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# Restructuring organisations while striving for flexicurity: a European perspective

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## 1. Introduction

Balancing flexibility and security has become a priority in the employment policy agenda at the European level. The European Commission strives to construct flexicurity pathways and common principles of flexicurity in order to encourage balanced employment policies in the Member States. Restructuring is also debated at the European level and in 2005 the Commission issued a communication on restructuring. These Commission initiatives serve to contribute to the overall goal of creating a strong European economy while maintaining the European Social Model. The initiatives are based on the efforts the Member States have made in the past to improve their labour markets and the remaining challenges these countries face.

One of the instruments the EU has to stimulate Member States to improve their labour markets is the European Employment Strategy (EES). In this strategy a number of guidelines are grouped into thematic issues, one of which addresses the adaptability of organisations and workers. This theme includes, among others, the goal to balance flexibility & security and to positively manage and anticipate economic change and restructuring. The meaning and urgency attributed to these goals vary throughout the years and show an increasing demand for workers and organisations to be proactive and dynamic (see also Wilthagen and Bekker, 2007).

This paper deals with the topic of restructuring from a European flexicurity perspective. We first describe the European discourse on flexicurity and link this to restructuring. This description brings to the fore what types of flexibility and what types of security the EU combines in its policies guidelines. These guidelines are, among others, based on the past (policy) efforts of Member States and their remaining labour market challenges. Our data analysis shows that there were very different flexicurity efforts at the national level amounting to different challenges for balancing flexibility and security in case of company

restructuring. The EU takes such differences into consideration and proposes different pathways of flexicurity for different Member States. The paper end with the suggestion to look further into the possibilities to create alternative flexicurity strategies at the company and regional level when restructuring is expected.

## 2. Flexibility & security and restructuring: a European view

The goal to deal with both flexibility and security at European labour markets has been included in the European Employment Strategy (EES) since the first publication of the Employment Guidelines in 1997. Likewise, there have always been policy suggestions referring to economic or company restructuring. The goals of flexibility and security, and suggestions concerning restructuring are a part of the broader aim to improve the adaptability of firms and workers. In the remainder of this section the overall European discourse on flexibility and security and on restructuring will be further described.

### *2. 1. The changing view on flexibility and security*

In the first years of the EES the aim to balance flexibility and security did not seem to play a leading role. It was only an element of the broader aim to promote the modernization of work organization and forms of work to improve adaptability. There was little further explanation on what either flexibility or security entailed or how these two aims should be balanced. However, in the course of time the emphasis on the role of balancing flexibility and security and measures for restructuring has grown. This is especially visible in communications, reports and work groups established by the Commission. In 2002 the Commission and the Council defined flexibility or security in more detail in their Joint Employment Report. Flexibility was defined as the capacity for firms to adjust to market demand and was distinguished into external and internal flexibility: external flexibility being the flexibility of companies to “hire and fire”, and internal flexibility being the reorganisation of the existing work force, for instance, in terms of working time, working methods, training, and mobility. These forms of flexibility were believed to complement each other and to have both advantages and disadvantages to individuals, firms and societies. Security was divided into a static and a dynamic approach, the former focusing on the stability in the employment relationship and the availability of a safety net in case of unemployment. The dynamic variant focused on non-discrimination between different forms of working contracts and arrangement and the acquisition and preservation of employability. These facilitate change and mobility within and between jobs (European Council, 2002). Primary themes were access to training

and career developments. Moreover, flexibility and security were believed to be mutually reinforcing and serve the interest of both employer and employee.

In 2006, the Commission and the Council again addressed flexibility and security, however, this time more explicitly, using the term flexicurity. By now this term has become one of the key topics in the European debate on labour markets. The conditions or ingredients of flexicurity are defined as:

> "*Sufficiently flexible work contracts, coupled with effective active labour market policies to support labour market transitions, a reliable and responsive lifelong learning system, and modern social security systems combining the provision of adequate income support with the need to facilitate labour market mobility...*" (European Commission, 2006a: 6).

In a background document of a stakeholder meeting on flexicurity, the Commission defined flexicurity as: 'a policy strategy to enhance, at the same time and in a deliberate way, the flexibility of labour markets, work organisations and labour relations on the one hand, and security –employment security and income security – on the other'.[1] This definition strongly resembles the definition used by scientists (Wilthagen and Rogowski, 2002). The difference is that Wilthagen and Rogowski included in their definition that employment security and income security should be enhanced '*notably for weaker groups in and outside the labour market'* (Wilthagen and Rogowski, 2002). The Commission states moreover, that in general flexicurity changes the mentality from a job security to an employment or employability security mentality, however sees, as displayed in its definition of flexicurity and in the components of flexicurity, that there is also a role attributed to income security.

In the Commission's vision on flexicurity the ability of people to make transitions at the labour market is essential: transitions in and between jobs, transitions to and combinations with education, and transitions from unemployment or inactivity to employment. It also seems to be a vision that is bound to last for a number of years in the European discourse. The call for establishing the conditions of flexicurity has been repeated in the proposal for the 2006 guidelines (European Commission, 2006b). Furthermore, the proposal for the employment guidelines of 2007 stressed the need for a comprehensive approach to combining flexibility and security and the establishment of policy pathways to further flexicurity in all Member States. A communication on this is expected in June 2007. Also the Green Paper on Labour Law gives attention to the concept of flexicurity (European Commission, 2006c). As the Employment Guidelines are up for revision in 2008, it will be interesting to see whether

[1] European Commission, *Background document Stakeholder Conference on Flexicurity*, Brussels, April 20th 2007. View also European Commission, *Employment in Europe 2006*, October 2006, p. 77.

flexicurity and its components will get a more prominent place in the Employment Guidelines.

### *2.2. The European ideas on restructuring*

Restructuring has also become more prominent in the European debates in the past years. At the same time, there are a number of long-standing initiatives concerning this issue. The Directorate-General for Employment, Social Affairs and Equal Opportunities of the European Commission has gathered a list of initiatives on its restructuring website, which includes[2]:

- EU legislation;
- the support for social dialogue;
- the European Employment Policies;
- Industrial and Enterprise Policy;
- Economic Policy coordination and structural reforms;
- European Social Funds and other funding;
- Competition Policy;
- External Policy.

Moreover, the Commission has issued a communication on restructuring and employment on March 31st 2005 and it created an internal Restructuring Taskforce and a Restructuring Forum also in 2005.

In the Communication on Restructuring the Commission further specifies its view on the restructuring issue and makes further plans to deal with this at the EU level. It deals with restructuring in the framework of the (reinforced) Lisbon strategy to focus on stronger and lasting growth in combination with the creation of more and better jobs (European Commission, 2005). In essence it holds the view that restructuring is an inevitable and even vital part of the economy. It is a way for companies to remain competitive and productive; to create new jobs and to engage in new economic activities and to retract from activities that are no longer viable. In order to do so, companies need a certain amount of adaptability. Although the Commission believes that there are many positive aspects related to restructuring, it acknowledges that there can be huge negative consequences for the workers involved, the local, and the regional economy (European Commission, 2005). Therefore policies need to be designed that reduce social costs of restructuring and facilitate the search for alternative sources of jobs and income. As such, well-managed restructuring meets economic as well as social requirements.

[2] See the website http://ec.europa.eu/employment_social/restructuring/index_en.htm which has been consulted by the researchers on 12-06-2007.

One suggestion for doing that is to preserve the employability of workers and to support their transition to another job. To make this work, it seems crucial that actors at the regional or national level take joint responsibility for making these transitions work. This includes national and local authorities, organisations and social partners. This is even more important if labour demand and supply after the restructuring operation do not match, for instance in case a large group of low skilled workers are hit by restructuring. Another suggestion is to better anticipate change. The EU can do this by coordinating and promoting cross-cutting policies, identifying sector developments and by recognising and supporting the role of the social partners (European Commission, 2005). Combining flexibility and security in the event of company restructuring, has also been a topic at a mutual learning seminar for labour ministers of various Member States.

### *2.3. Preliminary conclusion*

Viewing the EU initiatives to acquire a more specified idea of what balancing flexibility and security entails, one could argue that the view on security has become more dynamic, emphasising the security that workers can find in being adaptable and thus capable of making timely transition at the labour market. Simultaneously, flexibility has been more explicitly transformed from an asset for companies to a demand of both companies and employees. This is also illustrated by the emphasis on employment security which deals with protecting the worker instead of protecting jobs and focuses on the capacities of workers to adapt to change (European Commission, 2006c). A similar view can be found in the European restructuring discourse. Restructuring is portrayed as being inevitable and seen as a vital part of the development a strong and lasting economy. It might be important to notice that only a small proportion of European employees will be hit by mass redundancies, however, the event is not unlikely. Moreover, even if there is no immediate danger of redundancy in the present, the current discourse tries to make people aware of the fact that they cannot expect any longer to have a job for a lifetime and that they should therefore be prepared for job transitions.[3] The Commission points at the importance to give workers that make such transitions alternative sources of jobs and income, which will render them new securities.

