



PRIVATISATION OF PUBLIC SERVICES AND THE IMPACT ON QUALITY, EMPLOYMENT AND PRODUCTIVITY

## HOW COMPANIES REACT TO THE LIBERALISATION AND PRIVATISATION OF PUBLIC SERVICES

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What strategies do companies adopt in view of liberalisation? What restructuring processes are triggered by changes in market regulation and ownership? How is employment, how are working conditions changing and what are the impacts on service quality? A series of 23 company case studies in four sectors and six countries was carried out within the PIQUE project to answer these and related questions.

In this paper, we summarise the main findings of the company case studies, which focused on service providers in the electricity and local public transport sectors, in postal services and in hospitals in Austria, Belgium, Germany, Poland, Sweden and the UK (for details see Flecker et al. 2008). Cases-study companies include former monopoly providers and new competitors, fully or partly publicly owned companies operating in liberalised markets as well as old and new private providers. The case studies themselves are based on a total of about 185 qualitative interviews conducted with managers, works-council and trade-union representatives as well as workers. The information gathered from the interviews and additional sources results in a complex picture of company reactions to the introduction of competition and the expansion of private ownership in public-service markets, or, as in health services, the marketisation of service provision. We summarise the findings in terms of company strategies and organisational change, employment, industrial relations and human-resource management as well as work organisation, working conditions, productivity and service quality.



## **1. COMPANY STRATEGIES AND ORGANISATIONAL CHANGE**

### **Mergers, acquisitions, privatisation, internationalisation and diversification**

With liberalisation, markets were gradually opened to competition. While in electricity all customers can now choose between two or more providers, in postal services the former monopolists still enjoy a limited monopoly (for mail weighing 50 grams or less) in Austria, Belgium and Poland (whereas postal markets in Germany, Sweden and the UK are fully liberalised). In local public transport the situation is different, as here corporations mostly do not compete for customers but for several-year service contracts. In the hospital sector, too, hospitals only compete for patients under exceptional circumstances. Yet hospitals are increasingly subjected to economisation processes brought about by changes in funding schemes and stagnating or only slowly growing public budgets. Regardless of the duration and intensity of the liberalisation process, overall market changes in the liberalised public-service sectors in which the case-study companies operate have been limited. Exceptions include parcel and express services in the postal-service sector as well as the German letter market, where a new competitor challenged the position of the former monopolist but has meanwhile run into serious economic difficulties. Even in Sweden, where the postal market was fully liberalised more than 15 years ago, the former monopolist still holds more than 90 per cent of the letter market. Liberalisation, in general, seems to only rarely lead to a competitive market (Hermann/Verhoest 2008).

While market changes were limited, public-service companies frequently changed ownership through privatisation and mergers and acquisitions. This is partly reflected in the sample of case-study companies. In the electricity sector, all but one of the companies covered by the case-study analysis have changed ownership and, as a result, all but one are now predominantly foreign owned. If the ongoing merger between the Danish and the Swedish post office is successful, only one out of four incumbent postal-service providers included in the analysis will still be fully publicly owned. While the examples from the electricity and postal sectors can be generalised due to the limited number of companies in these sectors, in local public transport and the hospital sector generalisations are more problematic. However, both sectors saw a shift from public to private ownership.

Two of the case-study companies in local public transport were privatised as management and employee buy-outs, with one of them later purchased by a foreign-based multinational. In the hospital sector, where hospitals are confronted with increasing financial pressures, two hospitals were privatised, one of which is now owned by a foreign investor, the other by a national private hospital chain with overseas investments. The other two hospitals were part of a merger or integrated into a larger hospital group.

Apart from mergers and acquisitions, which in the extreme case lead to the creation of national and increasingly even European public-service oligopolies, the former monopoly providers have responded to liberalisation by internationalisation, i.e. investing outside their home markets, and by diversification, i.e. investing in related business activities. The two strategies are particularly prevalent in the electricity market and in postal services. One of the postal companies included in the sample prides itself on being the world's leading logistics and postal-services company and raises a large part of its revenue outside its home market. The new competitors in postal services are also frequently foreign owned and several of them combine mail delivery with the delivery of newspapers. Electricity companies often diversify their business by combining the provision of electricity with the provision of natural gas.



