

# **The Reality of Annual Hours Working and Mutual Gains: Preliminary Results from a Survey of Worker Opinions in Ireland**

Track 1: Management, Work and Organisation

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## **ABSTRACT**

This paper reports on the findings of a survey of worker opinion on annual hours in two companies in Ireland. Annual hours are a relatively recent form of work organisation with their origins traced to developments in the pulp and paper industry in Scandinavia in the 1970's. Their introduction to Ireland dates from the early 1990's. Despite the claims of mutual gains, there is evidence from the UK that annual hours systems are not popular with employees and that the preponderance of benefits accrue to management. These conclusions are based on interviews with trade union officials or small groups of workers. In contrast, interviews with union representatives in Ireland have previously suggested a more positive view of annual hours by workers. To date neither Irish nor UK research has involved any survey of worker opinions. This paper sets out to remedy this lacuna by reporting on the results of a survey of workers in two private sector Irish organisations in advanced manufacturing that have adopted annual hours. The survey has been conducted among the population of all employees who work annual hours in the two companies. The preliminary findings from the survey confirm that workers are generally satisfied with annual hours and prefer this system to very high levels of overtime. While there are some minor issues with the operation of annual hours, the majority of workers in both companies would choose to continue working annual hours rather than any alternatives, and perceive that they benefit from working annual hours.

## **INTRODUCTION**

This paper sets out the initial findings of a survey of worker opinions of annual hours<sup>2</sup> in two companies in Ireland. Annual hours operate by averaging hours worked across the year rather than the week or month. A yearly salary is paid on a regular basis but hours worked can vary, as required according to the season or demand. The system is designed so that employees work only when they are needed, thereby reducing idle time. Whereas in standard hourly work arrangements, peaks in demand are covered through overtime, or employing temporary workers, annual hours allows for organisations to closer match working hours to organisational demands (see Bell and Hart, 2003; D'Arcy, 1998; Gall, 1996; Mazur, 1995). A key attribute of annual hours is that overtime is eliminated<sup>3</sup>. Typically, a number of 'reserve hours' are incorporated into yearly contractual hours but it is common that some, or all, of these are not worked. The idea is that workers get paid for these hours, whether or not they are worked, but employees can be required to work these hours if needed. In fact, in Ireland it is normal for only a small proportion of reserve hours to be worked, thus delivering gains to employees in terms of reduced working hours.

It has been claimed annual hours offer potential for increases in productivity and hold out the promise of mutual gains for both management and employees (Hung, 1998; Rodriguez, 2003). These gains may take the form of company survival, the elimination of overtime, increased productivity and greater predictability of costs for management and job security, stable pay and greater work-life balance for employees. We review some of our previous findings on annual hours in Ireland and highlight the results of a survey of worker opinion of annual hours in two companies. This is done to compare the results of the survey of workers to the positive views of annual hours among trade union representatives (union officials and shop stewards).

## **BACKGROUND**

The research on annual hours in Ireland was, until recently underdeveloped. Previous research was limited as no data on the coverage of annual hours in Ireland existed and much of the research focused on exemplar case studies with somewhat simplistic narratives (see for example NCPP, 2002). The biggest void in the previous research was that it relied solely on management perspectives (see D'Arcy, 1998) and thus there was a dearth of worker views on the operation, advantages and disadvantages of annual hours. This paper is part of a systematic study of annual hours designed to remedy these lacunae. We have previously presented papers at conferences that addressed the issues of the coverage of annual hours in Ireland and explored management and trade union representatives' opinions of annual hours. The key findings of our research to date are as follows:

- Annual hours are not widespread in Ireland; there are approximately 58 establishments in total that have introduced annual hours. A further 38 have considered introducing annual hours but have not done so and only three have abandoned annual hours following their introduction.
- Annual hours are exclusively found in unionised companies in Ireland, although non-union employees may also be covered by these agreements.
- Interviews with trade union officials, shop stewards, consultants and management suggest that annual hours benefit both workers and management, thus delivering mutual gains. In fact, trade unions, particularly craft unions have actively sought annual hours as a means of achieving

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<sup>2</sup> The terms annual hours and annualised hours are interchangeably both in the literature and amongst practitioners.

