographically diverse but also extremely dynamic: just over half of respondents say they have to switch between markets quickly or have short order books. Some four fifths (81%) of companies strongly agree or agree that they have to respond quickly to fluctuating orders from their main customers. Nonetheless, many continue to operate in what could be termed as ‘predictable’ seasonal and cyclical markets (21% and 48% respectively).

Chart 2

Manufacturers have to cope with varying market demands



Source: EEF Modern Manufacturing Workforce survey 2011

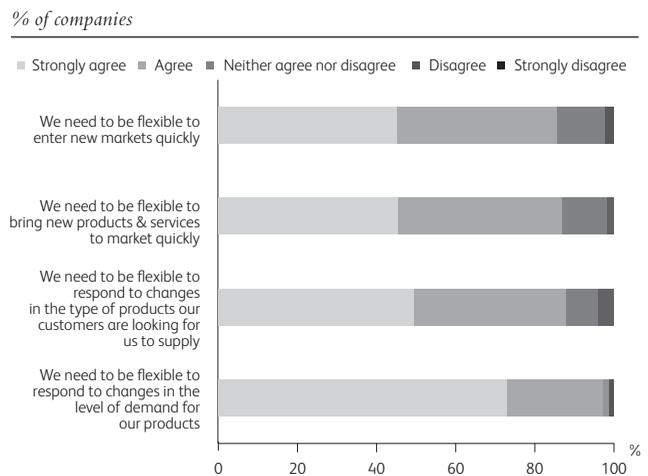
‘Our company operates in cyclical markets which change every 3 or 4 years when new car models are brought out by our customers’

Automotive steel processing manufacturer

The global and fast-moving nature of modern manufacturing means that UK companies have had to adapt to become more nimble. Speed to market, in other words, has become a vital source of competitive advantage and, as Chart 3 illustrates, flexibility is a key component in this.

Chart 3

Flexibility is needed to respond to fast-moving and changeable markets



Source: EEF Modern Manufacturing Workforce survey 2011

An overwhelming majority of companies (97%, with 71% strongly agreeing) agree that responsiveness is one of the main factors driving their need for flexibility in the workplace. Nearly nine in ten companies agree that they need to be flexible to respond to changes in the type of products their customers are looking for them to supply. Increasingly, UK companies excel in customisation and manufacturing to individual specifications; this can involve not only an unpredictable order flow, but the need for capabilities that span design, manufacture and servicing. Similarly, companies need to be flexible in order both to enter new markets and to bring new products and services to the market quickly.

Modern manufacturing is diverse and agile. Companies have to ensure that they are equipped to respond to demand that changes quickly, to emerging challenges and to profitable opportunities that are opening up. While markets can be characterised as emerging or developed and seasonal or fluctuating, most manufacturers will be exposed to multiple markets with changing requirements. The remainder of this report will set out how a flexible workforce is a key enabler to being responsive and successful in this environment.

'Whilst our company might not be able to compete with much larger businesses in terms of capital investment, we succeed by being the quickest and nimblest'

Precision Engineering Company,
East Midlands

The modern manufacturing workforce

Our survey asked a number of questions about the make-up of the manufacturing workforce.

On average, respondents said that almost 80% of their workforce was male and 60% were employed in production.

The split between male and female employees is roughly in line with the findings of our 2009 survey and close to official statistics which put female employment in manufacturing at 24%. The energy and water sector (19%) and construction (11%) have the lowest levels of female employment, and the percentage of women employed across all industries stands at 47%.

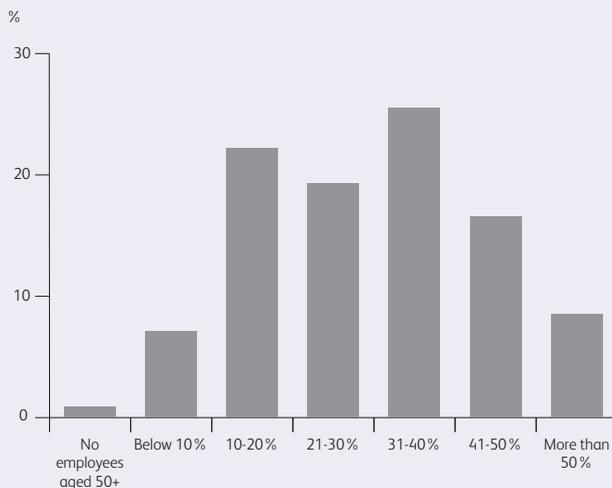
A key issue facing many developed economies is that of ageing populations. In previous research, members have highlighted the rising age profile of their workforce. In this survey we asked what proportion of each company's workforce is aged 50 years or over.

Here, the largest number of companies put this figure as between 31% and 40%. Looking forward to the next five years, nearly three in five companies expect an increase in the proportion of workers aged over 50 and a fifth expect a decrease.

