The Importance of Numerical Flexibility In Turkish Labor Market and Competition Policy

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Abstract: Numerical flexibility, which has been common since Atkinson (1984), can be defined as a situation where the number of staff and the number of hours worked can be increased or decreased depending on the demand for labour. Within the “flexible firm model”, numerical flexibility is seen as being designed to facilitate a rapid adjustment in headcount, in line with short-term changes in the level of demand for labour so that the number employed equals the number required at any time. Based on Labour Law no 4857, Turkey has adopted this approach as a competition policy in order to provide flexibility into labor market and to promote the competition of Turkish firms. Therefore, in this study, flexibility-based tools are discussed and evaluated in terms of competition policy.

Introduction

The flexible firm model developed by Atkinson (1984) resulted from studies carried out on the changing nature of employment in the UK during the 1980s. Atkinson concluded that changes in technology, training costs, working time and labour supply were the factors influencing and driving change in UK employment policies and strategies. The changes in employment policies and strategies, Atkinson believed, resulted in the formation of two employee groups—the core and peripheral. The core group consisted of full-time permanent workers and the peripheral group consisted of part-time, temporary and contract workers (collectively termed “atypical” by Atkinson).

Today, flexibility in labor market has been a new competition strategy for firms and there has been a significant growth in flexible or “non-standard” forms of employment. Since laborforce is a variable factor of production and because of impossibility of perfect substitution of investment goods for laborforce using today's technology, forces dynamic conditions in goods and factor markets to have a more flexible structure in terms of employment forms of firms and restructuring the job schedule. Hence, flexibility in labor market as a competition strategy can be expressed in two ways; external flexibility and internal flexibility.

External flexibility, which allows firms to adjust demand for labor to workload, and numerical flexibility which is called employment flexibility are strategic methods and policies for firms to harmonize to rapidly changing economic conjuncture. Firms who adjust the number employed to workload are defined as “flexible firm” and together with core laborforce of these firms, they—depending on business conditions—employ other kinds of employment such as temporal worker, part-time worker and external service act, and peripheral labor (Felstead, 1999, p.10). Therefore, numerical flexibility will be obtained by firm from employment of peripheral laborforce. Numerical flexibility is defined an employment type which enables employment of part-time and temporary worker according to fixed-term non-standart employment contracts as well as full-time workers with open-ended employment contracts (Kutal, 2002, p.33). This aspect of numerical flexibility has been taken into consideration and
flexibility in the market economy means the required use of workers when needed (TİŞK, 1999, p.23). This definition puts forward the importance of numerical flexibility to firms.

On the other hand, it has been stated that the diffusion of flexible employment types helps developing countries to employ low-waged laborforce to accelerate their economic growth.

Working hours flexibility known also as internal flexibility creates another dimension of labor market flexibility as a competition strategy. Flexibility in working hours, in case when normal work period does not response to labor supply and demand, is defined as flexibility in the period worked in response to a change in work load of employer and in workers’ demand for income-leisure time—within normal working hours limits (OECD, 1990, p.23-24).

It is stated that working hours short-cut is a different application of working hours flexibility (Bosch, G. P. Dawkins and F. Michon, 1994, p. 25–27). This method enables firm to adjust its labor demand to a fluctuation in demand for its goods produced. According to the labor demand model, it is assumed that firm has to adjust its labor demand to a change in economic conditions (Borjas, 1996, p.138). it is further assumed that working hours flexibility is a strategy in which firm aims to protect its competitive power across firms (Kuzgun, 2005, p.34).

Based on a OECD regulation in 1985, it is pointed out that flexible working hours constitutes the numerical aspect of laborforce flexibility and comes to the same manner with the flexibility in labor input costs (Bosch, G. P. Dawkins and F. Michon, 1994, p. 25). In the same point of view, flexibility in working hours gives an advantage to firm to give a quick response with a minimal input cost to fluctuations in demand in goods market. Further, while working hours flexibility allows firm to feasible use of laborforce in number and time needed (Centel, 2002, p.239). On the other hand in terms of workers it means that “...it is an agreement between employer and employee so that working hours needs to be adjusted to employee’s conditions” (Centel, 2002, p.243).