## **Price policy and cost pressure**

Another set of measures introduced by public-service companies in liberalised markets centres on the relationship between the company and its customers. Companies in liberalised public-service markets have allocated increasing resources to advertising and the improvement of customer relations. However, while the role and scope of call centre services has been greatly extended, other forms of customer contact, such as walk-in customer-service centres, have been cut back if not altogether eliminated. Some of the case-study companies in the electricity sector have resorted to new and rather aggressive sales techniques and one company has been fined for trying to persuade customers to change suppliers. In addition to investing in advertising and introducing new sales techniques, public-service companies have also responded to market challenges by advancing customer differentiation. Large customers can negotiate specific terms of service delivery, including individual prices, while small customers are treated according to general standards and charged standard tariffs. As a result, large customers may benefit from price reductions, while small customers have more than once suffered from price increases after liberalisation and privatisation. Customer differentiation is less important in local public transport and hospitals.

While electricity and postal-service customers can choose between different providers - and the price of the respective service certainly plays an important role in these decisions - in local public transport and the hospital sectors price competition plays only a marginal role if any. Providers in these sectors have very limited influence on prices. Prices are set by transport or health authorities. However, in both sectors there is competition in the sense that providers attempt to undercut competitors when competing for bids in public tenders or in the case of hospitals by pushing costs for individual treatments below the lump-sum rates paid by the funding organisations.

Regardless of the market situation and the nature and degree of competition, all case-study companies report growing cost pressure from the market, the regulator, the funding authority, or, as several trade union and works-council representatives have emphasised, the profit interests of the new private shareholders. And despite the fact that some companies have still managed to increase prices in liberalised public-service markets, all of them have responded to liberalisation and privatisation by cutting costs. This has mainly been done on three levels: investment in cost-saving technology, reorganisation (concentration and outsourcing) and the reduction of labour costs by means of staff cuts, lower wages and increasing workloads.

## **Organisational changes**

In addition to changing their legal forms and becoming private-law companies, most companies introduced far-reaching organisational changes after liberalisation and privatisation. Some of them were driven by the implementation of new technology, others by regulatory requirements and again others by the objective of cutting costs. As a result, there are two major tendencies that in one form or another have affected most of the case-study companies: the concentration of structures and activities and the outsourcing of certain parts or functions either by contracting with external suppliers or by setting up independent subsidiaries. The latter is particularly widespread in the electricity industry, where the regulator has required providers to set up independent business units for generation, distribution and supply.

Several electricity companies, as a result, have set up independent sales departments and call centres, while one company was virtually split into two equal parts. In a similar way, municipalities have responded to legal concerns about the funding of municipal transport systems by converting parts of the service into independent companies (e.g. bus service). The result was the creation of sometimes rather complicated business structures with cross-shareholding among various actors. In postal services, it is the new competitors that often rely



on extensive networks of subsidiaries and partners in order to reach into areas where they do not have their own delivery network. In Germany, a major competitor of the incumbent postal company was in fact made up by a total of 91 independent firms.

As we will describe in the following section, organisational changes not only responded to regulatory needs; instead companies have deliberately exploited new regulations in order to escape 'expensive' public-sector collective agreements under the pretext of growing competition. In fact, reorganisation was to a large extent driven by the search for lower labour costs. Apart from creating independent subsidiaries, companies have also outsourced service functions to external contractors that can provide the service cheaper than the company could do with its own staff. As we will describe in the following section, the splitting up of companies, the creation of independent subsidiaries and outsourcing has created frictions within a previously rather homogeneous public-sector workforce and significantly increased administrative work (documentation, reporting, etc.).

In electricity, construction work and services such as metering have been outsourced. In the case of a new competitor on the Belgian retail market, virtually all activities are outsourced except for management and a core administrative unit. In postal services, former monopoly providers have outsourced transport between sorting and distribution centres to private haulage companies and, in several cases, at least parts of their post office network. The most extreme case is Sweden, where the incumbent has outsourced most of its retailing tasks to supermarkets, petrol stations and convenience stores, while it continues to operate a small number of 'post stores' mainly for banking transactions. According to a report by the German postal regulator, Deutsche Post used more than 1,800 subcontractors in 2005, including taxi drivers commissioned to empty letter boxes. For the incumbent postal-service monopolist in Austria, outsourcing was not so much introduced to save costs - the impact on costs is in fact debatable - but to increase pressure on the core workforce. In hospitals, too, a large variety of activities and functions have been outsourced to external providers reaching from cleaning and catering services to building maintenance and IT. The picture is similar for local public transport, with outsourcing mainly concerning services such as cleaning, security, catering, ticket inspection and the operation of vending machines. Public-service providers thus adopt widespread restructuring practices as many services have been outsourced in the private sector and in public administration.