Looking more broadly, official data puts the percentage of the manufacturing workforce aged over 50 at 30%, just ahead of the private sector average of 28% and in mid-table amongst all sectors. The highest representation of over-50s is in the agriculture, forestry and fishing sector (42%); the lowest is in distribution, hotels and restaurants (22%).

Older workers in the manufacturing workforce

% of companies with % of employees aged 50 years of age or above



Source: EEF Modern Manufacturing Workforce survey 2011

Embedding flexibility in the manufacturing workplace

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Manufacturers can only achieve the flexibility they need through cooperation with their employees. They embed this cooperation into their business strategy through employee engagement and reward, and investing in multi-skilled staff. As they look ahead, companies are concerned about skills shortages, particularly in manufacturing-specific roles, but they are also looking to take steps to address these gaps themselves.

Embedding flexibility in partnership with employees

Manufacturers have adopted a range of strategies to enable growth, but our survey illustrates that they see their relationships with their employees as being just as important to achieving their business objectives as developing new products or accessing new export markets. Put another way, companies can only achieve the flexibility they require in partnership with their workforce.

A large majority of the companies in our survey (four-fifths) said that the nature of the cooperative relationship between management and workforce has helped them to achieve the flexibility they have needed in the past three years. Looking ahead, 94% said that this cooperation will be vital in the next three years.

Employees recognise that to be successful they need strategies which engage and motivate the workforce, as well as to secure buy-in for new initiatives and ways of working. They also recognise the importance of employees and employers working together in both good times and bad. This partnership was demonstrated during the recent recession, where many manufacturers worked with employees and their representatives to help keep companies afloat and were therefore able to reduce the need for job losses and help to retain key skills. What is clear from our survey is that companies increasingly see their approach to people management and communication as a core component of their overall business strategy and, as a result, of their flexibility.

Similarly, recent EEF research on managing sickness absence² illustrates how employers are increasingly working with employees to overcome barriers to returning to work – such as back pain and stress

– that might previously have caused them to be absent long term. Examples of these early interventions include redesigning jobs and providing physiotherapy. By working together, employers prevent the loss of key skills for long periods, while employees avoid the loss of earnings that can be associated with long-term absence and gain the psychological benefits of being active and back in work.

Companies are embedding this partnership approach into their operations in two main ways: firstly through communication and reward; and secondly by having multi-skilled staff who are able to move quickly between tasks.

Communication and reward

Previous EEF research, has shown that employee resistance was often cited as a barrier to introducing new ways of working, such as lean manufacturing. But as competitive pressures have increased, the importance of being ahead of the curve in processes and technologies has made overcoming these barriers ever more crucial. Increasingly, the onus has been on management to communicate what change means – not only for the business but for individuals as well.

Employers use a variety and combination of mechanisms to communicate with their workforce, including regular meetings, staff briefings, communication through line managers and other internal mechanisms. Our survey demonstrates the breadth of these practices, with 60% of companies using three or more different channels to communicate business information to their employees.

This wide range of communication practices is a reflection of how working arrangements and production practices vary across manufacturing, making a ‘one size fits all’ approach impractical.

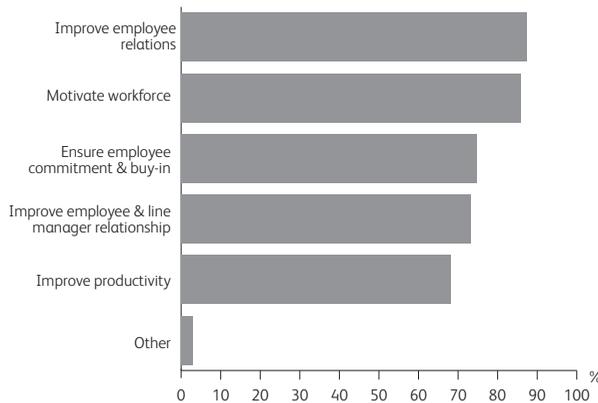
Nonetheless, the benefits that companies see as a result of undertaking these measures are illustrated in Chart 4. Here it is clear that manufacturers have a strong practical understanding of the importance of effective employee communication, from the large numbers stating a range of benefits linked to improved cooperation and employee morale, as well as bottom-line benefits such as improved productivity.

²EEF/Westfield Health, Sickness Absence and Rehabilitation Survey 2011, May 2011

Chart 4

Companies see the benefits of employee engagement

% of companies



Source: EEF Modern Manufacturing Workplace survey 2011

Communication with employees is common to all companies, regardless of size. However, employee engagement arrangements which involve consultation, not just information, are more common amongst medium and large companies.

Over the last decade, a number of legislative approaches have been introduced to formalise employee consultation and communication. Our survey demonstrates that these occur more frequently in larger companies: half have an information and consultation committee and nearly 30% have a European Works Council. The proportion of all companies that have informal arrangements, however, has grown from 34% in 2009 to 43% in this year's survey. It is clear, therefore, that companies increasingly recognise the benefits of employee communication regardless of any legislative encouragement.