2. Flexibility in Turkish Labor Market As A Competition Strategy

2.1. Flexibility As a Firm’s Competition Strategy

It has been seen that factors which determine managerial strategy of a firm are aggregated under the two headings as external and internal; across external factors the state of markets, competitive conditions, economic fluctuations and legal regulations are mentioned, as for internal factors the human source is pointed out (Ergin, 1992, p.50-56). In this respect, within the context of new Turkish Labor Law, regulation necessity for numerical flexibility and flexible working hours constitutes the legal framework of firms’ new competition policies.

Within this framework, part-time working, on-call working, compensatory working, short working, temporary secondment and labor subcontractor applications are considered. Among these, though temporary working has been expansively applied in Turkish labor market, it had not been legally arranged. On the contrary, on-call working, compensatory working and temporary secondment have found place within the new labor law context. In Turkey, the factor that improves the effectiveness of labor market flexibility on determining firm’s competition strategy has been the legal permissance given to private employment agencies to be established. In order to shorten the temporary unemployment period, importance is attached to the matching of unoccupied jobs with the people looking for a job. Thus, the private employment agencies have been accepted as instruments of active employment policy for the improvement of the matching capability of the labour market besides the public employment institutions. “The aim of the employment service is to enable employers to identify and employ workers who are equipped enough to perform their jobs, and to help individuals find their first jobs, change jobs during their career, and to find new jobs when they become unemployed.” (http://www.oas.org/udse/espon/documentos/cancun/01developingeffectiveES-D,Fretwell-docom.pdf).

As of April 2010, 277 private employment agencies have started to operate and they have been distributed among 19 provinces in Turkey. These provinces are Adana, Ankara, Antalya, Balıkesir, Bursa, Denizli, Diyarbakır, Eskişehir, Gaziantep, Hatay, İstanbul, İzmir, Kayseri, Kocaeli, Konya, Muğla, Sakarya, Tekirdağ and Trabzon (http://statik.iskur.gov.tr/0252/iiler/01-T%c%3bcm%20Liste.pdf). Meanwhile, 126 of these private employment agencies have been closed and the licences of five agencies have been cancelled by ISKUR (http://www.iskur.gov.tr/loadExternalPage.aspx?uicode=statozteistbdamburodag1). These data show that private employment agencies in Turkey have created a new sector within the service sector. While there is no data on how many people are employed by private employment agencies in Turkey, it is supposed that they have created labor opportunities at a specific rate. The indirect contribution of private employment agencies appears at the stage of providing matching services. Structural unemployment is one of the features of the labor market in Turkey. It is considered that thanks to these agencies, the decrease in the period of looking for a job is a partial solution for the structural unemployment. It is possible to say that 1.5% of those applying to private employment agencies in Turkey are already engaged in a business (Kuzgun, 2008:12). Life time of a firm is the outcomes factor and it is based on the economic activities in the effects on the employment level.

It is observed that the fact that employment service is provided by private sector firms as well as public institutions has led to creation of a sub-sector within the service sector and to creation of new job opportunities. This sector has been accepted as
an emerging market by the EU countries and it is stated that new employment opportunities have been created for 1.3 million people in the European Union in this way and that this figure corresponds to 1.9% of total employment. (http://www.eurociett.org/fileadmin/templates/eurociett/docs/position_papers/EurociettPositionPaper_Lisbon_Strategy_March_2006.pdf)

2.2. The Reasons For Adoption of Flexibility in Labor Market As a Competition Strategy in Turkey

These reasons can be classified into two sub-headings.

2.2.1. External Factors

The first external factor is globalization and its effect on the decisions regarding productive organizations of firms in Turkey. The second is to adopt the flexible labor market approach as it did in EU in the adaptation process of Turkey to EU.