<sup>3</sup> Certain companies have been known to retain the option of using overtime if needed, however, this is unusual and arguably contrary to the notion of annual hours.

mutual gains. This contrasts with research from the UK (see for example Gall, 1996) which suggests that while employers have benefited from annual hours they are of limited benefit to workers and may even be to their disadvantage in some situations.

- Annual hours have been associated with workplace partnership in some companies, although neither annual hours nor highly developed workplace partnership is widespread in Ireland. We term this the 'exceptionalism' of annual hours and partnership.
- Annual hours are only suitable for a minority of organisations and there are limitations to adopting annual hours. These can include structural factors, difficulties in implementation and relationship issues.
- Organisations that introduce annual hours tend to persist with them with only a very small number of companies (3) having abandoned them after their introduction.
  - (See Wallace & White, 2007a; Wallace & White, 2007b and Wallace & White, 2008 for more detailed discussion and analysis of these findings).

While our research to date has addressed a number of questions surrounding the operation of annual hours in Ireland, this is the first paper to address the key issue of worker opinion of annual hours. As noted above, our previous findings have indicated that workers in Ireland appear to benefit from annual hours. In the majority of cases where annual hours have been introduced, they have been retained with neither management nor trade unions seeking to 'opt out' of annual hours agreements. This suggests that continuing with annual hours is, overall, preferable for both management and workers than any alternatives, such as working high levels of overtime. In addition, all the trade union representatives (14 in total) interviewed for this study had a generally favourable perception of annual hours in Ireland and believed that, despite some minor issues within certain agreements workers largely benefited from working annual hours. The following comments are indicative of these perceptions:

**Table 1. Comments From Trade Union Representatives Interviewed**

In principle we were in support of annual hours, because ... it gave our members a stable income.	Interview SIPTU Official A, 2006
The TEEU at its leadership level would always be strongly in favour of annualised hours.	Interview TEEU Official A, 2006
Once you buy the idea, the benefits flow because what you're essentially doing is, you're setting up a salary base that if you negotiate cleverly and with honesty, you will end up with at least as much salary as you had working over an overtime driven salary structure. There are real mutual gains. Productivity and cost predictions for management. Stabilised earnings and less hours for employees.	Interview TEEU Official A, 2006  Interview TEEU Official B, 2006
I would have been positive towards it albeit that I knew it would be a very big undertaking to negotiate it.	Interview SIPTU Shop Steward A, 2008
It seemed a good idea, we said we'd pursue it and see how we'd get on and it worked out great in the end.	Interview SIPTU Shop Steward B, 2008
We saw it as an opportunity to deal with the issue of work-life balance... up to that they ( <i>workers</i> ) would have been doing high degrees of overtime to achieve a certain level of remuneration.	Interview TEEU Official C, 2008

I certainly, as the official dealing with it, would have been quite responsive to it and quite happy to run with the concept.

Interview SIPTU Official B, 2008

Note: SIPTU (Services, Industrial, Professional and Technical Union) is the largest general union in Ireland. TEEU (Technical, Engineering and Electrical Union) is one of the largest craft unions in Ireland.

These comments from representatives from the two main unions (SIPTU and the TEEU) involved in annual hours agreements, indicate the extent to which they regard them favourably. According to these representatives, the key benefits for workers include stabilised earnings, fewer hours, elimination of reliance on overtime and better work-life balance. Other benefits mentioned during interviews included improved relationships between workers and management, as there are fewer grievances around overtime, and better pension in those instances where pension entitlements are now based on the enhanced annual hours salary. However, there is a dearth of evidence from ordinary workers. Prior to this survey the following key questions remained unaddressed:

- To what extent are annual hours perceived by workers to deliver gains?
- What are workers' levels of satisfaction with pay, hours of work and other elements of annual hours systems?
- What effect, if any, do annual hours have on relationships between workers and management?
- Are there many workers who would prefer to return to the traditional system of overtime working?
- Does the profile of workers – age, family etc. make a difference in relation to their perceptions of annual hours and the value they place on the benefits associated with it?