Similarly, a shared commitment from employers and employees to company goals is achieved by linking business objectives to reward. Financial incentives, such as profit-related pay, for example, or other individual or team incentive schemes, are common amongst manufacturers. Our survey shows that almost half operate either an incentive scheme or profit-related pay, and one in ten uses a combination of the two.

Approaches to reward and engaging with employees

Companies place a premium on reward and engagement strategies to achieve the flexibility they need. They use a variety of approaches.

One large company reported a wide range of reward and recognition schemes. Some of these recognise achievements in leadership by awards, whereas others reward performance in the form of cash or profit-related benefits. Most of these schemes flow through all levels of the company, from board level to production staff, and they are seen as a cumulative measure to enhance the motivation of the workforce and obtain their commitment to the wider objectives of the business.

These approaches are not just confined to the multi-nationals: one smaller manufacturer explained that their company has a positive policy of encouragement by reward. Production line staff, for example, receive a dispatch bonus based on the number of orders that leave the factory on time. For staff not on the shop floor there is a profit-related bonus scheme which, in terms of financial reward, provides the same benefit as the dispatch bonus.

The same company also operates an employee suggestions scheme for saving money or improving business processes. There is a cash reward for submitting a suggestion and if it is implemented the employee is given a proportion of the savings made.

Skills

Communication and reward are vital management tools to achieving flexibility, but they are underpinned by the capability of the workforce and the company's investment in skills. Virtually all companies say they achieve flexibility by employing multi-skilled staff who are able to switch between tasks quickly. However, a raft of previous EEF research highlights the concerns that UK manufacturers have about the availability of skills and the negative impact this has on their competitiveness.

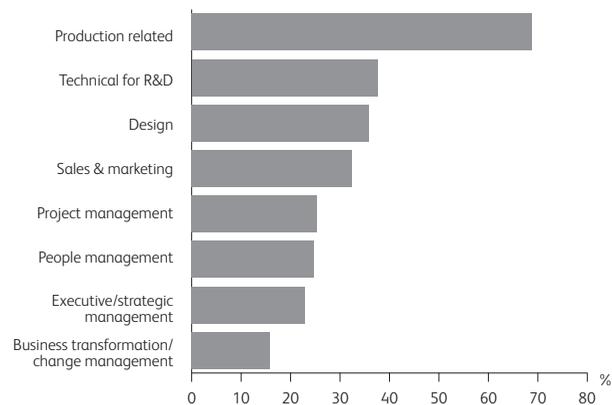
Despite the significant efforts of companies to hold on to skills during the recession, as demand has returned, more and more companies are reporting

difficulties in attracting skilled workers. If the scale of the problem is a potential brake on the recovery now, manufacturers expect it to escalate in the next five years: two-thirds of manufacturers predict difficulties recruiting production staff during this period. This concern is shared by all companies, regardless of size or sector. There are also specific concerns about recruitment within two other manufacturing-specific categories of skills: technical for R&D, and design.

Chart 5

Manufacturers have concerns about skill shortages in the next five years

% of companies



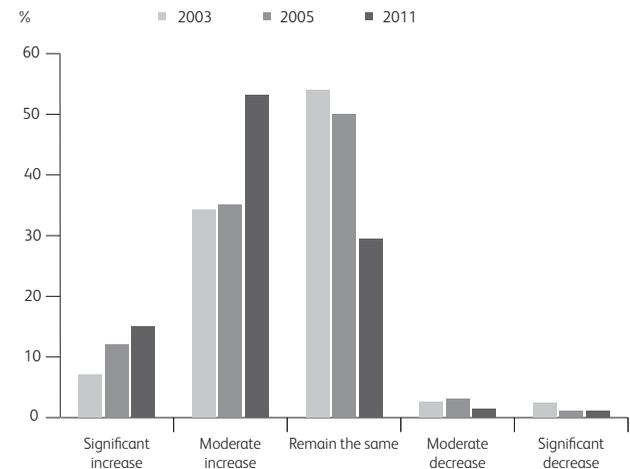
Source: EEF Modern Manufacturing Workplace survey 2011

Given that the challenge of attracting and recruiting skilled workers has been brought back into focus by the recovery, manufacturers are investing more of their limited resources in developing the skills they need. Over the past twelve months, a balance of 50% of companies have increased their investment in training compared with a balance of 24% in 2003. Looking ahead, the balance of companies looking to invest in the next twelve months rises to 65%. This investment means that seven in ten companies say that they have been able to increase their flexibility in the past three years due to the improving skills of their existing workforce.

Chart 6

Companies increasing investment in training in the next twelve months

% of companies



Source: EEF surveys 2003, 2005, 2011

While the types of training vary, discussions with manufacturers have highlighted a growing interest in apprenticeship programmes. Nearly half of respondents plan to recruit apprentices between the ages of 16 and 18 in the next year, and almost a third plan to hire apprentices aged 19–23.

However, companies often feel that their efforts to improve workplace skills are hampered by a complex and ever-changing training landscape. While companies themselves can make the biggest contribution to the UK's skill profile by upskilling and reskilling existing members of the workforce, many struggle to attract new talent straight from compulsory education into industry.