While outsourcing is still an important trend in public-service companies, some service providers have also started to insource activities. Examples include the electricity case-study companies in the UK and Austria and the Belgian hospital. While the British electricity provider brought services back in because contractors frequently did not live up to the standards expected by the company and management feared that the loss of skills for tasks performed by contractors would have negative long-term consequences, in Austria management reduced the number of external contractors because it needed to keep its non-sackable workforce busy. The Belgian hospital included in the case-study sample insourced services such as cleaning and catering. Reasons included economies of scale, which could be exploited after the merger and the cooperation with a public (re)employment programme that provided subsidised workers for these services.

Of course, outsourcing and the creation of independent subsidiaries can be seen as a form of decentralisation, but decentralisation as a deliberate strategy to reduce costs was pursued only in a few cases, including a German hospital where it was linked to extensive benchmarking by management. More often, public-service companies have responded to liberalisation by centralisation and concentration. As mentioned above, several electricity companies have closed down walk-in service centres and instead concentrated customer relations services in centrally operated call centres. In order to increase efficiency, postal companies have dramatically cut the number of sorting and distribution centres. In Germany, of the 700 sorting centres that existed before liberalisation only 59 are left; in Austria the number was reduced from 36 to six, while the number of distribution bases was cut from 1,880 to 320. In both countries, furthermore, the number of post outlets has been reduced by about 40 per cent since the start



of the liberalisation process. In the hospital sector, concentrations mainly take the form of hospitals being merged or integrated into a large hospital group or departments spread out over a number of buildings being centralised in one large facility.

Concentration processes were partly linked to a reduction of hierarchical structures. Several companies have introduced 'flatter' hierarchies, with the result that individual managers assume more and direct responsibility. The new competitors in particular tend to have less penetrating hierarchical structures combined with new and less bureaucratic working cultures. However, while hierarchical structures have become 'flatter' and permeable, at the same time public-service companies have stepped up control efforts through the introduction of new IT-based control and reporting systems. The introduction of new technology played a major role in the restructuring of public-service providers. This is not only true for electricity, where it changed billing and administration and the way companies interact with their customers, and post services, where IT is used to reorganise delivery routes and to track parcels and registered mail. The introduction of IT has also changed the organisation of hospitals: the introduction of digital patient files in the German case-study hospital, for example, has changed administrative work and led to a reorganisation of the administrative system.

## **2. EMPLOYMENT, INDUSTRIAL RELATIONS AND HRM**

### **Employment**

The objective of reducing costs has often had a major impact on employment. Instead of improving efficiency by expanding the amount of output with a constant labour force, public-service providers in liberalised markets cut back on their staff numbers (Jefferys et al. 2008). Changes in employment levels vary according to sector and country. In electricity and in postal services, considerable job losses occurred at the incumbent monopolists, often combined with changes in employment status and forms of contract, while newly established competitors by definition gained employment. Of course, the overall net employment effects can only be assessed at macro level, but the case studies confirm that in electricity and postal services outsourcing to other sectors and the creation of new jobs by new competitors can hardly account for the job losses recorded by the former monopoly suppliers - especially if calculated on a full-time basis.

In the *electricity sector*, the case studies reported employment reductions of between 25 and 50 per cent since privatisation or since the mid-1990s. In spite of the enormous scale of job losses, compulsory layoffs were avoided. 'Downsizing' was achieved through non-replacement of retirees, voluntary redundancy packages and early retirement. In electricity, employment was reduced in generation, maintenance and administration whereas employment expanded in trading, retailing, controlling and IT. This resulted in a shift from blue-collar to white-collar employment. Qualitative employment changes also include a move from civil-servant to private-sector employee status in the British case and the frequent use of temporary workers in the Belgian case. Job cuts led to frequent overtime for the remaining workforce in the electricity industry in the British and in the Belgian cases. While in the UK this can also be attributed to the parallel reduction of working hours from 39 to 37 hours per week, in Belgium overtime grew in spite of an extension of the working week from 36 to 38 hours. In part, more flexible working-hours arrangements were introduced to extend operating times in customer services.

The *postal-service sector*, too, saw a substantial reduction in employment levels at the incumbent monopolists before and after liberalisation and privatisation. In Austria, Belgium, Germany and Sweden, between 15 and 37 per cent of the jobs at the former monopolists have disappeared. Poland forms an exception here because competition in the Polish letter market is still insignificant, with full liberalisation postponed until 2013. Again, not only were employment



levels reduced, but also the contractual forms changed, with a marked increase of part-time and fixed-term jobs and other forms of atypical employment. The shift in employment to newly established competitors accelerated this development. While postal companies in most countries have increased the number of part-time workers, other forms of atypical employment, such as marginal or self-employment, are country specific. However, if not prevented by labour regulations, the new competitors tend to rely particularly heavily on non-standard forms of employment. Hence while in Germany the new competitors employ about 60 per cent of their workforce on marginal part-time contracts or 'mini jobs', only four per cent of the incumbent monopolist's employees have such a contract. In Austria, on the other hand, more than 90 per cent of the workforce of the new competitors in the letter market are self-employed and paid piece rates, and as such lack any form of labour or social protection.