This paper presents the preliminary results of the first survey of workers' perceptions of annual hours in two companies in Ireland<sup>4</sup>. The first company operates in the pharmaceutical sector. It produces an ingredient for a prescription drug to treat blood circulation disorders and employs approximately 100 people. Annual hours were introduced in this company 2001 for all non-management employees. The second company is involved in the manufacture and distribution of infant and child nutritional products and employs almost 600 people. Annual hours were introduced in this company at different times, for different groups of workers between 2001 and 2006.

## **METHODS**

### **Previous Research**

Our previous research involved semi-structured interviews and informal meetings with a number of key industrial relations actors. These included the following: HR managers, trade union officials and shop stewards involved in the negotiation of annual hours agreements, a management consultant involved in implementing annual hours in a number of companies, and a representative of the Labour Relations Commission (the main industrial relations institution in Ireland). All interviews were recorded and transcribed.

### **Developing the Questionnaire**

As no research on worker opinions of annual hours had previously been conducted, there was no instrument readily available for use in surveying workers. Data from the interviews and secondary research was used to generate the key issues to be addressed in developing the questionnaire. The draft questionnaire was piloted amongst a group of workers from a public sector organisation where annual hours

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<sup>4</sup> We are also unaware of any survey internationally.

are in operation. They each gave comments on the questionnaire and advised where they thought certain questions should be redrafted. During the interviews with management, trade union officials and shop stewards, each interviewee was given a copy of questionnaire in advance and asked to give feedback. These steps ensured that the questionnaire was as comprehensive as possible, before being distributed to workers.

### **Surveying Workers**

In the two companies, questionnaires were distributed to all employees who worked annual hours and were willing to participate in the survey. Trade unions and management in both companies were supportive of the survey and provided assistance in the research. The questionnaires were distributed through the relevant trade union shop stewards, following face-to-face interviews with these shop stewards. The response rates were as follows: 37 per cent from Company A and 40 per cent from Company B. For ease of analysis, responses from both companies are collated together in most instances to give data relating to the total population of workers surveyed, as the purpose of this paper is to give a general overview of worker opinions of different aspects of annual hours<sup>5</sup>. In some key areas, the analysis differentiates between results for Company A and Company B. More detailed analysis of workers opinions and a comparison of responses in relation to individual company agreements will take place at a later stage.

## **RESULTS**

### **Profile of Respondents**

Workers were asked a number of questions around gender, age and family status to determine the profile of respondents, which is as follows: 59 per cent of all respondents were male and the majority of all respondents (both male and female) were married or co-habiting (76.2%). The majority of workers were aged between 31 and 50 (71.3%). The majority of workers (90%) had worked in their current company before the introduction of annual hours. The majority of workers were members of a trade union (92.6%). A large majority of these (77%) considered it to be 'very important' or 'important' to be a member of a trade union in their organisation.

### **Overall Opinion of Annual Hours**

In relation to their opinions of annual hours, workers were asked the following question: "If a vote on annual hours, as it is, in your company were held today, how would you vote?" Opinion was overwhelmingly in favour (92%) of their retention should there be a vote on annual hours, with a small proportion unsure (5%) and even fewer saying they would vote to get rid of annual hours (3%). Of the three per cent who said they would vote to get rid of annual hours, the following reasons were given: 'Loss of overtime income.' 'With overtime, you have a better standard of living.' 'The workload can increase, additional hours are required but there is less opportunity to have input into when additional hours are done.'

### **Salary**

Workers were asked to rate their levels of satisfaction with salary on a 5-point Likert scale ranging from very satisfied to very dissatisfied. A massive majority (94%) of all workers were either 'very satisfied' or 'satisfied' with salary under annual hours, with a small number (5%) being neutral and a small minority (less than 1%) being dissatisfied. None were very dissatisfied with salary.

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<sup>5</sup> Note: In the analysis, where missing responses occur, and where appropriate, the valid percentage is used for remaining responses

### **Effect on Earnings**

In relation to the effect of annual hours on potential earnings, a significant number of workers (65%) said annual hours increased what they could earn. Just over a quarter (26%) said it decreased what they could earn while a small number (9%) said annual hours had no effect on what they could earn. Of those that said annual hours decreased what they could earn, there was still a strong positive opinion of annual hours because of the reduction in hours. Half (50%) of those that saw annual hours decrease earnings said that they 'miss the extra money' but are glad they 'don't have long hours' while a further 30 per cent said that they 'don't miss the extra money' and they are 'glad they don't have long hours'.