While our survey paints a picture of a broadly positive sector of investment in training and people, the challenge of developing and maintaining a world-class skills base will require increasing efforts by manufacturers, government and individuals.

Flexibility through skills

With fast-moving markets, peaks and troughs in demand and a constant need to innovate, manufacturers report the importance of multi-skilled staff and nimble production processes as vital to staying ahead of the competition.

One manufacturer in the automotive sector reports that they train teams of five employees in the same skills in order to be resilient in times of need.

Another company produces a range of diverse products. This requires a significant amount of project work, starting with a design and creating a team to manufacture the required product, which may be the only batch of its kind. The projects can start and stop frequently and so the members of the team must be able to move between roles and projects quickly. The workers must therefore be able to move seamlessly between producing different products and performing different tasks, and they all need a range of core skills in order to do this.

This company also explained that technological improvements meant that the production of one of its products was moved to an automated process. The workers affected by the change were reskilled and redeployed. This meant that the company was able to keep a skilled section of their workforce and retained the resilience to service legacy turbine blades.

The flexibility ‘toolkit’ – how manufacturing managers manage

Section summary

Companies use a range of practices to achieve day-to-day flexibility, the particular mix of which will vary depending on factors such as their market or size. Flexibility is often a case of give and take between employee and employer. Reflecting this, many companies operate flexible working arrangements for their employees. However, practical and manpower issues place a limit on the amount of flexible working requests that can be accepted. Manufacturers are therefore looking for a regulatory environment which facilitates discussions between employers and employees to find the most suitable approach rather than one that inhibits it by imposing a ‘one size fits all’ approach. Many manufacturers are concerned about the future direction of travel, which has added more complexity and has taken a more prescriptive approach. These concerns are particularly felt by manufacturers in faster-changing and less predictable markets.

Achieving everyday flexibility

With communication and reward embedded into many company strategies, manufacturers report the use of a wide range of practices and workplace arrangements to allow them to achieve flexibility on a more day-to-day or short-term basis. These arrangements give managers a ‘toolkit’ of options to choose from, and the frequency, use and importance of each is often dependent on particular company circumstances or market conditions.

The options available to employers can be placed into three categories:

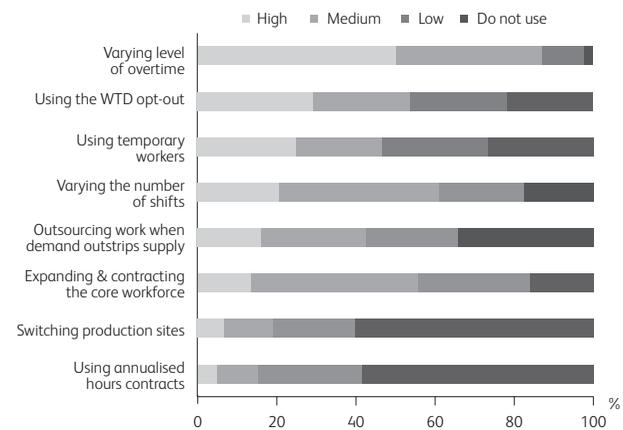
1. Those which involve changes to hours worked, such as overtime or varying shifts
2. Those which involve adjustments to the numbers and types of employees – i.e. reducing or raising headcount or bringing in staff on a short-term basis
3. Those relating to production practices, where the increasingly global nature of manufacturing value chains can allow companies to switch between sites, outsource production and work in smarter and more cooperative ways with their supply chain.

Chart 7 looks at the use of the tools in these three categories.

Chart 7

Manufacturers have a toolkit of flexibility options at their disposal

% of companies citing as important



Source: EEF Modern Manufacturing Workplace survey 2011

The manager's toolkit: varying hours

Managers have a range of options for coping with peaks and troughs in demand by increasing or decreasing the hours worked across the business. These adjustments will be most common amongst production staff and will involve the use of overtime, banked or annualised hours or differing shift patterns. Both overtime and extra shifts require employees to work longer hours, and almost a third of companies placed high importance on the individual opt-out from the working time directive, which is often used to facilitate these practices.

‘Overtime is popular with our employees; most choose to opt out of the working time directive and they would be unhappy if it stopped them earning extra pay by working more hours’

Automotive steel processing manufacturer

As illustrated in Chart 7, the most commonly used and important of all these approaches is overtime, with half of companies saying it is highly important in achieving flexibility and only 2% saying they do not use it at all. It is important for all companies, regardless of size, sector and type of market. The practice is especially important during periods of fragile economic recovery, as now, when it can take time before employers are confident to take on permanent employees. They therefore rely on the use of overtime and temporary workers to respond to increases in demand, which may turn out to be short-lived.

Annualised hours contracts allow for a total number of hours to be agreed between employer and employee, which are then worked in variable quantities over the year. This can be useful for firms that see large swings in demand over the course of a year, particularly in seasonal businesses. However, this approach is not heavily used as it is less suitable for smaller firms or those with less predictable swings in demand, as they risk committing themselves to too many hours or finding that the agreed hours have been used up before the end of the year.