The case studies on *hospitals* show a varied picture: employment partly increased and partly decreased in these organisations. In contrast to case studies on former monopolists in the electricity or postal-service sector, which in many cases still account for the major part of the respective markets, case-study findings on changes in employment levels of individual hospitals do not permit generalisations. The picture is also varied with regard to qualitative employment changes: job gains in the Austrian case are mainly due to the growth of part-time employment and thus the increase in employment in terms of full-time equivalents was marginal. In contrast, in the Swedish and in the Belgian cases the number of part-timers has actually decreased in recent years. The German case study shows that the most far-reaching changes in employment do not necessarily happen after privatisation: while 'downsizing' continued under the new ownership, the biggest cuts in employment occurred prior to privatisation.

In the *local public transport* cases, the picture is similar. There have been job cuts in some of the cases and employment growth in others. Companies increased employment numbers where overall traffic grew, such as in the Swedish case, and where companies successfully tendered for bus-service contracts, such as in the Polish case. While part-time work only plays a marginal role in local public transport, companies resort to split work days and flexible working-hour arrangements to increase flexibility and cut costs. In addition, the introduction of competitive tendering has fuelled an increase in fixed-term employment contracts adjusted to the length of the contract between the employer and the tendering authority. This can, for example, be found in the Polish case. However, decreasing employment security is partly mitigated by a lack of drivers.

## **Industrial relations**

With few exceptions, the restructuring of public services following liberalisation and privatisation has led to a fragmentation of labour relations and employment conditions. This means that bargaining systems are divided and coverage becomes less comprehensive, the number and variety of actor increases and the wage differentials grow. Differences emerge on a sectoral level between competing companies - often between the former monopoly providers and the new competitors - and within former monopoly providers between the core organisation, newly created subsidiaries and outsourced jobs, as well as between the longstanding workforce and newly hired workers. In some sectors and companies the changes amount to the creation of two-tier or multi-tier labour relations systems (Brandt/Schulten 2008).

In the *electricity industry* growing fragmentation is linked to the restructuring of value chains. As a result of electricity-sector regulation, companies are being demerged and activities outsourced. Legally independent subsidiaries figure under different and from the workers' point of view often less favourable collective agreements or under specific regulations within the same agreements. In Belgium, call centre agents employed by independent call centres are excluded from the comparably favourable electricity agreement, while newly hired staff mostly employed in the new retail subsidiaries earn between 22 and 34 per cent less than the



established workforce in production and distribution. In the Austrian case the wage difference between 'old' and 'new' staff is 13 per cent. In the British case, wages are the same, but workers hired after privatisation are not entitled to the comparably generous pre-privatisation company pension scheme. Poland stands out in this respect because the established workforce earns less than the newly hired workers. While 'older' staff will most likely not find a new job if they leave the company, 'younger' workers are profiting from an increasingly tight Polish labour market.

In *postal services*, the German case also reveals differences between 'old' and 'new' employees. Workers hired according to the new postal-service collective agreement earn up to 30 per cent less than those still covered by the old regulation. However, in the post sector differences between former monopoly providers and new competitors are more important, because the corporate strategy of the new competitors is often based on lower labour costs. This is particularly apparent in Austria and Germany, where the incumbents and new competitors are covered by different agreements or, in the German case, by none at all. Before the introduction of a sector-wide minimum wage, wages paid by the new competitors in Germany were only about half of those paid by the former post monopolist. In Austria new competitors largely operate with self-employed workers, who also earn half the pay of the incumbent's permanently employed staff. While in Germany and Austria liberalisation in the postal-service sector has fuelled wage dumping and part of the service has become a low-wage sector, no such development was observed in Sweden, Belgium or Poland. In Sweden, the former monopoly provider and the new competitor are covered by different agreements but they provide similar standards.