### **Hours of Work**

In relation to hours of work, workers were asked to rate their levels of satisfaction with hours of work, again on a 5-point Likert scale ranging from 'very satisfied' to 'very dissatisfied'. A very high percentage reported that they were 'very satisfied' or 'satisfied' with hours of work (95%). A minority of workers (3%) were 'neutral' and just two per cent said they were 'dissatisfied'. None were 'very dissatisfied' with hours of work. As well as their satisfaction with hours, workers were also asked to compare hours in an annual hours system to other methods of working. The vast majority of workers either said they work 'less hours than they otherwise would' (63%) or 'about the same hours as they otherwise would' (28%). Around 10 per cent of workers said they worked 'more hours than they otherwise would'<sup>6</sup>.

### **Relationships**

It has been argued that annual hours help to improve relationships between management and workers, particularly as grievances around overtime are eliminated. The results on this were more mixed than on the benefits on hours and salary. Workers were asked the following question: 'As a result of annual hours, have relationships between management and workers changed?' Just under half of workers (48%) said yes, while just over a quarter (26%) said no and the remaining workers (22%) said they didn't know<sup>7</sup>. Of those that said relationships had changed as a result of annual hours, a significant majority (85.5%) said that relationships were either 'much better' or 'somewhat better' than they were before however some workers (14.5%) said that relations were 'somewhat worse' than they were before. None said relations were much worse than they were before.

## **DISCUSSION**

### **Overall Opinion of Annual Hours**

The results of the survey highlight a number of key points. The most important findings relate to the very high satisfaction levels with annual hours among workers surveyed. A significant majority – 92 per cent of workers would vote to keep annual hours in their organisation; 94 per cent were either 'very satisfied' or 'satisfied' with salary and 95 per cent were either 'very satisfied' or 'satisfied' with hours of work. These percentages show extraordinarily high levels of satisfaction with annual hours and the two key elements of them – salary and hours of work – among workers. The general view from workers mirrors that of trade union representatives in that there is a strong perception that workers benefit from annual hours agreements. In fact, the overwhelming positive responses from workers is exceptional.

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<sup>6</sup> It is unusual for workers to claim they work more hours than they otherwise would. These responses may relate to overall working hours including hours worked in other jobs.

<sup>7</sup> 4% of respondents didn't answer. Those that said 'don't know' were included in response calculations rather than treated as missing as otherwise, the percentages were misrepresentative

### **Salary and Effect on Earnings**

It was expected that respondents from Company A (from which the majority of respondents come) would express a high level of satisfaction with salary as Company A incorporated very high salaries with the introduction of annual hours. In Company B however, many workers took a reduction in overall earnings (66% of workers in Company B, claimed that annual hours 'decreases what they can earn'). Nonetheless, even workers in this company claimed that they were 'satisfied' (59%) or 'very satisfied' (22%) with their level of salary. This is explained by the fact that they no longer have to work excessive hours to achieve an acceptable salary and also that there was a recognition among workers that it was not feasible for the high levels of overtime to continue. Interviews with union representatives in this company indicated that the company had been faced with closure. They stressed that the benefits of retaining jobs, stable and high earnings even at a reduced level undoubtedly contribute to this favourable view. Thus, the general views of workers in this survey is that, regardless of the difference in salaries pre and post annual hours, the level of satisfaction with salary in an annual hours system is quite high.