One of the instruments the Commission and Council have to stimulate Member States to improve the balance between flexibility and security and to deal with restructuring, is the European Employment Strategy (EES). In the next section we describe both the flexibility and security target and the policy suggestions on restructuring in the Employment Guidelines of the EES.

[3] Besides workers with a standard contract, there is also a group of workers with flexible contracts or agence workers that are, while being in their job, very aware of the fact that the chance is high that they will need to make a job transition in the near future.

## 3. Flexibility, security and restructuring in the Employment Guidelines

In general, the guidelines of the EES are clustered in a few broader themes (in the past also referred to as pillars). Moreover, each guideline contains a number of policy suggestions, all of which eventually contribute to the larger goals of the EES. The EES is a soft law approach, giving policy suggestions rather than issuing binding regulations. This section describes the formulation concerning flexibility & security, and restructuring in the Employment Guidelines and the (drastic) changes that have been made.[4] Roughly, two phases can be distinguished of which the period 1998-2002 shows little changes whereas the period 2003-2006 shows fundamental changes due to the streamlining, simplification, reinforcement, and integration of the EES.

In the first years of the EES, the guidelines and policy suggestions concerning adaptability remained more or less the same. Although throughout the years more and more policy suggestions were added to list, no major changes were made. Balancing flexibility & security was one of the elements of which the overall target to increase adaptability was composed. It was formulated as: '… *achieving the required balance between flexibility and security*' (see e.g. European Council, 1997). In the same period another element of the adaptability goal (indirectly) referred to restructuring, suggesting *´helping the labour market adapt to structural change in the economy`* (see e.g. European Council, 1997). The difference between these targets was the actors to which the Council and the Commission made their request for change. For the achievement of a balance between flexibility and security the social partners were asked to negotiate agreements. Between 1998 and 2000 the adaptability of the labour market was, on the contrary, perceived as a task for the Member States. In the guidelines of 2001 and 2002 this idea changed and both the Member States and the social partners were invited to contribute to a better adaptability of the labour market to structural change.

In 2003 the formulation and content of the aim to increase overall adaptability was changed drastically, also affecting the formulation of flexibility and security and the suggestion regarding restructuring. The need for a balance between flexibility and security was replaced by the less restrictive and less balanced formulation of the need for both flexibility and security:

> "*Member States will facilitate the adaptability of workers and firms to change, taking account of the need for both flexibility and security and emphasising the key role of the social partners in this respect*" (European Council, 2003:18).

[4] For an overview on all policy suggestions contributing to the overall goal of adaptability, see Bekker, S. (2007 forthcoming), *Flexibility and security initiatives in the European Employment Strategy*.

However, in the specific case of increasing the diversity in contractual arrangements, which was one of the policy suggestions, a balance between flexibility and security was still valued (European Council, 2003:18). As of this year both Member States and the social partners were asked to attend to the goal to meet flexibility and security demands. However, the way in which social partners´ participation is included, differs from the years before. As of 2003 the Member States were asked to take certain measures, while emphasising the key role of the social partners in these measures. Before 2003 the social partners were directly invited to negotiate flexibility and security. The policy suggestion concerning restructuring also change and was reformulated as: *´the anticipation and the positive management of economic change and restructuring`* (European Council, 2003:19). This is also seen as a task of the Member States, while emphasising the key role of the social partners. The changes in the formulation bring forward the challenge to anticipate restructuring and seek methods to deal with it in a positive manner.

In 2005 the Employment Guidelines were altered again. By now the target of flexibility and security was promoted from being an element of a guideline to a guideline on its own. This guideline, however, merely speaks of promoting flexibility *combined with* employment security. It also reduces the broad term of security to the more specific term of employment security:

> "*Guideline N° 21: Promote flexibility combined with employment security and reduce labour market segmentation, having due regard to the role of the social partners*" (European Council, 2005: 23).

The proposal concerning restructuring remained the same, however was further specified by phrasing it as: "*better anticipation and positive management of change, including economic restructuring, notably changes linked to trade opening, so as to minimise their social costs and facilitate adaptation*" (European Council, 2005: 26). That restructuring and fundamental changes in the economy are happening and will keep happening is taken as a given and should therefore be anticipated and handled optimistically as to keep the social costs of workers to a minimum and to facilitate their adaptation to the new situation. In all this the Member States are still the ones that are directly addressed by the Council and the Commission and the Member States are the ones that need to take the role of the social partners into account.

Thus, in the employment discourse of the Council and the Commission, a much more dynamic view on employment and security has emerged in the course of the years. It is no longer a goal to protect jobs, but instead the worker should be protected. His or her ability to make a transition to another job is vital and is seen as part of the new securities a worker can have. Such changes are also visible in the Employment Guidelines. The broader term of security is narrowed down to employment security and, in the case of restructuring, adaptation should be facilitated and social costs minimised. The components of flexicurity as formulated

in several communications, also suggest the idea of facilitating transitions. These can be supported by active labour market policies and general investments in lifelong learning. However, the components also include income support, although this support should, according to the Council and the Commission, also generate labour market mobility. In the next section we will see how restructuring can be combined with security for the employee.

## 4. Combining flexibility and security: possibilities in case of restructuring

In general, to analyse and theorise which forms of flexibility and security can be combined, the flexicurity matrix of Wilthagen is used (see e.g. Wilthagen and Tros, 2004; Wilthagen, 2005; European Commission, 2006d; Wilthagen, Tros, et al., 2003; and in a slightly altered version Leschke et al, 2006). The original matrix distinguishes four different forms of flexibility and four forms of security. For flexibility these four different forms are:

I. External numerical flexibility, for instance the flexibility to hire and fire;
II. Internal numerical flexibility, e.g. flexibility through working hours, overtime, or part-time work;
III. Functional flexibility: multi-employability or flexible organisation of work;
IV. Wage flexibility, for instance performance or result-based pay.

For security the four different forms are:

1. Job security: the certainty of retaining a specific job with a specific employer;
2. Employment security, being the certainty of remaining in work, however, this means not necessarily work with the same employer;
3. Income security, e.g. income protection in the event that paid work ceases;
4. Combination security, which is the certainty of being able to combine paid work with other social responsibilities and obligations, such as care.

Wilthagen c.s. cross the different forms of flexibility and security in a matrix, thus establishing different fusions of flexibility types and security types in possible win-win situations of flexicurity. To establish the level of a balanced approach to flexibility and security Wilthagen (2005) distinguishes between flexibility as a state of affairs and flexibility as a policy strategy. Flexicurity is perceived as a state of affairs when at a given moment separate policies exist, which increase flexibility, or policies that increase security. This is fundamentally different from the perception of flexicurity as a strategy in which policies deliberately aim at striking a balance between flexibility and security and thus simultaneously address flexibility and security (Wilthagen and Rogowski, 2002; Wilthagen and Tros, 2004) Such an integrated approach is sometimes seen as a precondition for a balanced flexicurity outcome (Madsen, 2006).

The review of the EU discussion on balancing flexibility and security shows an increasing emphasise on employment security that aims at protecting the worker and not so much his or her job. This emphasis stems from the widely shared observation that in the current labour markets risks can not solely be dealt with within the limits and boundaries of a single company (i.e. within the internal labour market), but that they also should be dealt with across company borders (i.e. within the external labour market) in order to guarantee flexibility and security for both workers and employers (Wilthagen, Bekker, 2007). This fits the expectation or conviction of the Commission that company change and restructuring is and will remain a part of the economy and should therefore be well managed or even anticipated. In the remainder of this paper we analyse what specific efforts Member States have made in the past regarding the forms of flexibility and security that are highlighted in table 1. Also their particular labour market challenges are analysed and countries are grouped according to their similarities. It is to these efforts and challenges that the Commission responds by drawing attention to combinations of external numerical flexibility, employment security, and income security (see Table 1), thus balancing flexibility & security and to constructively address restructuring.

**Table 1: Possible combinations of flexibility and security in the case of company restructuring**

| | **Job security** | **Employment security** | **Income security** | **Combination security** |
|---|---|---|---|---|
| **External numerical flexibility** | | X | X | |
| **Internal numerical flexibility** | | | | |
| **Functional flexibility** | | | | |
| **Wage flexibility** | | | | |

These two forms of security are consistent with the Commission's idea of offering workers in restructuring companies other sources of jobs and income. They involve are also the measures that can be addressed at the country level by several institutions, laws and policies, e.g. by providing social security. The EU can influence these national measures by making the Employment Guidelines to which the Member States have committed themselves. It is much more difficult for the EU level to influence policies that are taken at the sector or company level, although such measures might result in interesting flexicurity strategies as well, such as altering working times to remain in a job, or the possible placement of a worker in another function in the same company. Such successful strategies emerge at the company or have to be bargained at sector level.