Another important workplace practice is varying shifts, with over four in five respondents saying that this was of some importance to their company. Large companies and those in cyclical markets are more likely to cite this as of high importance. However, it is also used to respond to exceptional events or circumstances. The recent significant supply chain disruption that resulted from the Japanese earthquake, for example, led a number of automotive companies to reduce temporarily the number of shifts they operated. Such occurrences have become increasingly common given the global nature of the manufacturing value chain.

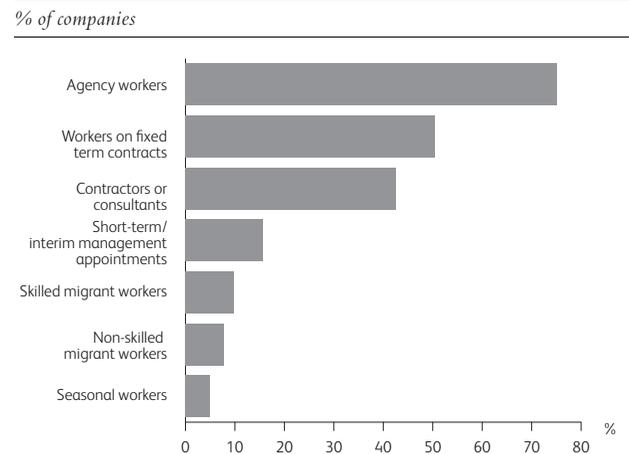
The manager's toolkit: adjusting the number and type of employees

Companies say that the ability to vary the nature and size of the workforce is also vital to their flexibility. A quarter of companies cited the use of temporary workers as highly important in responding to changing market conditions. Agency workers are most commonly associated with this practice but Chart 8 shows that a range of non-standard contracts are used by manufacturers. Fixed-term or interim contracts, in particular, may be used by manufacturers when they have a

predictable period of demand or to bring in skills that are currently unavailable in the workforce. Both of these types of workers are more likely to be used by larger companies.

Chart 8:

Companies deploy a wide range of temporary workers



Source: EEF Modern Manufacturing Workplace survey 2011

Again, these types of arrangements may not suit the needs of all types of companies. Manufacturers with short-order books, for example, tend not to regard the use of temporary workers as an effective way of managing their flexibility needs.

Nonetheless, the flexibility inherent in being able to cut back quickly on the use of agency workers was one of the strategies used by many companies to minimise permanent employee reductions and stay afloat during the recession. As we have moved out of the recession, companies that don't yet have the confidence to expand their numbers of full-time employees have taken on agency workers, often as a gateway to them becoming permanent employees.

Companies are also clear that the ability to contract and expand the permanent workforce remains a valuable option to manage demand, although only 13% of companies regarded this as highly important.

During the recession, EEF surveys demonstrated that manufacturers attempted to minimise headcount reductions amongst permanent employees through a variety of means, such as voluntary unpaid leave, short-time working and exercising very tight controls on pay. Companies stressed that their objective was to try to avoid repeating mistakes that

were made in previous recessions and to maintain their skilled workforce so that they were in a stronger position to take their business forward when economic conditions began to improve. Nonetheless, the reduction in global demand was such that some redundancies were unavoidable.

The manager's toolkit: varying production practices

Manufacturing is increasingly mobile. Many companies now operate multiple sites, not just in the UK but also overseas. In addition, companies have developed closer collaborative working relationships with their supply networks. Such innovations allow manufacturers to flex production across their operations in response to shifts in demand.

Two thirds of companies say that they sometimes outsource production, with 16% saying this is a particularly important practice. Companies that see significant fluctuations in their demand, or that have to switch quickly between different markets, are more likely to take advantage of this type of flexibility. Meanwhile, 40% said that they switch production between different company sites when demand outstrips capacity. This is clearly a more practical option for larger, multi-site operations; seven in ten smaller companies say that they never switch production between sites.

In summary, the range and combination of options that are used by companies to achieve day-to-day flexibility are influenced by their size, markets and sector. Companies which operate in what might be classed as predictable cyclical or seasonal markets, for example, are far more likely to place a premium on the ability to expand and contract their workforce, in comparison to those with short order books or that are in fast-moving markets requiring more rapid flexibility. In short, even within manufacturing, there is no 'one size fits all' approach to flexibility. Because of this, manufacturers feel that the regulatory environment is increasingly getting in the way of the flexibility they need.

The regulatory environment

In our 2010 *The Shape of British Industry* Report, regulation was cited as the top concern when companies were asked for their views on the UK's business environment. All types of regulation can affect company flexibility, but employment regulation can be a particular enabler or barrier.

The UK's labour market remains relatively flexible in comparison to some of the more rigid regulatory systems on the Continent and elsewhere. However, EEF members have expressed concerns that the UK is moving in the wrong direction. Nearly half of companies, for example, report that it has become far more difficult over the past five years to make changes in the permanent workforce through redundancies or capability dismissal.