2.2.1.1. Globalization

Since competition in domestic and international market has gained big importance, recent atypical or non-standart job contracts are emerged as well as typical/standart or normally interpreted job relations and job contract concepts. It is pointed out that, in process of globalization, the effect of international trade on employment has been more improved (Liemt, 1997: s.240). In terms of competition, in the short-run, benefiting from the nature of labor force being variable factor of production in order to enhance the competitive power, firms use peripheral labor force in which they employ labor force in accordance with the workload. In this regard, it is agreed that the types of Post-Fordist organizations has been recently appeared in developed and developing economies by the result of coercive nature of international trade (Felstead,1999, s.9). Taking into consideration further the fact that the pressure of globalization and competition leads firms to seek for reducing the costs, it is stated that flexibility in the general level of labor force costs is one aspect of flexibility in labor market (Elliot, 1997, s.301). Notably in the stage of economic crisis, providing flexibility in adjusting the employment costs is critically important for competing firms. Furthermore, a relationship is constituted between the use of labor force and having a flexible position and, it is emphasized the importance of possessing a flexible structure during the crisis (Aşıkbağ, 2001, s.54). In terms of Turkey, it is expressed that the flexibility in labor force has risen as a system driven by globalization (DPT, 2001b, p.38).

2.2.1.2. The Adaptation Process of Turkey to European Union (EU)

According to Kuzgun (2004), another reason of introducing different types of flexible employment into the new Labor Law is the adaptation process of Turkey to EU and it plays an important role during this process. The same approach has also been followed in the Eight Five-Year Development Plan (DPT, 2001, p. 145). This adoption, globally, has proved the fact that the EU is influential in individualizing the work relationships by the case in Turkey. Besides that, together with some types of flexible employment, absence of legal regulations seemed to be a lack in Turkey. This lack is first put on the agenda in the project of improving employment and efficiency in labor markets.

2.2.2. Internal Factors

These factors resource from the structural futures of Turkish economy and labour market.

2.2.2.1. The Ever-Growing Unemployment

In the aftermath of World War II, the numerical flexibility concept in the labor market in industrialized economies is another factor in determining different types of flexible employment and subcontracting which enables labor market to become flexible. On the other hand, it has claimed that the oil crisis in the mid of 1970s had strengthened the relationship among flexible types of employment producing a new unemployment wave (Tuncay, 1995, p.57)

Therefore, a tie between widespread flexible types of employment and unemployment is constructed and at the end of the 20th century, as types of flexible employment become widespread, so does the employment possibilities (Felstad, 1999, p.3). Likewise the idea that holds that there is a linear correlation between flexibility and levels of unemployment rates and that reforms need to be done for a flexible labor market (Rodriguez, 2003, p.37)
runs parallel with the idea that maintains that reforms in job law which should make labor market more flexible in 2003 in Turkey comparing with the high level of unemployment rates. The reason of the ever-growing unemployment in Turkey is the long-lasting economic crisis as an influential factor stimulating unemployment (Kazgan, 2002, p.19).

<table>
<thead>
<tr>
<th>Years</th>
<th>1995*</th>
<th>1999*</th>
<th>2008**</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unemployment rate %</td>
<td>6.9</td>
<td>7.3</td>
<td>11</td>
</tr>
<tr>
<td>Underemployment rate %</td>
<td>6.7</td>
<td>6.9</td>
<td>3.1</td>
</tr>
<tr>
<td>Underutilisation rate % (Unemployment + Underemployment)</td>
<td>13.6</td>
<td>14.2</td>
<td>14.1</td>
</tr>
</tbody>
</table>

Source: * Obtained from 8th-Year Development Plan, DPT, p. 102, ** Obtained from Turkish Statistical Institute (TÜİK) News Bulletin.