Thus, facing redundancy, the worker can accumulate new securities by making a transition to another job or by getting income security, for instance by the social security system. For inspiration on how to provide job security or income security we can turn to the components of flexicurity that were established by the Commission (see also European Council, 2006). These give an idea on how to provide support in unexpected event, but also on how to achieve a preventative effect at the level of the individual worker. The combination of restructuring with income security is made by having a good social security system. Apart from securing the income of the worker, the social security system supports the worker in returning to the labour market. For instance, the component ´active labour market policies` (ALMPs) is targeted at enhancing the skills and knowledge of a worker, thus facilitating transitions between jobs, and transitions towards the labour market. Also a second component deals with training and learning and promotes systematic lifelong learning systems. Such a lifelong learning system is geared towards keeping employees employable and adaptable during their entire career. Important is that lifelong learning may work preventative: even when there is no sign of the need for making a transition to another employer, the employee is kept ´fit` and thus remains an attractive party at the labour market. Also the focus of ALMPs can move from 'after care' to 'pre care' and prevention of unemployment.

Thus, the components of flexicurity give ideas on how to give new securities to workers, but also on how to take a more preventative approach to restructuring[5] and unemployment, such as the Employment Guidelines suggest. The EES gives ample leeway for individual countries to choose the method to reach the goals of the Employment Guidelines, e.g. accounting for the country specific institutions or customs. The Commission is well aware of these differences and proposes different pathways of flexicurity for different groups of Member States. A communication on this is due at the end of June 2007. In the next section we therefore distinguish clusters of countries according to their specific flexicurity efforts around the year 2000 and the subsequent employment challenges they faced between 2001-2006. Their efforts at that point in time contributed to the motivation of the Commission to increase the attention for flexicurity and restructuring. In the next section we will cluster countries, using data that indicate their efforts regarding external numerical flexibility, employment security and income security.

## 5. Varieties of flexicurity states and varieties of challenges

Scharpf and Schmidt (2000) explain how the institutional differences and differences in the systems of countries affected the responses each country took to diverse challenges. They also note that the challenges themselves are different across countries due to specific institutional

[5] At least from the point of view of the worker.

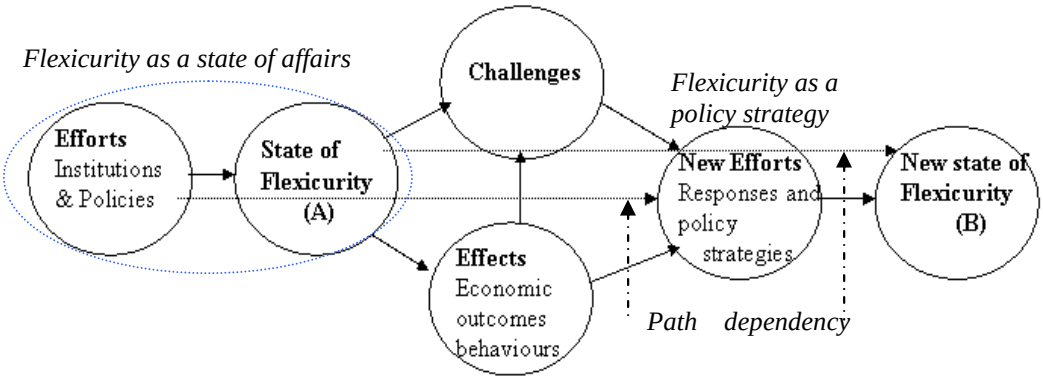
conditions of the countries (Scharpf, 2000: 21). However, one can identify groups of countries according to their similarities in their challenges as well as their responses (Scharpf, 2000:85).

In this section we identify groups of countries in Europe first in regards to their similarities in the state of affairs of flexicurity, as well as the challenges they face. Also we will try to see in the later sections how these groups show diverse outcomes in the responses to the challenges. Before we go on firstly we must identify the various dimensions of flexicurity one can distinguish.

### *5.1. Efforts States and Effects*

Initially, one can examine the efforts, which are existing institutions and policies and other factors that determine the state of flexicurity of a point. This in turn brings effects or outcomes which also affects what sort of challenges a country faces. This and along with the past institutional characteristics brings on new efforts, thus responses and policy strategies to overcome the challenges of a country or to rid of the negative effects of state A (see Figure 1). Then state A evolves through the new efforts take in, to the new state B.

**Figure 1. Efforts, States and Effects of Flexicurity**




Wilthagen (2005) distinguishes flexicurity as a state of affairs and flexicurity as a policy strategy. The former can be related to the initial efforts- in the first circle on the left, and the state of flexicurity thus the second circle. The latter concerns the response and second efforts, thus the second circle from the right.

As we can see in the figure above there are differences between the *state* of flexicurity and the *efforts* taken to enhance flexicurity. Institutions such as existing laws and policies as it self are efforts the actors in society make in trying to develop a certain character within the labour market of the country in question. Policies that aim to achieve certain goals do not necessarily translate into actual practices. For example, active labour market policies and high

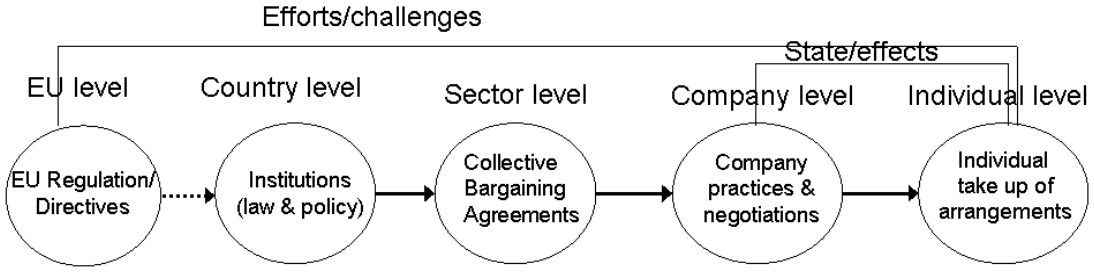
levels of spending on these policies are mere efforts in trying to activate labour market participants to enhance their employability which is a way to enhance employment security of workers. This in itself cannot be described as a measurement of the employment security of workers of that country in question but can be understood as efforts taken to increase employability. Even the state of employability can only be addressed or measured through the actual abilities of the members of that specific labour market, may it be via education/skill levels or the ease of obtaining a job for workers in that country. Employment security on the other hand will be the relative security one obtains in the labour market through various positions.

The state of employment security can be measured through the amount of security provided in the current job or position the worker which can be aggregated to the country level by employment rates and percentage of workers in various market positions. It can also be measured by the probability of loosing a job and enhancing one's position in the labour market of workers examined in a more dynamic way. However, the ease of job attainment in itself is also dependent on the labour market situation of the country, although favourable labour market conditions can also entails enhanced employability of a worker in some aspects. As we can see, the measurement of many concepts of flexicurity is hard to measure.

Another distinction we must make is the one the *effects* of the certain characteristics of the labour market from the *State*. Thus examining the state of employment security of a country through the country's employment and unemployment rates and the ease of finding a new job (involuntary unemployment duration) are in some aspects measures of the *effects* of employability. Workers' perceived (employment) security in the labour market measured through surveys can be another example of an effect of the employment security. Income security in this sense can be effects of employment security as well, for reasons that when you have a stable employment it is most likely that your income will be stable, although this is not true for all cases. However, this is not necessarily measuring the actual security within the labour market. For flexibility, deregulating or decreasing the level of employment protection can also be perceived as efforts of increasing external numerical flexibility of the country. However, this is also an effort for in the shop level it maybe that practices are different from the legislation, where it maybe harder on some cases where labour market situations are unfavourable (citation- of the study where labour court rulings were favourable to workers when labour market was not good). On the other hand, high levels of employment protection does not entail that there are low levels of external numerical flexibility, for in many of these countries this is overcome by using high shares of temporary contracts (Chung, 2005; Dolado et al., 2002). However as we can see from these examples, it is not always clear or easy to measure the substance under question. Although it may not be always possible to derive indicators of state and/or efforts and/of effects, it is important to make this distinction to realize exactly what is being measured in the study.

*5.2. Relationship between various levels*

**Figure 2: Various levels of flexibility analysis and focus of this study**




Although efforts can be made by various levels starting from the EU to the individual level, states and effects can only be measured through the behaviour of individuals and companies. Although we can measure the flexibility of a sector, country, or Europe overall, this is done through aggregating the behaviours of individuals and companies. In other words, a sector can be called "flexible" through the behaviour of the companies and individuals involved. Companies and individuals on the other hand are actors themselves that make "flexibility behaviours". The same holds true for the effects or performances of states. For example, employment and unemployment rates are aggregated figures of individual states and effects. However, based on the aggregated outcomes of companies and individuals, flexicurity challenges are faced in all levels, including the country and sector levels. For example, the problem of aging work force or low fertility rates are societal problems a society or a country as a whole face, based on the aggregated behaviours of individuals. The problem of flexibility, such as low mobility, is based on the behaviour of individuals that aggregated to the society/country level poses as a problem and calls for responses in the institutional levels in policies and law reforms. The response to the challenges then can be seen as new efforts of flexibility/flexicurity which in turn affect the state of flexibility.