While 30% of companies in this survey agree that the UK business environment provides manufacturers with the flexibility they need, two-fifths of companies disagree with the statement, leaving an overall negative balance.

These attitudes vary across industry. Larger companies are, on balance, more positive about the impact of regulation than smaller ones, almost certainly reflecting their greater capacity to adapt to and manage changes in regulation. Similarly, companies in more predictable seasonal and cyclical markets have fewer concerns than those that are in more dynamic markets or have short order books.

However, regardless of size and sector, all companies are pessimistic about the direction of travel, with a balance of a third believing that the frequently changing regulatory environment will make it difficult to achieve the flexibility they require over the next three years.

There are a number of factors driving this negative perception. Some of the concern stems from recent or impending developments, such as the abolition of the Default Retirement Age, the Agency Workers Directive, the Equality Act and a new system of shared parental leave.

Companies have also expressed concern about the seemingly never-ending flow of regulation relating to employees, and more changes are on the way with recent or current consultations on reforming employment tribunals, new rights to request flexible working and further changes to parental leave. Individually, these measures are not necessarily unwelcome, but together they increase the

cumulative burden of regulation and require yet more management time, effort and resources to comply.

Finally, manufacturers report that employment law is increasingly complex. Employees have, for example, a sometimes confusing and widespread set of ‘rights’ to request time off from work (aside from leave) – from jury service, for example, to time off to perform union duties. And the number of employment tribunals has risen 44% since 2008–09, despite the government’s steps to reduce the number of disputes that get this far. In such circumstances, the most rational response by companies to employment legislation is to err towards over-compliance, but this in itself limits the amount of flexibility open to them.

‘There are times when personnel issues can be resolved through early discussions, avoiding costly disputes later, but we sometimes find concerns about falling foul of the legislation get in the way of this’.

Defence supply chain manufacturer

A bit of give and take and the limits of flexible working

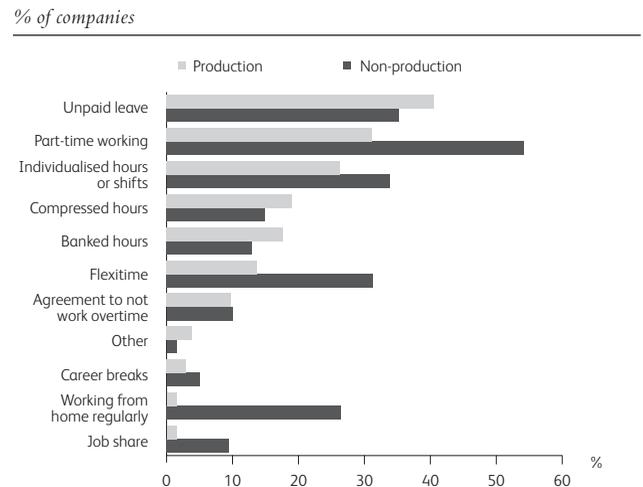
One area where successive governments have taken a keen regulatory interest has been in the promotion of flexible working arrangements.

All employees can make a request of their employer to work flexibly, perhaps by moving to part-time hours, to a job-share arrangement or to working from home. Those with children up to the age of 16 or who care for a dependent adult have a more formal right to request changes to their working patterns in order to accommodate their caring responsibilities. Employers have a legal obligation to consider these requests, but they are able to reject them on genuine business grounds.

In this and previous EEF surveys, manufacturers said that they operate a range of flexible working arrangements and accommodate many requests. Chart 9 shows the range of flexible working arrangements which companies operate for their production and non-production employees.

Chart 9

Manufacturers operate a range of flexible working arrangements for production and non-production employees



Source: EEF Modern Manufacturing Workplace survey 2011

Not surprisingly, the use of some types of flexible working arrangements varies between production and non-production employees. For example, flexitime, part-time working and working from home are practices which are more likely to be operated for non-production staff, with unpaid leave, compressed hours and banked hours more frequent amongst production staff.

Despite the differences in the types of flexible working operated between production and non-production employees, on average there is only a small difference in the number of options in operation for each per company. For production workers there is an average of 1.6 flexible working arrangements in operation per company; for non-production workers the number is 2.2. A quarter of companies say they do not currently operate any flexible working practices for production employees, and a fifth of companies do not operate any flexible working practices for non-production employees. In both cases, these companies are more likely to be small where the limits of accepting flexible working requests will be lower than larger companies.

In 2007 and 2009 we asked companies how often they accepted flexible working requests. In 2007 we saw a very high instance of companies accepting flexible working requests, with 41% of respondents agreeing to all requests (the figures were higher still for some categories of employee, such as parents of disabled children). In 2009 this had dropped to just under a third of all respondents (29%) accepting all requests.