The high salaries in Company A raise a question about the mutual gains aspect of annual hours, especially from a management perspective. In fact, management in that company claimed that they paid too much for the introduction of annual hours, "We probably paid a bit too much. I mean our rates here, I'm not going to tell you what they are but they're high... even if they were a bit lower, they'd still be very high" (Interview, Managing Director (MD), Company A, 2008). However, even with this cost, management considered that annual hours brought benefits to the company because while labour costs are high, they are only a proportion of total costs and they are now consistent and predictable. There are further gains to management from increased flexibility and productivity from workers with annual hours that it didn't have before. Speaking in relation to competitors in lower wage countries, the MD commented, "we produce twice the volume per person than they do" (Interview, MD Company A, 2008). It is not uncommon for companies that introduce annual hours to offer high salaries as part of an annual hours package. Generally, companies that introduce annual hours have previously been operating at very high overtime costs and if sufficiently high salaries were not offered as part of the package, the likelihood is that workers would reject the annual hours proposal. For management in Company A, it is the predictability of costs and the ability to budget that is more important than the actual costs.

### **Hours of Work**

As noted above, workers surveyed were generally very satisfied with hours of work. The majority of workers (over 90%) claimed that they either work 'fewer hours' or 'about the same hours' as they otherwise would, since the introduction of annual hours. It is unusual for workers to see an increase in their hours of work following the introduction of annual hours, apart from those who previously worked no overtime and now are required to work some reserve hours. The key point about annual hours is that they allow for a reduction in working hours without an equivalent reduction in salary. Therefore, while some workers may see some reduction in earnings, the overall benefits of annual hours can outweigh any negative perception arising from this. A review of the qualitative comments in the survey from workers shows that the reduction in working hours, combined with a stable salary are workers' main reasons for voting to keep annual hours. This finding has relevance for work-life balance issues and further analysis of the findings are in progress to see if these are related to gender and marital status of respondents.



**Table 2: Comments from Employees Surveyed – Why they would vote to keep annual hours.**

'One can have a life now that overtime is a thing of the past.'
'More money for less hours.'
'More time off and your earnings are constant.'
'Ability to plan recreational activities etc. and to budget better financially.'
'No overtime and more time with family.'
'A more regular working pattern.'
'In general I think annual hours have been good for Company A and Company A employees.'
'Better personal time planning compared with previous... prolonged overtime... mostly at very inappropriate unsociable hours.'
'It invokes better teamwork and more often than not the (reserve) hours are rarely done so you receive pay for hours not worked.'

### **Relationships**

Annual hours have the potential for mutual gains and realising these mutual gains may involve management and unions moving from distributive towards integrative bargaining (Wallace and White, 2007b). Engaging in this type of bargaining can lead to management and unions moving away from adversarial relationships. Thus relationships between management and unions in some organisations improve with the introduction of annual hours. In addition, annual hours typically eliminate grievances around overtime and so relationships between management and workers may also improve. The results on this issue are more mixed than on salary and hours of work. Almost half (48%) of respondents thought that relationships, between management and workers, had changed as a result of the introduction of annual hours. The majority of these (85.5%) thought that relationships were either 'much better' or 'somewhat better'. This left a substantial number who thought either there had been no effect on relationships (26%) or they had 'gotten worse' (7%) - a total of 33 per cent. In addition a substantial proportion (22%) answered 'don't know' to this question. There must be question marks about the extent of relationship change from these findings. In particular, there is a contrast with the main exemplar case study of annual hours in Ireland that of Rusal Aughinish, where the qualitative evidence is that this company has experienced a relationship change due to annual hours with the development of a high-level partnership system accompanying annual hours. The survey results suggest either that relationships do not change automatically change as a result of annual hours or that the perception of change is diverse among workers. Nonetheless, the fact that there has been some perception of change in these companies is significant, as D'Art and Turner (2002) found that partnership arrangements generally have little effect on the 'them and us' relationship in industry. Even if the picture is mixed from annual hours, it is still on the positive side and that is in itself significant!

### **CONCLUSION**

This paper has presented the preliminary findings of the first survey of worker opinion of annual hours. The general finding shows a strongly positive view of annual hours, much greater than one would get from collective agreements generally. The results strongly confirm previous qualitative research, which suggested positive outcomes of annual hours for workers in Ireland. The findings contrast with situation for workers in the UK. The reason for this, while speculative, is most likely to be that trade unions are still stronger in Ireland than in the UK and annual hours agreements are subject to robust collective bargaining when being introduced. It is worth observing that ballot results with over 90% in favour are an extremely rare event in industrial relations in Ireland.

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