## 6. Measuring flexicurity state of affairs

*6.1. Flexicurity state of affairs and diverse challenges*

The focus of this study is to see whether there are similarities in the challenges of restructuring faced and accordingly in the responses taken by the companies of European countries. These similarities are seen to be due to the similarities of the institutional context of systems, especially in regards to flexicurity states. Here we will see if there are groups of countries similar in their '*flexicurity as a state of affairs*', and see if this is reflected on their responses to the challenges, thus the '*flexicurity as policy strategies*'.

Here we will examine the country level, in other words focusing on the country differences in the flexicurity efforts, states and responses made. Of the various dimensions of flexicurity, we are especially interested in the external flexibility and of employment and income security. Here we only consider efforts of flexicurity and not the states. This is due to that the states of flexicurity in this aspect are directly linked to the effects and challenges that the countries faced. For example, one main static indicator for employment security is aggregated data on various labour market positions- such as unemployment rates, percentage of temporary workers and percentage of permanent workers. However, this high unemployment rate, coupled with poverty of the unemployed, which can be seen as indicators of income security, is the main challenges welfare states face.

**Table 2 : Possible indexes in measuring flexicurity state of affairs: efforts and states**

| | Efforts | States |
|---|---|---|
| External flexibility | (country) EPL<br>(company) temp shares | static: tenure,<br>dynamic: turnover rates, adjustment speed |
| Employment security | (country) ALMP % of GDP<br>(country) ALMP / people who want work<br>(company/country) % of enterprises that have CVT(continuous vocational training)<br>(individual) % of people in LLL(life long learning) | Static: unemployment rate, percentage of people in permanent jobs/temporary jobs<br>Dynamic: job mobility index – stability index, upward/downward mobility index |
| Income security | (country) UB/social assistance net replacement rates<br>(country) UB coverage rates<br>(country) PLMP/unemployed<br>(individual) savings?? | Static: poverty rate<br>Dynamic: income mobility index-stability index, poverty probability |

The efforts are divided into efforts made in the country level and those in company and individual level. As indicated before, efforts to enhance flexibility and security can be taken at all levels. For example, participating in life-long learning is an effort individuals make to enhance their employment security through enhancing employability. However, the government policies that enable more people to participate in LLL are country level efforts. For income security, although companies can also take measures to insure the income security for their workers, this is more of an effort made by the individual themselves. It can be done through enhancing job and employment security, but also through investments and savings. For state indicators, as mentioned before, it can only be measured through the behaviours of companies and individuals. However, the states can be measured through static and dynamic indicators as in the Table above. Although these are not exhaustive indicators to measure the flexicurity state of affairs, even though we restrict only to external flexibility and employment, income securities. However, they can give us clues on how countries differ in respects to the flexicurity states of affairs and help us distinguish groups of countries with similar characteristics. We now will look at the specific indicators used to measure external numerical flexibility, employment security and income security. For reasons that we are examining how previous efforts of flexicurity have induced different challenges and different strategies, we examine the efforts of late 1990s and early 2000.

*6.2. External flexibility*

As indexes to measure the efforts in enhancing and the state of external labour market flexibility, we use three measurements. They are Employment Protection Legislation (EPL)

for regular workers, those for temporary workers and the share of temporary workers in that country. EPL index is a governance indicator reflecting provisions by law or policies, while share of 'non-stable' employment is more a contractual indicator, reflecting the actual contracts used in the labour market (Chung, 2005; See Standing, 1999:170; Dasgupta, 2001).
EPL refers to the regulations that concern hiring and firing of workers on both permanent and temporary contracts (OECD, 1999:50). EPL index for regular workers is measured by strictness in the regulations for regular procedural inconveniences, notice and severance pay for no-fault individual dismissals, and difficulty of dismissals. The strictness of EPL for temporary workers is measured according to which contracts are considered acceptable, number of successive contracts or renewals and based on the maximum accumulated durations of contracts. This is measured for the fixed-term contracts and for temporary agency workers (TWA: Temporary Work Agencies). EPL for regular workers concerns the costs for employers of firing workers on regular contracts, while EPL for temporary workers refers to the regulations concerning hiring practices. In additional, there is the collective dismissal protection index, which accounts for the differences in the regulation for collective dismissals and individual dismissals.

According to the OECD, temporary jobs are "forms of dependant employment which do not offer workers the prospect of a long-lasting employment relationship" (OECD, 2002a: 132). The key aspect to this definition, compared to the open-ended permanent contracts, is the limited time length of the contract which may derive from employers' need to adjust to the economic cycles or from the characteristics of the job. Although fix-term contracts are the biggest share of this type of employment, it also includes temporary agency workers, contracts for a specific task, replacement contracts, seasonal work, on-call work, daily workers, trainees, persons in government job creation schemes and so on (OECD, 2002a). This has to be distinguished from open ended contracts that are cut short by employers (or employees) terminating the contract. These are short-term permanent contracts are temporary in its nature but not by its official contract. For these reasons, countries where the costs of firing permanent workers are not high there isn't a great need to use temporary contracts, for workers on permanent contracts can also be used to adapt to business fluctuation from the ease of shedding them. Visa versa countries with stricter EPL levels for permanent workers may have to use the temporary contracts to adapt to fluctuations for this is not easy to do so with permanent workers (Chung, 2005). Relaxation of EPL levels are efforts made in the country level – through legislation and to some extent collective bargaining- to enhance external flexibility. On the other hand, use of temporary contract workers is a way companies use to adapt to the institutional limitations. Table below shows the indexes for external numerical flexibility per country.

**Table 3 : External numerical flexibility efforts indexes**

| Country | EPL for regular workers | EPL for temp workers | Collective dismissal | Overall | Share of fixed-term contracts |
|---|---|---|---|---|---|
| Austria | 2.9 | 1.5 | 3.3 | 2.4 | 8.0 |
| Belgium | 1.7 | 2.6 | 4.1 | 2.5 | 9.1 |
| Denmark | 1.5 | 1.4 | 3.9 | 1.8 | 9.7 |
| Finland | 2.3 | 1.9 | 2.6 | 2.2 | 16.3 |
| France | 2.3 | 3.6 | 2.1 | 2.8 | 15.2 |
| Germany | 2.7 | 2.3 | 3.5 | 2.6 | 12.7 |
| Greece | 2.3 | 4.8 | 3.3 | 3.5 | 13.5 |
| Ireland | 1.6 | 0.3 | 2.4 | 1.2 | 5.9 |
| Italy | 1.8 | 3.6 | 4.9 | 3.1 | 10.1 |
| Netherlands | 3.1 | 1.2 | 3.0 | 2.3 | 5.3 |
| Portugal | 4.3 | 3.0 | 3.6 | 3.7 | 19.9 |
| Spain | 2.6 | 3.3 | 3.1 | 3.0 | 32.2 |
| Sweden | 2.9 | 1.6 | 4.5 | 2.6 | 15.8 |
| United Kingdom | 0.9 | 0.3 | 2.9 | 1.0 | 6.9 |
| Czech Republic | 3.3 | 0.5 | 2.1 | 1.9 | 8.1 |
| Cyprus | . | . | . | . | 10.7 |
| Latvia | 2.3[d] | 2.1[d] | 4.0[d] | 2.5[d] | 6.7 |
| Hungary | 1.9 | 0.6 | 2.9 | 1.5 | 7.1 |
| Poland | 2.2 | 0.8 | 4.1 | 1.9 | 5.8 |
| Slovenia | 2.7[a] | 2.3[a] | 3.3[a] | 2.6[a] | 13.7 |
| Estonia | 2.7[a] | 1.3[a] | 4.0[a] | 2.3[a] | 3.0 |
| Lithuania | 2.9[a] | 2.4[a] | 3.6[a] | 2.8[a] | 4.4 |
| Malta | . | . | . | . | 4.1 |
| Slovak Republic | 3.5 | 1.1 | 3.3 | 2.5 | 4.8 |
| Bulgaria | 2.1[a] | 0.9[a] | 4.1[a] | 2.0[a] | 6.3[b] |
| Croatia | 2.7[a] | 2.8[a] | 2.5[a] | 2.7[a] | 10.9[c] |
| Romania | . | . | . | . | 2.8 |

Source: OECD, 2003; Tonin 2004; European Commission, 2005, 2006; Auer and Cazes, 2003; Eamets and Masso, 2004.
a: data for 2003 (Tonin, 2004).
b: data for 2001.
c: data for 2002.
d: data for 1999 (Eamets and Masso, 2004).
. : data not available.

As we can see, it is the southern European countries along with Lithuania and France with the high levels of EPL overall. Portugal and Lithuania it seems that the high EPL level is due to EPL for regular workers, thus the cost of firing permanent workers. However, for other Southern European countries with France, this is mostly due to the EPL levels for temporary contracts. UK, Ireland, Hungary, Denmark, Czech Republic and Poland are the countries with low EPL overall. For Denmark and Poland this is mainly due to the low level of EPL for

regular workers, while as for Czech Republic this is due to the scores for EPL for temporary workers, for Czech Republic has one of the highest EPL for regular workers. For UK, Ireland and Hungary, both EPL levels are low. The share of fixed term contracts is highest in Spain, Portugal, while it is lower in the newer member states.