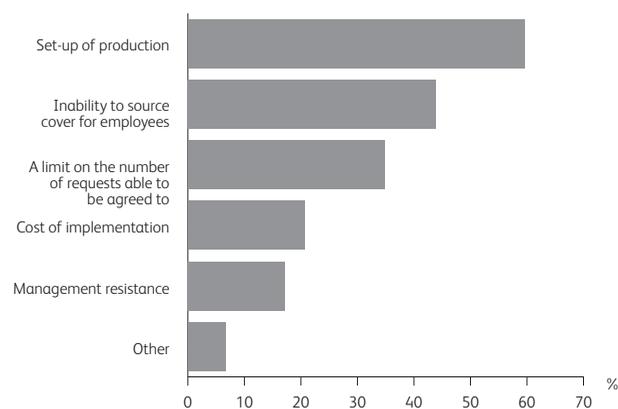
Companies reported fewer problems with flexible working in 2009 in comparison with 2007, and this, combined with a drop in the number of requests, suggests that companies have developed a better appreciation of managing the process and have a better understanding of when to reject requests. This in part is as a result of greater familiarity with the legislation on flexible working.

However, it is also a reflection that there are practical limits to the extent that flexible working practices can be offered in some companies and sectors, and this is illustrated in Chart 10.

Chart 10

Practical factors limit manufacturers' abilities to offer flexible working

% of companies



Source: EEF Modern Manufacturing Workplace survey 2011

Despite some negative perceptions about manufacturers' attitudes to flexible working, management resistance is one of the least common factors limiting requests. Instead, the major barrier is a practical one: the set-up of production makes it extremely difficult for some employers to accept requests for flexible working.

The latter, of course, is a manufacturing and production-specific constraint. Companies also report that requests are often rejected because of an inability to source cover for employees. This suggests that there will always be a limit to the number of requests for flexible working that can be granted in any workplace. However, given the number of specialist roles involved and the difficulties faced in filling them, this is a key issue for manufacturers.

Nonetheless, for many manufacturers, flexibility is a case of give and take between employer and employee. Precisely because of the skilled and specialist tasks that many manufacturing employees undertake, companies are often willing to accommodate different working arrangements. In talking to our members in more depth, many say that they often come to informal arrangements with their employees to work longer or extra shifts in return for flexibilities such as time off in lieu or early finishing. Manufacturers are looking for a regulatory environment which facilitates this bilateral approach – a 'two-way street' – to flexibility.

The 'two-way street' of flexibility

Many manufacturers report that flexibility is a case of give and take between employer and employee.

One company told us that they frequently agree to requests to take time off at short notice, with the employee making up the time later on. The positive relationship they have with their staff means that when they need them to work longer or unusual hours, they 'often don't need to ask, it just happens'. They adopt an informal approach to granting requests for flexible working, based on mutual understating and willingness to compromise.

Another company reports that many requests to work flexibly are made outside the scope of any legislation. They offer a range of flexible working options. These would be considered for all staff but they have never had requests for part-time working from those on the factory floor. Where they cannot accommodate requests they will try and find a compromise, granting as much of the request as possible while balancing and explaining the business needs.

The industrial relations environment

Trade union recognition is more common amongst EEF members than in manufacturing more generally. Almost half of survey respondents recognise at least one union for collective bargaining purposes compared to the 2004 Workplace Employment Relations Survey (WERS)³ which put union recognition at 21% in manufacturing. Until 1989, however, EEF participated in a national agreement with the trade unions and many of those companies remain EEF members and continue to use our expertise in workplace and trade-union negotiation.

The level of union recognition varies significantly by company size and sector. Nearly four-fifths of large employers recognise a union, compared with around half of medium-sized companies and slightly more than a quarter of small companies. Sector-wise, recognition is most common in transport (68%) and rubber and chemicals (54%). It is least prevalent in the electrical and optical sector (30%) and other manufacturing (39%).

With trade union activism in the public sector on the rise, it is interesting to note that there are only minor differences in our key findings between companies that recognise unions and those that do not. Indeed, differences are more likely to be related to company size rather than directly connected to union recognition.

On employee engagement, unsurprisingly, companies that recognise trade unions for bargaining are more likely to have formal consultation arrangements. However, there is no difference in the use of informal arrangements and virtually the same proportion report benefits from communication with employees.

In terms of the regulatory environment, there is no difference with regard to opinions about the difficulties in making permanent changes to workforces over the past five years. Non-unionised companies are more likely to be negative about the UK business environment for flexibility. Again, this is likely to reflect differences in company size.

Looking more generally, anecdotally our members report that there is increased pressure on pay from the trade unions, but this has yet to materialise in our regular pay survey. In recent years, days lost to strikes have fallen sharply in the private sector and we are not expecting any widespread rise in trade union activism in manufacturing in the foreseeable future.

³ Inside the Workplace: Findings from the 2004 Workplace Employment Relations Survey. Fieldwork for the next WERS is now under way and is scheduled to be completed in 2012.

Executives Online viewpoint

Executives Online is delighted to support EEF's Flexibility in the Modern Manufacturing Workplace report and its role as a catalyst for continued enhancements of workplace flexibility in practical and regulatory circles.