Table 1: Changes in Unemployment and Underemployment rates in Turkish Labor Market (1995-2008) (15+ Age)

As it can be seen from the Table 1, in the period of 2005-2008, as a consequence of effects of the global crisis and economic instability on Turkish economy, while unemployment rate was 6.9% in 1995, it increased to 7.3% in 1999, and to 11% at the end of 2008. But, in contrast to realized rates of underemployment in 1995 and 1999—6.7% and 6.9%—, it decreased to 3.1% in 2008. Under these conditions, underutilisation rate of work force, which is the sum of unemployment rate plus underemployment rate, increased to 13.6 % and to 14.2 %, in 1995 and 1999 respectively, but in spite of a considerable decrease in 2008, it slightly decreased to 14.1 % at the end of 2008 (due to increasing unemployment rates).

2.2.2.2. The Share of Service Sector in Total Employment

It is stated that there is a linear correlation between flexibility and increasing share of service sector in total employment (Felstead, 1999, p.12). In Turkey, in the sectoral distribution of employment in urban areas, service sector ranks first and it is followed by industry and agriculture sectors. On the other hand, if we look at the long-run expectations of employment in Turkey, it is seen that service sector is leading sector which will create an employment capacity for labour suppliers (İŞKUR, 2003, p.13).

According to Household Work Force Survey results, in both 2008 and 2009, considerable part of employment is engaged in service sector. As of 2009, the share of service sector employment in total employment reached to 50%. The economic crises has led industry sector to provide less employment comparing to the numbers of 2008 (Table 2).

<table>
<thead>
<tr>
<th>Sectors</th>
<th>2008</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Employment</td>
<td>Share (%)</td>
</tr>
<tr>
<td>Agriculture</td>
<td>5016</td>
<td>23.7</td>
</tr>
<tr>
<td>Industry</td>
<td>5682</td>
<td>26.8</td>
</tr>
<tr>
<td>Service</td>
<td>10495</td>
<td>49.5</td>
</tr>
<tr>
<td>TOTAL</td>
<td>21194</td>
<td>100</td>
</tr>
</tbody>
</table>


Table 2: Sectoral Distribution of Employment, 2008-2009 (in thousands, 15+ age)

2.2.2.3. The Share of Unregistered Employment in Total Employment

Unregistered employment is generally keeping the workers away from awareness of the government, employing unskilled workers, violating the regulations such as minimum age level (child labour), minimum wage, overtime, workplace standards, health and security of workers.
It is generally agreed that, in Turkey, there is an informal economy as well as the informal one and an unregistered employment beside the registered. Today, it is obvious that one of the most challenging problems economies have faced is informal economy and unregistered employment (TUSIAD, 2002, p.96).

In 2009, According to the latest published survey results, the ratio of persons who worked without any social security related to the main job inclined to 42.3 % with 1.5 percentage point increase. The share of persons who did not have any social security in agriculture increased from 84.5 % to 85.8 % and that in non-agriculture increased from 28.6 % to 28.7 % compared to the same period of the previous year (http://www.turkstat.gov.tr/PreHaberBultenleri.do?id=6229, 20 April 2010). By the expansion of types of flexible employment, employment of women, retired, young and handicapped labour force who are considered as secondary labour force have been increased, to participate in economic activities, in work place or at home. Besides that, it is observed that types of flexible employment are accumulated in product lines with low-demand of capital. For example, as a consequence of creating new job opportunities being restricted in Turkey, the labour force as unregistered are employed in product lines which do not require too much capital such as piece-rate wages system in return for producing at home (DPT, 2001a, p.46)

Shifting production out of plant within the context of the organization of production means flexibility in organizing the job and provides an opportunity of reducing the production costs in terms of firm. Henceforth, flexibility in organization is seen by firm as a dominant competition strategy against its rivals (İŞ KUR, 2003, p.35). In this respect, flexibility in production and in employment is an inevitable result of competition and is defined as realization of production out of plant employing outsider workers (TİSK, 2004, p.34).

Subcontractor application is another method to shift the production out of plant. The factors bringing about this application are changes in production process, expansion of small and medium-sized firms and the focus on privatization (Ekin, 2002, p.59). Since small and medium sized firms hold a near-position of subcontractor firm, they have a considerable share in total number of firms and in total employment and they emphasize the relationship between informal economy and firm size in Turkey. So, reshaping the subcontractor application within Labor Law carries considerable importance.