*6.3. Employment security*

The indexes used to measure employment security can be endless for reasons that it can be enhanced in many ways. However as a general measure here we take two aspects into account. Firstly, the public efforts put in, to enhance the employability of workers via public expenditure on active labour market policies (ALMP). We can use two indexes of ALMP that is as a percentage of GDP and divided by the numbers of persons wanting to work[6]. The former index takes into account the amount of spending in regards to the economic situation/level of the country and the latter take into consideration the need aspects into account.

In addition we can also examine the various other types of activities that are not necessarily public labour market policies but enhance employability of workers. These will include life-long learning (LLL) - both privately and publicly funded – and continuous vocational training (CVT) done in enterprises. These will show the efforts taken not only by the state but other actors, including the individual themselves in enhancing employability through training and education.

As we can see in table 4, it is clear that the Nordic countries, that is Denmark, Finland and Sweden, fair the best in the efforts of employment security both in country and other levels. On the other hand, the new member states and Southern European states seem to fair worse. However, Slovenia and Slovak Republic seem to do well in the participation of individuals in life long learning. New member states seem to fair worse in ALMP measures, and Southern European countries on the CVT measures. An interesting finding is that UK seems to fair not too well on other measures but rank fairly high on the CVT scores, which indicates that employability enhancement may be done more in the company levels. The opposite might hold true for southern European countries.

[6] The sum of unemployed plus labour reserve (inactive persons who would like to work but do not qualify as unemployed).

**Table 4: Employment security indexes**

| | ALMP as a % GDP | ALMP* / person wanting work | enterprises covered in CVT (%) | people in any LLL (%) |
|---|---|---|---|---|
| Reference year | 2000 | 2000 | 1999 | 2003 |
| Austria | 0.4 | 1.8 | 72 | 89.2 |
| Belgium | 1.0 | 6.3 | 70 | 41.9 |
| Denmark | 1.7 | 13.2 | 96 | 79.7 |
| Finland | 0.8 | 2.3 | 82 | 77.3 |
| France | 1.0 | 3.9 | 76 | 51.0 |
| Germany | 1.0 | 4.4 | 75 | 41.9 |
| Greece | 0.3 | 0.4 | 18 | 17.4 |
| Ireland | 0.8 | 4.5 | 79 | 48.7 |
| Italy | 0.6 | 1.0 | 24 | 48.6 |
| Luxembourg | 0.1 | 3.8 | 71 | 81.9 |
| Netherlands | 0.4 | 4.0 | 88 | 41.6 |
| Portugal | 0.4 | 1.1 | 22 | 44.1 |
| Spain | 0.7 | 0.8 | 36 | 24.5 |
| Sweden | 1.5 | 12.0 | 91 | 71.0 |
| United Kingdom | 0.2 | 0.8 | 87 | 37.6 |
| Czech | 0.1 | 0.1[a] | 69 | 28.7 |
| Cyprus | . | . | . | 37.8 |
| Latvia | 0.1[b] | 0.0[b] | 53 | 46.2 |
| Hungary | 0.3 | 0.2[b] | 37 | 11.7 |
| Poland | 0.2 (oecd) | . | 39 | 30.0 |
| Slovenia | . | . | 48 | 82.0 |
| Estonia | 0.0[b] | 0.0[b] | 63 | 31.4 |
| Lithuania | 0.2[b] | 0.0[b] | 43 | 27.8 |
| Malta | . | . | . | 53.2 |
| Slovak Republic | 0.3(oecd) | . | . | 59.5 |
| Bulgaria | . | . | 28 | 16.1 |
| Croatia | . | . | . | . |
| Romania | 0.1[b] | . | 11 | 10.0 |

Source: European Commission 2006, EUROSTAT.
* : expressed in PPP(purchasing power parity).
a : 2002; b : 2003 ; . : not available.

*6.4. Income security*

The efforts taken to enhance income security, especially for those who have lost their jobs are several. Although unemployment benefit is probably the main way in addressing the issue of income security in the labour market, there are other ways such as early retirement schemes or inactivity benefits which are all indirect ways of securing workers income after loosing one's job. To measure the level of efforts, one can examine the institutions themselves to see to what extent the policies intend to secure one's income. However, examining the institutions is

not enough for every country has their own way of providing income security through various ways, such as tax benefits and through kind [reference]. For this reason the inclusion of measures such as net replacement ratio, that is the actual income replacement rate one is likely to receive after loosing one's job taking various benefit schemes and personal situations into account, and the actual expenditures on the income maintenance of workers (thus spending on Passive Labour Market Policy: PLMP) add information on the various methods income of individuals can be secured.

**Table 5 : Income security indexes for 2001**

| | Initial NRR[1)] | NRR 5 years[2)] | PLMP[3)]/persons wanting work |
|---|---|---|---|
| Austria | 68 | 73 | 6.0 |
| Belgium | 65 | 65 | 13.6 |
| Denmark | 73 | 79 | 18.3 |
| Finland | 72 | 77 | 5.9 |
| France | 78 | 73 | 6.3 |
| Germany | 75 | 76 | 8.8 |
| Greece | 57 | 25 | 0.7 |
| Ireland | 53 | 69 | 4.5 |
| Italy | 61 | 6 | 1.0 |
| Luxembourg | 89 | 78 | 11.4 |
| Netherlands | 76 | 77 | 13.3 |
| Portugal | 85 | 69 | 2.6 |
| Spain | 72 | 53 | 2.1 |
| Sweden | 78 | 77 | 11.8 |
| United Kingdom | 55 | 65 | 2.1 |
| Czech Republic | 61 | 67 | 0.2 [a)] |
| Latvia | n.a. | n.a. | 0.0 [b)] |
| Hungary | 56 | 38 | 0.2 [b)] |
| Poland | 61 | 60 | n.a. |
| Estonia | n.a. | n.a. | 0.1 [b)] |
| Slovak Republic | 63 | 102 | 0.1 [c)] |

1) Un-weighted averages for earning levels of 67%, 100%, 10% of Average Production Wage(APW) and six family types (no child single, no child one-earner married couple, no child two-earner married couple, two children lone parent, two children one-earner married couple, two children two-earner married couple). Initial phase of unemployment but following any waiting period. No social assistance "top-ups" are assumed to be available in either the in-work or out-of-work situation. Any income taxes payable on unemployment benefits are determined in relation to annualised benefit values (*i.e.* monthly values multiplied by 12) even if the maximum benefit duration is shorter than 12 months.
2) Un-weighted averages for two earning levels of 67%, 100% of APW and four family types (no child single, no child one-earner married couple, two children lone-parent, two children one-earner married couple) including social assistance. Any income taxes payable on unemployment benefits are determined in relation to annualised benefit values (*i.e.* monthly values multiplied by 12) even if the maximum benefit duration is shorter than 12 months. For married couples the percent of APW relates to one spouse only; the second spouse is assumed to be "inactive" with no earnings. Children are aged 4 and 6 and neither childcare benefits nor childcare costs are considered.
3) PLMP expressed in PPP.
a) 2002; b) 2003; c) 2004.
*Source:* OECD, Tax-Benefit Models. www.oecd.org/els/social/workincentives
European Commission, Employment in Europe 2006 (Table 3.5).

We can take several net replacement rates into account. Firstly there is the initial replacement rate, which entails the replacement rate of those who have been unemployed recently. However, for most countries the benefit levels change during the unemployment period, decreasing after certain months, and then disappearing altogether or going into unemployment assistance systems. For this reason it is also important to examine the long-term unemployment benefit replacement rates. The benefit rates for the longer-periods also indirectly include information on the duration of the UB systems. The OECD provides net replacement rates of their member states in their report *Benefits and Wages*. Here we use the initial NRR, which is most important for the unemployed, for most unemployed are shorter termed (less than half the unemployed in the European Union are unemployed for more than one year and less than 1/4 is unemployed for more than two), and the NRR over 60 months of unemployment to take the replacement rates for the long-term unemployed into account. Here not only the unemployment benefits but social assistance is taken into account to see exactly how much of income is maintained, regardless of which benefit. In addition to this to take other income maintenance policies into account we use the PLMP divided by the number of people wanting work.

Denmark, Sweden, the Netherlands, Belgium and Luxemburg are the countries with both high levels of replacement rates for the short and longer-term unemployed. Portugal on the other hand has a very high replacement rate for the initial unemployment period but this does not last in the longer-term. Slovak Republic on the other hand, does not have a very high replacement rate for the initial period but including the social assistance system, provide high replacement rate for the average worker type. Italy, Greece, Hungary and Spain are also countries whose benefit replacement rates drop more so in the longer term. Naturally, the countries with high replacement rates are ones with the high passive labour market spending per worker wanting work.