That the UK manufacturing sector is leading the UK's economic recovery is self-evident: at Executives Online, we have seen briefings from manufacturers rise 60% since mid-2009. We've also seen a long history of change and innovation in UK manufacturing, with companies increasingly engaging our services to find employees who are able to support their efforts to become more flexible and competitive – whether that is gearing up a new factory to produce goods for export; implementing a banked hours scheme; consolidating operations from multiple sites into one, more efficient, plant; or creating training schemes to skill up and empower staff.

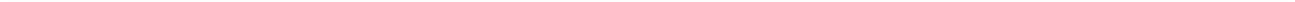
During the recent recession, manufacturers who continued to recruit at management level focused more on hiring in non-production roles – finance, procurement and special projects – in an effort to operate more efficiently, reduce costs and gird themselves for the expected pressures on sales and profits. Having survived that period, and in many cases emerging stronger and with leaner cost structures, manufacturers are now hiring a bigger proportion of engineering managers, operations directors and production managers – we have seen a three-fold increase since 2009. Recruitment of sales and commercial staff is also on an upswing.

As Flexibility in the Modern Manufacturing Workplace finds, companies are looking for multi-skilled staff and flexible employees, and at Executives Online we see this in executive-level recruitment too. In the current recruitment environment, the lists of 'must have' skills and experiences have gotten longer. Employers expect diverse skills within the ideal manager or executive, and require evidence of these gained in their own manufacturing sub-sector. They are less interested than in more buoyant times in transferring skills across industries.

The drive to find the person who 'ticks every box' means companies must use multiple channels to access broader pools of talent. Despite (or perhaps because of!) continuing evolutions in online recruitment – via, for example, ever more job boards, CV databases and social media – the recruitment firm's role is as important as ever, to manage and qualify what can be an onslaught of applications, and to deliver the successful placement.

At the same time, research has been carried out among Executives Online clients and registered interim management candidates. Published earlier this year as The Interim Report, it finds that manufacturers use interim management at nearly twice the rate of other industries. Additionally, we see more examples of incentive-linked compensation across the corporate organisation, not just in historically bonus- or commission-led functions such as sales. These packages are more effective in attracting and retaining senior staff who deliver results.

Flexibility in the Modern Manufacturing Workplace illuminates a range of manufacturer attitudes and practices regarding employee empowerment, flexibility and the improving business cycle. We look forward to continuing to engage with UK manufacturers to find the right talent with which to enhance their growth and profits into the future.



About us

EEF is dedicated to the future of manufacturing. Everything we do is designed to help manufacturing businesses evolve, innovate and compete in a fast-changing world. With our unique combination of business services, government representation and industry intelligence, no other organisation is better placed to provide the skills, knowledge and networks they need to thrive.

We work with the UK's manufacturers, from the largest to the smallest, to help them work better, compete harder and innovate faster. Because we understand manufacturers so well, policy makers trust our advice and welcome our involvement in their deliberations. We work with them to create policies that are in the best interests of manufacturing, that encourage a high growth industry and boost its ability to make a positive contribution to the UK's real economy.

Our policy work delivers real business value for our members, giving us a unique insight into the way changing legislation will affect their business. This insight, complemented by intelligence gathered through our ongoing member research and networking programmes, informs our broad portfolio of services; services that unlock business potential by creating highly productive workplaces in which innovation, creativity and competitiveness can thrive.

Whether it's identifying the optimum working hours for your business or working with you to prepare for business change, we'll help build flexibility into your workforce. And we'll strive to balance people productivity with people cost. We help businesses develop flexible working practices and offer support on other HR issues with our wide range of courses and consultancy.

To find out more about this report, contact:

Stephen Radley
Policy Director
020 7654 1530
sradley@eef.org.uk

Tim Thomas
Head of Employment Policy
020 7654 1533
tthomas@eef.org.uk

EEF Information Line
0845 250 1333
info@eef.org.uk

About Executives Online

Executives Online is committed to supporting UK manufacturers with efficient, cost-effective interim management and executive recruitment services. As an executive recruitment company that harnesses the Internet to accelerate the search process, we can deliver exactly the right candidates quickly, for interim or permanent executive roles, in order to redress loss of competence, maintain agility and flexibility, and protect competitive advantage.

What makes Executives Online different is our award-winning online talent acquisition engine which can be deployed instantly, worldwide, saving you time and money. Each search of our Global Talent Bank we undertake is individual and specific to our clients' requirements to ensure that we deliver exactly the right candidates, at market rates, every time.

Our access to talent is online and global – but our client service is personal and local, via each of our growing network of UK and international offices. Our experienced consultants have been managers or executives themselves, or have strong track records in recruitment, so they can fully empathise with business requirements and the subtleties of recruiting to them.

Our vision is to transform executive recruitment.

For more information or to initiate a search now, call +44 845 053 1188 or e-mail manufacturing@executivesonline.co.uk.

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