

PICKING UP THE GLOVE OR PICKING UP THE PIECES? INVESTING IN EMPLOYABILITY AS A SHARED RESPONSIBILITY

Abstract submitted for Track 1: Management, Work and Organization

Frank Tros, University of Amsterdam, Hugo Sinzheimer Institute for Research of Labour and Law

Martijn van Velzen, University of Twente, School of Management and Governance

Rokin 84

1012 KX Amsterdam

The Netherlands

f.h.tros@uva.nl

Abstract

This paper addresses a classical economic problem for the post-modern labor market: when do workers and firms jointly invest in training that equips workers with transferable or generic skills that workers can apply when their services are no longer needed by their current employers? This paper connects macro-level concerns of a skilled and able-bodied workforce from the long-term perspective of (supra)national competitiveness (e.g. the European Union's Lisbon Strategy) with the micro-level point of view of firms that seek quick returns on training investment, inducing cherry picking and adverse selection. Furthermore, the central idea underlying our framework is that for firms in order to invest in skills that can be used outside the firm, in the so-called external labor market, we need to go beyond economic modeling and integrate HRM. This enables us to fill the white spots and open black boxes not covered by mono-disciplinary routes.

Further, this paper addresses a policy problem in employment relations. There are more win-win opportunities for workers and employers in the negotiations in firm specific investments in employability, compared to investments in company-external employability. Just firm specific investments risk unemployment for the employees in the situation that the worker is not needed any more by the employer (and in some systems high severance payments by the employer). What is left is just picking up the pieces of the problems caused by low investments in the employees' employability in the external labor market. To tackle this problem, innovative HRM-strategies and regional, sectoral and national policies can be implemented. In the framework of theories that give insights in favorable conditions for investments in transferable and generic training during workers' careers, we will test policy initiatives by companies, social partners and governments that have recently emerged in Europe and North America to enhance life long employability beyond specific work organizations. Knowing that HRM-strategies and employment relations can be affected by the institutional contexts (Poutsma et al 2006) we address the question: which institutional arrangements provide the incentives for employers and workers to invest in long-term employability.

We distinguish between skills that can be applied at some firms (e.g. competitors within the same industry) or so-called 'transferable skills' (Stevens 1994) and skills that are generic and that can be applied at many firms, even outside the industry in which the firm is operating.

The literature on training is abundant with evidence that firms will only invest in the skills of workers and worker categories under certain conditions, but predominantly if there is certainty that training costs can be recouped by firms, i.e. when these firms (exclusively) can capture the productivity gains from training (e.g. Acemoglu & Pischke 1998; Becker 1964; Bishop 1996; Lynch 1994). Such firm-specific training yields skills that are typically useful for the firm's internal labor market. There are, however, theoretical models that help explain the existence of training aimed at providing workers with skills for the external labor market, but these programs are often related to apprenticeship systems, such as the ones found in Germany.

In this paper we focus on training that, in terms of timing, content and purpose, goes beyond the initial formal programs that characterize apprenticeship training. We make the case for training that provides workers with the ongoing security that they are employable in the labor market. We argue that two ubiquitous trends are maybe driving the decision for employers to provide sustainable employability. First, given increased global competition firms will have to opt either for a high-road strategy, putting quality first, or a low-road strategy that is marked by cost-efficiency. Choosing the high road implies the need for apt, motivated and committed workers. This brings us to the second development: demographic trends in some regions in the world indicate at structural labor market tightness. Here, the sense of urgency to stand out as an employer of choice in the competition for qualified personnel becomes obvious. Firms that continuously train their employees have been labeled so-called 'high performance workplaces' (HPWP) (e.g. Osterman 1994). An important element of these firms is functional flexibility, or the flexible assignment of workers across the firm (Brown, Reich & Stern 1992). HPWP can also produce deep skills which lead to specialization enhancing productivity and innovation. The drawback of this is that workers locked in in the internal labour market. In our framework this flexibility or specialization would be realized through firm- and job-specific training, and not the transferable training needed to be employable outside the firm. So, what we are looking for is not an HPWP, but rather a 'high performance workplace plus' (HPWP+), i.e. a firm that in terms of training goes beyond the norm set by the HPWP.

Clearly such HPWP+ organizations require HRM to review existing practices and strategies. Furthermore, HRM can be stimulated or hindered by regulations and policies by social partners, governments and other companies to invest in a HPWP+ strategy. This paper illustrates a) possible avenues for HRM, by looking at several practices in European and North American companies and b) incentives for HPWP+ strategies in innovative policies or regulations in regions, sectors and nation states.

References (selected):

- Acemoglu, D. & Pischke, J. (1998) Why do firms train? Theory and evidence. *Quarterly Journal of Economics*, 113, 79-119.
- Becker, G. S. (1964) *Human capital: A theoretical and empirical analysis, with special reference to education*. New York: Columbia, University Press.
- Bishop, J.H. (1996). What do we know about employer-provided training: A review of literature. Working Paper 96-09. Ithaca, N.Y.: School of Industrial and Labor Relations, Cornell University.

- Lynch, L. (1994). Payoffs to alternative training strategies at work. R.B. Freeman, ed. *Working under different rules*. New York; Russel Sage. 63-96.
- Poutsma, E., Ligthart, P.E.M., U. Veersma (2006), The Diffusion of Calculative and Collaborative HRM Practices in European Firms. *Industrial Relations* 45(4): 513-546.
- Osterman, P. (1994). Internal labour markets: theory and change. C. Kerr and P.D. Staudohar, eds. *Labor economics and industrial relations: markets and institutions*. Harvard university press: Cambridge, MA/London.
- Stevens, M. (1994). A theoretical model of on-the-job training with imperfect competition. *Oxford Economic Papers* 46 (4): 537-562.