### *6.5. Flexicurity indexes*

Firstly we run a factor analysis on the components to see whether there are various latent dimensions these factors are measuring. Factor analysis reduces a large number of variables into smaller groups based on the correlations of the variables in question to help us identify factors or dimensions that between them (Pedhazur & Schmelkin, 1991: 66; Rennie, 1997; 3). The outcome of this factor analysis will show us how the variables in questions are related to each other based on the behaviours of countries. If according to our theory, there should be three dimensions that is external flexibility, employment security, and income security or two that is flexibility and security. Here we only include 16 countries with the information for all variables which is the EU 15 with the exception of Luxembourg, and include Czech Republic and Hungary.

The results are as follows. Using the *eigen value method*[7], we derive at three factors, which explains for 81.4% of the variance. Here we use the rotated component matrix and varimax which increases the variance of each loading of the factors.

**Table 6 : Rotated Component Matrix(a)**

| | Component | | |
|---|---|---|---|
| | 1 | 2 | 3 |
| EPL for regular workers late 90s | -.154 | **.852** | -.101 |
| EPL for temp worker | -.087 | .407 | **.771** |
| collective dismissal | .467 | -.077 | **.723** |
| share of fxed-term workers | -.039 | **.784** | .294 |
| ALMP % of GDP | **.916** | .045 | .155 |
| ALMP/persons wanting work | **.954** | -.059 | -.011 |
| % of enterprises with CVT | **.647** | -.196 | **-.684** |
| % people in Life long learning | **.715** | .071 | -.207 |
| Initial NRR | .479 | **.831** | -.031 |
| NRR over 5 years (with S.A.) | **.520** | .318 | **-.756** |
| PLMP/persons wanting work | **.914** | .034 | -.123 |

Extraction Method: Principal Component Analysis.
Rotation Method: Varimax with Kaiser Normalization.
a Rotation converged in 5 iterations.

The first factor seems to be the security factor. It shows high loadings of all security indicators and low loadings for flexibility indicators. The second factor has high loadings for all flexibility indicators with the exception of regulation for collective bargaining. Here especially the employment security efforts have high loadings, in this respect, this may be the employment security component. The second factor is less clear. Here the highest loadings are from the EPL for regular workers, the share of fixed-term workers, and initial net replacement rates. The reason EPL for regular workers and temporary employment measures are in the same factor is because they are more or less seen as substitutes for each other. Thus countries with high firing costs have to use temporary contracts to adjust the numbers of workers to the business fluctuations, while countries with low firing costs for regular workers do not have this need (Chung, 2005; Dolado, 2001; OECD?). This explains why countries with high

[7] The Eigenvalue method restricts the numbers of factors based on the amount of variance accounted for by each additional factor used (the eigenvalue). If the eigen value is less than one, that factor is not added. In other words it ignores the additional factor which is accounts for less variance than an original variable.

protection against firing regular workers have high shares of fixed-term or temporary workers. However, the reason these two variables are highly correlated and is placed in the same latent factor as initial net replacement rate is still a question. Last factor has the other two employment protection measures for temporary workers and collective dismissals, and high negative loadings for % of firms with CVT and net replacement rates for longer periods. This entails that it seems that the employment protection measures with the exception of the firing cost for regular workers, go hand in hand with low frequency of continuous vocational training and low benefit levels.[8]

*6.6. Cluster analysis*

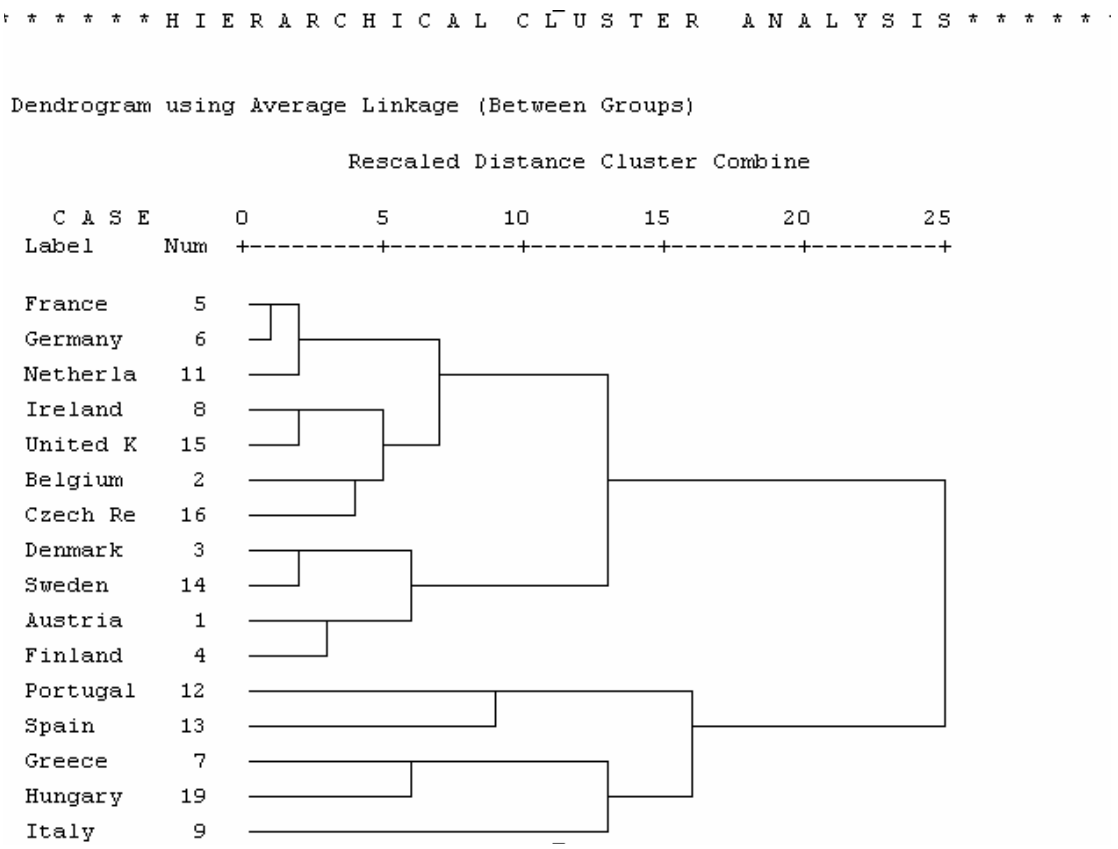
Lastly, and most importantly, we run a cluster analysis of the countries with the variables to see grouping of countries. Europe in itself can be distinguished as one distinctive cluster. However, based on the efforts each country has taken to enhance their flexibility and security we can examine groups of countries that show similarities. The cluster analysis shows us these groups, based on similarities or differences.

When running a cluster analysis, it is wise to put same amount of emphasis on each of the dimensions we want to measure. Here we have four measures for external flexibility and employment security and three for income security. This means that we are giving more weight to the security dimension when we include all the variables in question. However if we do consider all three for being of a separate entity, this would not make much of a difference. However, if we would put similar weights for flexibility and the security aspects, it is wiser to reduce the numbers of variables which measure the security aspect. For this reason we run several analyses, one with all variables, then ones without some of the variables which are seen as being represented from the remaining variables in the analysis. This also enables us to include more countries into the analysis.

The first cluster analysis is when we include all the variables used in this paper.
As we can see we have 16 countries, and here we use the between groups linkage, based on the Squared Euclidian distance method.

[8] See the appendix for scatter plots of these factors.

**Figure 4 : Cluster analyses 16 Member States**




Here we can see three or four clusters. Firstly the Southern European countries, Portugal, Spain, Greece, Italy, including Hungary, distinguishes themselves from other countries coming out as one cluster. The second most distinctive cluster is the Northern European cluster with Denmark, Sweden and Finland. Strangely enough Austria also seem to be included in this cluster. Lastly the other countries form another cluster. However, within this cluster, France, Germany and the Netherlands seem to be more similar to each other, and Ireland, UK, Belgium and Czech Republic are similar to each other. With closer inspection even within the last cluster, the two “liberal-Anglo-Saxon” countries, namely Ireland and UK can be distinguishable as being more similar.

As we seen from the factor analysis, and based on correlations, it is clear that of the employment security the two active labour market policy measures do seem to be correlated, so the analysis outcomes will not differ from the inclusion of both of the ALMP measures. Also, the PLMP per person who wants to work is a distinctive measure in self, but to a great degree can be seen as being similar to the indexes of net replacement rates. To balance the emphasis on both the flexibility dimension and the security dimension, we take both of these measures out. This makes us increase the number of countries under analysis to 17, including Poland into the analysis (see table 7). The analysis outcome shows that there have not been any changes with the exception of the fact that Poland has now been included with the

Southern European cluster, along with Hungary, and Austria has increased its distance with the other Nordic countries.