Existence of small and medium-sized firms (SMEs) and shifting the production out of plant; are supported with the view of which classifies the capital system as dualist—primary and secondary— in acceptance of flexibility in labor market (Tai, 1994, p.16-17). When taking into consideration that subcontractor application enables firms to offset labor demand and to shift their production line into secondary sector, it would not be false to see the informal economy and subcontractor firms operating in this economy as secondary sector in Turkey. Furthermore, allowing for the operation of private employment agencies within this sector will speed up the tendency of firms towards the sector.

In Turkey, basically, though subcontractor application became widespread in private sector, it also is becoming widespread in public sector. Among the reasons, decreasing the production costs in State Economic Enterprises (KIT), willingness to work with problem-free worker groups and the thought in which easily privatizing the State Economic Enterprises are mentioned. Therefore, subcontracting is described the other way of privatization in public sector (Ekin, 2002, p.35).

On the other hand, it is pointed out that subcontractor application is a key concept in international trade (Liemt, 1997, p.240). When looking at the examples of subcontractor applications in international field, it is observed that 32 percent of employers in excessively industrialized countries such as France, Germany and United Kingdom have shifted their own works to the subcontractors in the last three years and, in Turkey, the number of subcontractor employers and workers in the lines of business accounts for 15% of total labor force (Ekin, 2002, p.34)

2.2.2.4. Firm Size in Turkey

Since small-sized firms have a more flexible structure, it possible to construct a relationship between flexibility in labor market and firm size. Firms having a flexible structure, in general, are small and medium sized. Owing to this structural feature, Firms in this size easily respond to changes in demand of goods and services. In this respect, the types of flexible employment as competition strategy are more important for these firms.

According to the EU standards, firms employing 1 to 9 workers are defined as micro enterprise; and those employing 10 to 49 as macro enterprise (Kuruüzüm, 1998, p.37). But in Turkey, there is not a common standard on determining firm size taking number of workers employed as a basis. According to some determination, firms who employ 1 to 49 workers are considered small sized firms (http://www.kosgeb.gov.tr/kos.htm). Firms in this size, have a notably place in Turkish economy. In the same way, the abundance of small-sized firms in number is considered among structural features of Turkish economy (Bulutay, 1995, p.65).
According to Table 3, Firms, who employ 1-49 persons and defined as small sized in Turkey, account for 61 percent of total insured labor force. This founding shows, within the new Labor Law, the importance of arranging the types of flexible employment in terms of labor market in Turkey. Thus, in determining of employers’ commitments, firm size is taken as basis and in general small firms have been legally protected (Kuzgun, 2004, p.5-14).

2.2.2.5. Frequency of Cyclical Fluctuation

In terms of firm, providing working hours to become more flexible during economic crises is crucial in relation with minimizing the labor costs. Because an anticipated crisis weakens the firms’ adaptation and prevention mechanisms of cyclical fluctuations and threatens firms’ operational goals, values and predictions regarding sales and returns (Dinçer, 1998, p.385).

The economic crises within the context of new Labor Law is accepted being one of the reasons of flexibilizing working hours and is arranged in scope of the article 65 in case of bringing short working in practice. In doing that, it is thought that cyclical and intense fluctuations experiencing in economic activities have been influential on this arrangement (Bulutay, 1995, p.87).

In order to adopt a resolution for short working according to Labor Law, an economic crisis must be a general crises affecting the whole economy. By this approach, in paragraph (3) of article (3) in the act which regulates short working and the payment for short working, an economic crisis is defined as “a situation in which events occurred in national and international economies give shock to the whole economy and establishments” (www.iskur.gov.tr/mydocu/mevzuat/yonetmelik45.html).

A general economic crisis brings about changes in overall economic conditions in terms of firms. In this respect, it is argued that short working provides facilities to firms to cope with crisis and that short working during crisis is a key for feasible solutions in terms of firms (MESS, 1999, p.180).