In the *health sector*, too, bargaining and wage determination have been fragmented in some of the countries. This applies to Austria, where the wages in private for-profit and non-profit hospitals are about 20 per cent below those paid by public hospitals, and to the German case, where workers in auxiliary services such as cleaning, kitchen and laundry are not covered by a collective agreement and medical staff had to fight to maintain their wage levels after the company withdrew from the federal employers' association. Similarly, in the Swedish case the unions only obtained a collective agreement that provides the same standards as in other still publicly owned hospitals after a period of difficult and intensive negotiations. In contrast, in the Belgian case study some workers actually profited from the merger of two hospitals as their wages were upgraded to the higher levels in place at the other hospital. However, in the cases covered in the research, only the UK has a single pay system negotiated at national level and applying to all directly employed NHS hospital staff. Only newly appointed staff at outsourced companies have different terms and conditions.

In *local public transport*, privatisation and the introduction of competitive tendering have clearly challenged the existing industrial-relations systems. In the German case, the industry-level collective agreement still covers nearly all municipal transport companies of the federal state where the case study took place. However, subsidiary companies and private companies are not covered. This implies high wage differentials for bus drivers, depending on the status of their employer. As in the electricity sector, former monopolists use the establishment of independent subsidiaries to lower their wage costs. In contrast, Poland lacks industry-level collective bargaining. However, in the case under investigation the union is optimistic on reaching a new company agreement. Yet the tendering system puts pressure for wage moderation on the union and it has resulted in a change from open-ended employment to fixed-term contracts in line with the duration of the contract. As elsewhere, London bus drivers, who had worked under the same terms and conditions before privatisation, now face highly varying wages and employment conditions depending on the company they work for, because bargaining takes place solely at company level. Both in the British and the Swedish cases the cost-cutting effect of the tendering systems became very clear and unions have repeatedly called strikes for higher wages and against the cancelling of work breaks.



The fragmentation of bargaining systems is in many cases underpinned by pronounced differences in unionisation rates. As a rule, union density among the former monopoly providers' workforces is much higher than among the new competitors. In Germany about 80 per cent of the incumbent postal-service company's staff are unionised while hardly more than ten per cent of the competitors' mainly precariously employed workers are union members. In several cases, union density is also markedly lower at the newly established subsidiaries and among the subcontractors providing outsourced services. Furthermore, privatisation and the continuous reduction of staff numbers present major challenges to the public-sector unions. In the UK, privatisation in more than one case was perceived as an explicit strategy to weaken the unions. But in other countries unions are also competing to win members among shrinking workforces. Consequently, liberalisation and privatisation have in some cases led to a decrease in strikes and other forms of industrial action, while in others the frequency of conflicts has actually increased.

Overall, the case studies illustrate the growing diversity of employment conditions, which partly leads to a marked inequality between workers doing the same or similar jobs. The diversity in part goes back to strategies of reducing wages and worsening conditions for newly engaged workers - sometimes for an extended probation period but usually on a permanent basis, partly it is the result of fragmented industrial relations systems. As the case-study findings indicate, both are the result of liberalisation and privatisation processes and the reactions of the companies to the new business environment. The fragmentation of bargaining occurs where the splitting up of companies, outsourcing and other forms of restructuring value chains is accompanied by, or happens in the context of a decentralisation of industrial relations and by a substitution of company for industry-level agreements. Among the rare examples of workers' resistance against increasing wage differentials is a campaign that led to the introduction of a compulsory minimum wage in the postal sector in Germany. Another example is a campaign that attempts to establish the similar pay and employment conditions across all London bus companies. Given the tendering system, the diversity there is not only a matter of inequality but also of job security.

### **Human-resource management**

The restructuring of companies and their changing business strategies went hand in hand with a reform of human-resource management (HRM). Before liberalisation and privatisation, HRM in some cases meant little more than the administration of civil-servant employment regulations. Some companies hence only introduced special HRM departments and policies during the process of liberalisation and privatisation. As such, HRM policies relate to personnel development and training, management control and staff motivation. As a result, training was partly enforced, though not equally for whole workforces, partly it was cut as a direct consequence of privatisation and the restructuring of work. At the same time, payment systems have become more performance-related. Promotion is also increasingly based on performance assessments rather than seniority. In at least one case, management has attempted to improve control by introducing a system of management by objectives, which, in the final phase, will include individual objectives for each staff member. As a result, changes in the HRM systems serve to further reinforce the growing differences in employment conditions.

Some of the *hospitals* under investigation also put additional emphasis on HRM. The Austrian and the Belgian case studies reported the implementation of human-resource development guidelines and an improvement of training and job-mobility opportunities. In the Austrian case, such activities are limited to the highly-qualified core staff. In the UK case, by contrast, training is also available to outsourced staff, although to a lesser extent and, according to some interview partners, at a lower quality. The German privatised hospital focuses training activities on diagnosis-related documentary work because the classification of diagnoses is seen as an important area in which the profit of the company can be increased.