**Table 7: Cluster analyses including Poland**

| | North | | Central 1 | | Central 2 | | South | |
|---|---|---|---|---|---|---|---|---|
| | Mean | Std. Deviation | Mean | Std. Deviation | Mean | Std. Deviation | Mean | Std. Deviation |
| EPL for regular workers late 90s | 2.4 | 0.7 | 2.7 | 0.4 | 1.9 | 1.0 | 2.5 | 0.9 |
| EPL for temp worker | 1.6 | 0.2 | 2.4 | 1.2 | 0.9 | 1.1 | 2.7 | 1.7 |
| collective dismissal | 3.6 | 0.8 | 2.9 | 0.7 | 2.9 | 0.9 | 3.7 | 0.7 |
| share of fixed-term(EUROSTAT) | 12.5 | 4.2 | 13.9 | 1.3 | 7.5 | 1.4 | 14.8 | 9.9 |
| ALMP % of GDP | 1.1 | 0.6 | 0.8 | 0.3 | 0.5 | 0.4 | 0.4 | 0.2 |
| ALMP/persons wanting work | 7.3 | 6.1 | 4.1 | 0.3 | 2.9 | 3.0 | 0.7 | 0.4 |
| % of enterprises with CVT | 85.3 | 10.6 | 79.7 | 7.2 | 76.3 | 8.5 | 29.3 | 9.0 |
| % people in Life long learning | 79.3 | 7.6 | 44.8 | 5.3 | 39.2 | 8.4 | 29.4 | 14.6 |
| Initial NRR | 74.0 | 4.2 | 77.3 | 2.5 | 56.8 | 7.9 | 64.3 | 11.8 |
| NRR over 5 years (with S.A.) | 76.5 | 2.5 | 75.3 | 2.1 | 66.5 | 1.9 | 41.8 | 23.6 |
| PLMP/persons wanting work | 10.5 | 5.9 | 9.5 | 3.5 | 5.1 | 5.9 | 1.3 | 1.0 |

Here what we can see is that the Northern cluster is distinctive not due to their external flexibility scores, for the employment protection scores are just about average, but due to their employment security and income security efforts. They have exceptionally high scores on these two measures. For the Southern countries the opposite holds true. Their employment protection score are about the same as the Nordic countries but their employment and income security measures, here examined as active labour market policies and training, life long learning and net replacement rates are comparatively very low. This also holds true if we compare this with the other country groupings.

## 7. Varieties in Challenges and efforts

Now we examine the challenges of these European states to see first if the efforts taken in the late 1990s~2000 did result in different challenges in these countries.

Here we focus on three aspects, employment, unemployment rates, participation rates and poverty and income distribution rates. These are the key aspects which are taken into account

when addressing the challenges in the welfare states. Also the employment and labour market participation rates, or activation of workers are the key aspect taken into the Lisbon Strategy. More specifically we examine the average employment rate, average unemployment rate, average long-term unemployment[9] rate, active rate for total population, women, youth(15 to 24) and older workers(55 to 64) for the years 2001 to 2006. Also in addition to take income security aspects into account we examine average poverty rates and Gini coefficient average scores for the years 2001 to 2005, for the reasons of data availability. Here we use the poverty line of 50% of the median income. The outcome is as follows.

**Table 8: employment, unemployment rates, participation rates, poverty and income distribution rates**

| | Employ-ment rate | Unemp-loyment rate | long-term unemploy-ment | female active | youth active | older active | poverty rate | gini co-efficient |
|---|---|---|---|---|---|---|---|---|
| Belgium | 60.3 | 7.9 | 3.9 | 57.1 | 34.1 | 29.9 | 8.0 | 27.5 |
| Bulgaria | 53.6 | 13.7 | 8.5 | 58.4 | 30.3 | 35.8 | 8.8 | 25.5 |
| Czech Re | 64.9 | 7.7 | 4.0 | 62.5 | 36.2 | 44.1 | 4.5 | 25.5 |
| Denmark | 76.0 | 4.8 | 1.0 | 75.8 | 67.7 | 62.3 | 5.5 | 23.8 |
| Germany | 65.6 | 8.7 | 4.5 | 65.6 | 49.6 | 47.7 | 7.0 | 26.5 |
| Estonia | 63.6 | 9.4 | 4.7 | 66.1 | 34.9 | 56.6 | 11.4 | 35.0 |
| Ireland | 66.6 | 4.4 | 1.4 | 58.6 | 50.8 | 51.0 | 12.3 | 31.0 |
| Greece | 58.8 | 10.0 | 5.3 | 52.7 | 35.2 | 41.8 | 13.5 | 33.5 |
| Spain | 60.9 | 10.1 | 3.1 | 55.5 | 45.0 | 44.2 | 12.4 | 31.6 |
| France | 63.1 | 9.2 | 3.6 | 63.4 | 37.3 | 37.7 | 6.2 | 27.4 |
| Italy | 56.7 | 8.1 | 4.5 | 49.2 | 34.9 | 31.1 | 12.3 | 31.7 |
| Cyprus | 68.8 | 4.3 | 1.0 | 62.5 | 41.4 | 52.9 | 9.0 | 28.0 |
| Latvia | 62.1 | 10.3 | 4.7 | 65.0 | 38.6 | 49.4 | 12.0 | 36.0 |
| Lithuani | 61.0 | 11.3 | 5.9 | 66.0 | 29.1 | 51.0 | 12.0 | 33.5 |
| Luxembou | 63.1 | 3.8 | 1.0 | 55.0 | 30.7 | 30.1 | 6.3 | 26.8 |
| Hungary | 56.7 | 6.4 | 2.8 | 53.8 | 29.7 | 30.0 | 6.0 | 26.0 |
| Malta | 54.3 | 7.5 | 3.3 | 36.6 | 57.9 | 31.2 | 8.0 | 28.0 |
| Netherla | 73.8 | 3.7 | 1.3 | 68.9 | 72.5 | 45.4 | 6.3 | 27.0 |
| Austria | 68.8 | 4.5 | 1.2 | 64.4 | 56.6 | 31.4 | 6.5 | 25.8 |
| Poland | 52.5 | 18.0 | 9.9 | 58.4 | 36.5 | 30.4 | 12.0 | 33.0 |
| Portugal | 68.2 | 6.2 | 2.6 | 66.6 | 44.6 | 53.4 | 13.3 | 38.7 |
| Romania | 58.6 | 7.4 | 4.2 | 57.6 | 34.8 | 42.0 | 10.3 | 30.4 |
| Slovenia | 64.6 | 6.3 | 3.3 | 64.5 | 37.8 | 28.6 | 6.3 | 22.5 |
| Slovakia | 57.6 | 17.3 | 11.4 | 62.5 | 40.0 | 30.5 | 8.0 | 26.0 |
| Finland | 68.2 | 8.7 | 2.2 | 74.1 | 58.2 | 54.4 | 4.8 | 26.0 |
| Sweden | 73.0 | 6.0 | 1.1 | 76.0 | 50.6 | 71.7 | 5.5 | 23.3 |

[9] This is unemployment for more than a year.

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| United K | 71.5 | 5.0 | 1.1 | 68.4 | 61.7 | 57.0 | 10.3 | 34.5 |
| Croatia | 54.1 | 13.8 | 8.0 | 56.2 | 39.2 | 30.4 | 11.0 | 14.5 |

Source: Eurostat.
Note: some countries the averages do not contain all years between 2001 and 2005/6.

Although we have the data for all countries to compare the clustering of countries with the last cluster analysis, we restrict the countries to the one in the previous section. Here, also using the between groups linkage method with the Squared Euclidian distance measure the outcome is as follows.

The first most distinctive group we can distinguish is the Northern European group that is Denmark, Finland and Sweden, now including the United Kingdom and the Netherlands. It seems that these are the countries with the best results using the measures above, with high employment and active rates low unemployment and low poverty rates. Also these are the countries with more or less equal distribution of incomes, with the exception of the UK. The second group one can see includes the new member states, Czech Republic, Hungary and Poland, and the Southern European countries, Greece, Italy and Spain with the exception of Portugal. This group also includes Belgium and France. This group can be characterized mostly through its low active rates. The last group contains Germany, Ireland, Portugal and Austria. These countries on average have the better employment, unemployment and active rates than the Southern countries, however fair slightly worse in poverty rates and income distributions.

**Table 9: country clusters with labour market challenges**

| cluster | | Employ ment rate | Unemploy ment rate | long-term unemploy-ment rate | female active rate | youth active rate | older workers active rate | Pover-ty rate | Gini co-efficient |
|---|---|---|---|---|---|---|---|---|---|
| North | Mean | 72.5 | 5.6 | 1.3 | 72.6 | 62.1 | 58.2 | 6.5 | 26.9 |
| | Std. D | 2.9 | 1.9 | 0.5 | 3.7 | 8.5 | 9.7 | 2.2 | 4.5 |
| Central | Mean | 67.3 | 6.0 | 2.4 | 63.8 | 50.4 | 45.9 | 9.8 | 30.5 |
| | Std D | 1.5 | 2.0 | 1.5 | 3.6 | 4.9 | 9.9 | 3.5 | 5.9 |
| South | Mean | 59.2 | 9.7 | 4.6 | 56.6 | 36.1 | 36.2 | 9.4 | 29.5 |
| | Std. D | 4.0 | 3.6 | 2.3 | 4.8 | 4.3 | 6.5 | 3.6 | 3.3 |

## 8. Best practices in country

The data analyses above and the review of the policy suggestions of the European Commission showed the efforts to combine external numerical flexibility, with employment and income security. These focus for a large part at the national level. However, there are in case of restructuring also other feasible combinations of flexibility and security to be made.