When analysing the demands for short working to Ministry of Labor and Social Security, as of 30 September 2004, it has seen that the whole demands have been made by firms operating in private sector, and that those firms according to the KOSGEB classification are mostly small and medium-sized (Kuzgun, 2005, p.45-46). According to Arıkboğa (2001), there is a relationship between the number of employees employed and firms’ flexible structure and particularly in crisis period, flexibility is a feasible strategy. But, in arrangement of short working, firm size has not been taken a criterion (Kuzgun, 2005, p.47). This policy, regardless of how big firms are, is a result of the opinions to protect firms against economic crisis.

While it has been aimed, by short working, to adjust firm’s demand for labor to shrinking in the level of economic activities; the negative effects of employee’s income loses caused by implementing of short working has been considered to be compensated by the payment for short working. The main determinant in employee’s acquiring the rights of short working is the condition in that premium payment must be paid within the prescribed time limits.

<table>
<thead>
<tr>
<th>Size of Work Places (based on the Number of Compulsory Insured Person)</th>
<th>Number of Compulsory Insured Person</th>
<th>Share (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1-3 persons</td>
<td>1,228,315</td>
<td>13.8</td>
</tr>
<tr>
<td>4-6 persons</td>
<td>855,295</td>
<td>9.6</td>
</tr>
<tr>
<td>7-9 persons</td>
<td>613,074</td>
<td>6.9</td>
</tr>
<tr>
<td>10-19 persons</td>
<td>1,198,952</td>
<td>13.5</td>
</tr>
<tr>
<td>20-29 persons</td>
<td>699,524</td>
<td>7.9</td>
</tr>
<tr>
<td>30-49 persons</td>
<td>898,516</td>
<td>10.1</td>
</tr>
<tr>
<td>50-99 persons</td>
<td>848,127</td>
<td>9.6</td>
</tr>
<tr>
<td>100-499 persons</td>
<td>1,753,236</td>
<td>19.8</td>
</tr>
<tr>
<td>500-999 persons</td>
<td>408,122</td>
<td>4.6</td>
</tr>
<tr>
<td>1000+ persons</td>
<td>371,805</td>
<td>4.2</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>8,874,966</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>
Conclusion

Today, being connected to globalization, flexibility in labor market is adopted as a new competition strategy in terms of firm. By external and internal factors, the introduction of new regulations into the new Labor Law aiming at flexibilizing labor market has constituted the legal framework in determining firm’s competition strategy in Turkey. The importance of new regulation based on numerical flexibility and flexibilizing labor market is vital in respect to determining competition policies.

Labour market flexibility is seen as an important characteristic of a modern economy. Labor market flexibility describes how labour markets function. A flexible and efficient labour market implies higher employment, and so an economy that is fairer (in terms of, for example, reducing social exclusion), as well as more competitive and more productive. It also implies an economy that is better able to adapt to the changing economic environment. External numerical flexibility refers to the adjustment of the labour intake, or the number of workers from the external market. This can be achieved by employing workers on temporary work or fixed-term contracts or through relaxed hiring and firing regulations or in other words relaxation of Employment Protection Legislation, where employers can hire and fire permanent employees according to the firms’ needs. Internal numerical flexibility, sometimes known as working time flexibility or temporal flexibility. This flexibility achieved by adjusting working hours or schedules of workers already employed within the firm. This includes part-time, flexi time or flexible working hours/ shifts (including night shifts and weekend shifts), working time accounts, leaves such as parental leave, overtime.

Arranging the both types of flexibility within the new Labor Law enables firms to determine their new competitive strategies. This arrangement, especially in private sector, will lead employment strategies based on the distinction between core and peripheral labor force to be emerged, and also will help this distinction to become common. Besides that, operations of private employment agencies and in general the demand for temporary employee by firms, both, will bring about a new expansion to the competition among rivals and will expand the application of the fixed-terms temporary working contracts. In this context, private employment agencies also will facilitate the applications of numerical flexibility as competition strategy. In the next stage, it is expected that expansion of flexibility would bring about a fragmented and more informal labor market in Turkey.

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