Unequal access to training was also found in the *electricity industry*. The Polish case study reports that mainly managers and younger employees have access to training while older workers are excluded. In the UK case, privatisation has had an overall negative effect on training provision, because training was among the first areas in which the new private owners cut costs. In the British case study this has led to a severe skill shortage, because the skilled staff members are now approaching retirement age and there is no appropriate replacement for them. In response the company has recently started to put more effort into training young workers, but the number of apprentices still falls considerably short of the pre-privatisation figures.

The Swedish case study in *local public transport* revealed a link between the tendering system and the reduction of bus drivers' training. In the Polish case, by contrast, the employer stepped up training in an effort to tackle a mounting shortage of bus drivers, many of whom had left to work in the UK or other western European countries after Poland's accession to the EU. The company, together with the local employment agency, organised special driving lessons to encourage women to become bus drivers as well. In addition, it hired a group of bus drivers from the Ukraine.

As in the electricity sector, in *postal services* a substantial part of human-resource management activities is aimed at cutting employment by means of non-replacement of retired workers, voluntary retirement and redundancy payments. In several cases, the terms and conditions of such schemes are negotiated between management and the unions within the framework of wider employment pacts. In the Austrian case, employees who decline to leave the company but whose work is no longer needed are transferred to an internal employment organisation called a 'career and development centre'. In the eyes of the trade union representatives interviewed, workers who end up in this organisation are deprived of any prospects and instead are forced to do nothing while waiting for retirement.

With declining career prospects, in particular for postmen and -women, and a growth in part-time work, the internal labour market is losing importance, which also impacts on the forms of management control, with piece rates and close surveillance gaining ground (see below). What is more, the vanishing of the public-sector ethos also requires companies to increase control. A perhaps extreme example is a German case in which the company established a special security department to investigate the theft of postal items. In contrast to improved training in other industries, deskilling and downgrading of delivery jobs seems to prevail in postal services. Pre-sorting and the use of GPS (global positioning system) devices are turning the occupation of skilled postmen or -women into temporary jobs for easily replaceable young workers, with labour turnover in the case of the Swedish competitor reaching as much as 50 per cent of the staff per year.

### **3. WORK ORGANISATION AND WORKING CONDITIONS**

The reduction in employment as a consequence of liberalisation and privatisation makes itself felt in the ways work is carried out. In many cases, lower staff levels result in work intensification. In addition, work intensity has been stepped up through the introduction of new control mechanisms and the extensive use of benchmarking that is the comparison with comparable units or services within the same companies or with competitors. Managers in several case studies pointed to the underperformance and lax working conditions before liberalisation and privatisation and the need to improve individual output. Workers and works-council representatives, on the other hand, argued that intensification and flexibilisation have seriously undermined the quality of public-service jobs. Innovations in work organisation rarely released workers from increased workloads and instead often growing work pressure.



In *postal services*, case studies in all countries reveal increasing levels of work intensity and deteriorating working conditions. As the Austrian case, for instance, shows, the measures taken by the management of the former monopoly company include assigning time values to individual tasks in a Taylorist tradition combined with Japanese-style teamwork, with delivery teams becoming responsible for covering the routes of absent colleagues. The regulatory barriers to this had been eliminated in recent years, however, leading to work intensity approaching the workers' physical limits and to shifts exceeding eight hours. In the Polish case too, delivery workers in many districts have problems to finish the job within their eight-hour day. There, the incidence of sick leave is on the increase. In spite of deteriorating working conditions at the incumbent monopolies, case-study evidence from Austria, Germany and Sweden suggests that working conditions are even worse at the new competitors. This relates to the pace of work, unpaid overtime, night work and flexible working hours.

Restructuring in postal services relies heavily on new technology: highly automated sorting centres, technology to optimise delivery routes, portable communication devices, new software for universal post office counters and new monitoring and reporting systems - all these innovations have not only helped to reduce employment levels but also markedly changed the working environment. The Belgian case study illustrates how work is being simplified and becoming mentally less demanding while physical burdens increase: the sorting centres have taken over all sorting tasks, with mobile IT devices prescribing the delivery route.

Increased workloads due to understaffing are also reported from the *electricity industry*. Respondents in the Austrian, UK and the Polish case studies in particular stressed the increasing intensity of work. Apart from staff reductions, the pressures come from the reorganisation of electricity companies. Workers at the Austrian company, for example, complained that unbundling led to an increase in bureaucratic work. The splitting-up of companies results in additional paperwork: maintenance work or other activities need to be charged as these are now carried out for a separate company.