These often are flexicurity strategies at company or regional level and are therefore difficult (although not impossible) for the EU to influence. National institutions can facilitate organisations in their attempts to combine flexibility and security once they face restructuring. Examples of such cooperation can be exchanged at the EU level and serve as inspiration for other Member States. In this section we describe the examples that have been used at a mutual learning gathering organised by Directorate-General for Employment, Social Affairs and Equal Opportunities, or are described in the Joint Employment Reports of the Commission.

In general the Commission is disappointed about the measures Member States take under the heading of improving adaptability. Moreover, the measures that are taken often are separate issues that do not seem to support an overall integrated flexicurity strategy. The most popular measures taken, is the redesign of the Labour Code, increasing the variety of contract types. However, Member States fail to focus on the transitions between these types of contracts. In the end this might contribute to segmentation at the labour market, leaving Member States with the task to make new policies to diminish this segmentation (European Commission, 2006). Fortunately, the Joint Employment Report managed to include some good examples of countries that took measures to improve the anticipation and management of economic restructuring. Luxembourg is e.g. mentioned for the introduction of transition plans for workers that lose their job because of restructuring. Ireland reviewed the future challenges awaiting its manufacturing sector. Finland serves as an example for introducing change security in the sense that it provides dismissed workers with a higher level of financial security in the time span between changing jobs. Simultaneously it is increasing the cooperation between employers, employees and labour authorities. Belgium, Germany and Latvia are mentioned for their incentives for unemployed who want to start their own business.

At the mutual learning gathering on restructuring and flexicurity 27 September 2006, three country examples were presented: Austria, the UK and Slovakia. Austria presented its Labour Foundations which help to anticipate and manage restructuring. These Foundations focus at labour market problems at the regional level, both in case there are redundancies expected, and when specific bottlenecks of labour supply exists (outplacement versus implacement) (Holzer, 2006). Individualised reintegration processes are set up and executed, sometimes even leading to training programmes that last several years. Other instruments used are career guidance, active job searches, work experience programmes and help in starting up a business (Holzer, 2006). Different labour market actors, such as the social partners are included in this system.

Slovakia presented their special guarantee fund in combination with active policies. The aim is assisting employees when their employer has become insolvent (Štrbíková, 2006). Financial help is combined with active labour market policies, which helps to keep expenditures low and to assist people in returning to the labour market. Active policies

encompass the cooperation between employment services and organisations that face difficulties, and help them either to avoid dismissals, or to find alternative employment.

The UK presented a regional approach in case of an announced large-scale redundancy, for example when the Rover car factory closed down (Wilson, 2006). Part of this approach is the Jobcentre Plus and the Rapid Response Service which contribute to the overall objective to prevent scarring for the individual (preventing long-term unemployment and possible poverty) and for the community (such as local recession). A specialised redundancy coordinator is appointed who helps individuals that have been made redundant. The Rapid Response Service ensures a quick response and gives coherent and effective support and helps people to make a transition back to work. The Jobcentre coordinates the contacts between the job seekers and several companies that are willing to take on workers.

## 9. Conclusion

Viewing the EU initiatives to balance flexibility & security and to manage restructuring, we see an increasingly dynamic view on security, emphasising the security that workers can find in being capable of making timely transition at the labour market. Simultaneously, flexibility has been more explicitly transformed from an asset for companies to a demand of both companies and employees. Restructuring is seen as an inevitable part of a vital economy and therefore contribute to the need to be adaptable. New securities that employees can gain in such a turbulent economy are employment security and income security. Such a discourse is also present in the Employment Guidelines of the European Employment Strategy and in the newly established components of flexicurity.

The initiatives of the Commission are for a large part based on the past labour market efforts of Member States and their remaining labour market challenges. The eventual aim is to have a prosperous European economy with a social character. To reach this goal the Commission creates new employment efforts by stimulating Member States to take actions to improve parts of their labour markets. If we focus on the types of flexibility and security that can be altered via national policies, regulations and institutions (here: external numerical flexibility, employment security and income security), and are thus part of the sphere of influence of the EU, we can establish different clusters of countries that have undertaken different labour market efforts around the year 2000. Firstly the Southern European countries, Portugal, Spain, Greece, Italy, including Hungary, distinguishes themselves from other countries coming out as one cluster. The second most distinctive cluster is the Northern European cluster with Denmark, Sweden and Finland, but also Austria. Lastly the other countries form another cluster. However, within this cluster, France, Germany and the Netherlands seem to be more similar to each other, and Ireland, UK, Belgium and

Czech Republic are similar to each other. With closer inspection even within the last cluster, the two "liberal-Anglo-Saxon" countries, namely Ireland and UK can be distinguishable as being more similar.

If we analyse the labour market challenges these countries faced between 2001 and 2006 (after the above described state of efforts), then we can also distinguish several slightly different clusters. The first most distinctive group is the Northern European group: Denmark, Finland and Sweden, now including the United Kingdom and the Netherlands. It seems that these are the countries with the best results using the measures above, with high employment and active rates low unemployment and low poverty rates. Also these are the countries with more or less equal distribution of incomes, with the exception of the UK. The second group one can see includes the new member states, Czech Republic, Hungary and Poland, and the Southern European countries, Greece, Italy and Spain with the exception of Portugal. This group also includes Belgium and France. This group can be characterized mostly through its low active rates. The last group contains Germany, Ireland, Portugal and Austria. These countries on average have the better employment, unemployment and active rates than the Southern countries, however fair slightly worse in poverty rates and income distributions.

Although it is very valuable to look at these country level possibilities and it is thus also valuable for the EU to positively influence these national practices, there are other possibilities for making flexicurity strategies, such as looking for ways to alter working times. These are however more likely to be constructed at company or sector or regional level, but can be supported by national institutions, regulation and policies. More country and company best practices should be gathered to see how feasible combinations of flexibility and security can be made while restructuring enterprises.

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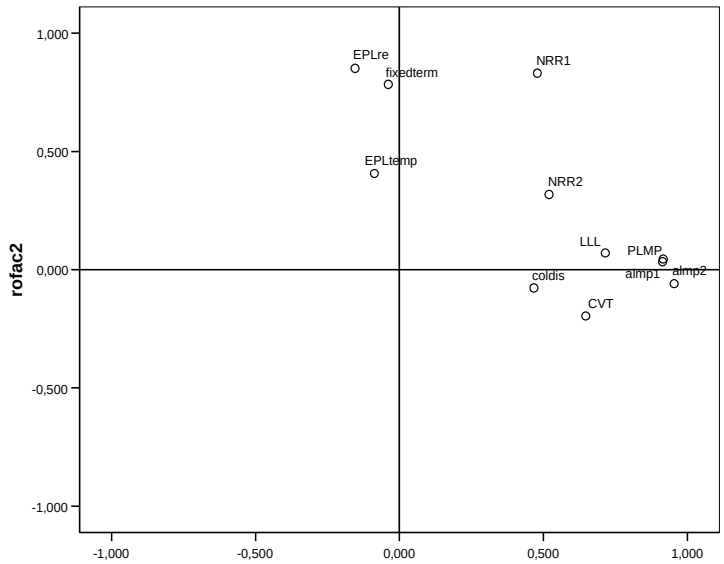
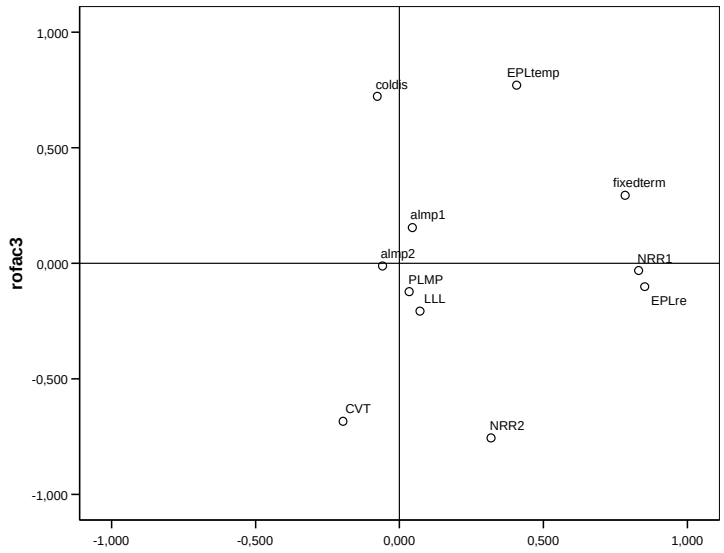
## Appendix

As we can see from the scatter plot of the factors, here the y-axis seems like a type of flexibility component, while as the x-axis seem to be a measure of security. The third factor is a bit harder to interpret.

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