Changes in work organisation may go in different directions, however, as examples from the electricity industry show: while previously specialists were sent in to carry out different jobs, now maintenance workers in the Austrian case have become generalists and carry out 95 per cent of the tasks. In the UK, by contrast, management increased the degree of specialisation, leaving workers with little understanding of areas outside their immediate tasks. The most far-reaching change in work organisation took place in newly created departments in customer relations. Call-centre agents typically use standardised scripts to communicate with customers and they work under considerable time pressure, which is exacerbated by the widespread use of electronic control systems. However, workers at external call centres are said to be worse off in terms of workload and labour conditions.

Work intensification is also a general feature of the changes in work organisation introduced in virtually all of the *hospitals* included in the survey. In some cases the main reason is the patients' declining length of stay, due to which the more demanding admission and discharge procedures make themselves felt more strongly. In others, altered processes and workflows have led to a faster pace of work. In the German privatisation case, the nurse-to-patient ratio went down and administrative tasks were transferred from administrative staff to the nurses, further increasing their already high workload. In the Belgian case, too, staff report an increase in non-patient-care-related tasks, which had led to growing job dissatisfaction. In the UK case, the hospital's reliance on a private finance initiative to raise funds to modernise the hospital has required cost cuts at all levels within the hospital, which, in turn, has meant increasing workloads for large parts of the hospital staff.

Cost cutting is also a prominent issue in *local public transport*. In the Swedish and UK cases, a clear link was revealed between the tendering system and work pressures. In Sweden, companies offer their services at the lowest possible cost, hoping to be able to exploit



economies of scale in the long term. Companies tend to eliminate all slack in order to win a contract. In practice, this means that not the slightest problem must occur if they are to fulfil their obligations. For the drivers, who have always worked in a stressful environment, the result is even more stress at work and more sick-leave. In the UK case, too, companies pass the pressure to increase productivity on to their drivers and tend to contact people earlier than previously if they are off sick.

Apart from enhancing work intensity, restructuring mainly impacts on *working hours*: across the different sectors and countries, the case studies showed increasingly flexible working hours and a rise in overtime. Flexible working hours are among the main measures to cut costs. In *local public transport* working-time flexibility and split work days are used to adapt the drivers' working hours to capacity needs. The breaks are paid in part, but at a different rate. In Poland, for example, interrupted working hours fall under a national regulation according to which workers have to be paid 50 per cent of the minimum hourly pay rate for the breaks between driving hours. Yet bonuses are not paid for such standby periods. The German case study on local public transport illustrates how bad working conditions in terms of flexible working hours with long breaks are passed on within outsourcing relationships: the workforce of outsourced companies has to serve the 'bad lines' with irregular, flexible working hours and long breaks between driving times.

In *postal services*, company strategies have led to new working-time arrangements. In particular, part-time work is used as a means to increase flexibility. Thus, in the German case-study company the daily delivery time was brought forward by making the delivery districts smaller. This, in turn, leads to an increased demand for part-time workers and, possibly, to a phasing out of full-time employment in delivery.

Flexible working hours are also an important issue in the *electricity industry*. In particular, extending the operating hours of customer services into the evenings and weekends boosted the demand for flexible working hours. More flexibility is also achieved through increased overtime, which was reported in several case studies. The Polish case reported that emergency field staff, in particular, are expected to work as long as it takes to restore power. Of course, the number of repair workers has been reduced as a result of liberalisation and privatisation.

Overall, the case-study evidence makes it possible to trace changes in work organisation and working conditions back to restructuring processes triggered by the liberalisation and privatisation of public services. One of the companies' main aims is to cut costs. This is achieved by investing in new technology, by growing workloads brought about by job cuts and changes in work organisation and by reducing labour costs by means of more flexible working-hour schemes. Additional impacts on work organisation include the increase of 'bureaucratic' work entailed by unbundling in the electricity sector, the introduction of tendering systems in local public transport and the standardisation of work in postal services and in electricity call centres.

#### **4. PRODUCTIVITY AND SERVICE QUALITY**

Most case studies report an increase in productivity. The result of continuous and substantial reductions in the number of employees is that fewer staff create roughly the same output previously produced by a significantly larger workforce (although the measurement of output is not without problems in public services). In hospitals and partly also in local public transport the objective can also be to fulfil an ever-greater demand with the same number of workers. However, liberalisation and privatisation-related productivity gains recorded at the company level do not necessarily result in productivity growth for the entire sector, let alone for the whole economy. The duplication of activities such as the creation of alternative delivery



networks in postal services or of retail structures in electricity may slow down productivity growth, although the effect is difficult to measure.

Productivity increases have rarely been an objective in themselves in the restructuring processes following liberalisation and privatisation. Instead, productivity gains are the by-product of a general attempt to cut production costs. This has two consequences: Firstly, public-service providers in liberalised markets often combine a rise in productivity with lower labour costs by paying lower wages or using atypical forms of employment (often in combination with outsourcing and the creation of independent subsidiaries). In labour-intensive services such as the postal sector, wage cuts may ultimately be more important to ensure survival in the liberalised markets than investment in greater efficiency, which was of course also made (if wage cuts are not prevented by comprehensive and sector-wide collective regulations).

Secondly, many cases showed improvements in quality through speeding up processes, using new technology or enhancing responsiveness in customer care. However, measures to enhance quality seem to be confined to areas where they do not conflict with the aim of cutting costs and employment, while quality aspects that require additional labour resources have often been compromised as a result of liberalisation and privatisation. Hence electricity providers may extend the operating hours of their centrally operated call centres while at the same time they close down their traditional walk-in centres, where customers could talk to agents face-to-face. They have also reduced the number of repair workers, which increases the waiting period for power to be reinstalled after major breakdowns following storms or other disasters. In postal services, the incumbent monopolists have put substantial effort into speeding up delivery processes and delivering much of the mail only one day after posting. At the same time, however, they have significantly reduced the number of post offices and the number of agents working in the post offices, making it more difficult and time-consuming for private customers to use the service (postmen, also, no longer have time to talk to residents).

Because they are highly labour-intensive services, the tension between increasing productivity and improving service quality is particularly apparent in hospitals and local public transport. True, there has been investment in new buildings, equipment and, in the case of transport, in new vehicles, but the intensification of work has also had negative effects on the quality of service. In several of the hospital cases, respondents voiced concerns that shorter patients' staying times and increased numbers of operations not only increase the risks of malpractice but also leave less time to spend with individual patients (the German case reports a marked decrease in the nurse-to-patient ratio). In local public transport, productivity gains have mainly been achieved by the introduction of flexible working hours. In general, this means greater workloads for drivers. The passengers may not notice a difference, but increasing drivers' workloads can have a negative impact on safety.

In some cases the negative impact on quality may only become apparent in the long term. In two of the electricity case studies, workers and worker representatives maintained that in the long term lower investment (as a result of profit interests or regulatory requirements) in network infrastructures will lead to a deterioration of the network quality and therefore of the security of supply. In one case study, this view was shared by management.

## **5. THE ROLE OF REGULATION**

Regulation in more than one case had a significant impact on company reactions to liberalisation and privatisation and the outcome in terms of employment and quality. Therefore there are also country-specific differences although providers in liberalised and privatised public-service markets tend to adopt similar strategies. As mentioned above, the mandatory splitting-up of the electricity supply chain gave electricity companies the opportunity to establish independent



subsidiaries and to thereby circumvent existing electricity sector agreements. Additional regulation could have prevented the misuse of such requirements for undercutting wages. In postal services it is primarily new competitors that pursue a low-cost strategy based on the payment of low wages. The Swedish case shows that in countries where employment regulations prevent such a strategy, competitors are forced to adopt alternative schemes that are compatible with minimum standard of employments and working conditions. The recent introduction of a minimum wage for the entire postal-service sector in Germany also underlines the importance of regulation. Apart from comparable employment and working conditions, detailed quality regulations and standards can also strongly impact on company strategies and practices as the example of the Belgian hospital case study shows. The hospital case studies more generally indicate that sufficient funding and the quality and extent of regulation is more important than the question of whether a hospital is publicly or privately owned.

## **6. CONCLUSIONS**

The case studies on the impact of the liberalisation and privatisation of public services provided detailed insights into company strategies, organisational change, employment consequences, industrial relations, working conditions and service-quality aspects. The findings show that companies have taken different approaches in tackling the liberalisation and privatisation of public services and the threat of competition. Reactions included mergers and acquisitions, investment outside their home markets and the diversification of supply; the diversification of customer relations, including new pricing policies that favour some groups of customers over others; a reduction of production costs through concentration, outsourcing and the introduction of new technology; a reduction of employment and the payment of lower wages (through lower wages for new employees, the creation of independent subsidiaries and outsourcing) as well as an intensification of work; training has been stepped up for some groups of workers while it has been cut for others.

Overall, the case studies show that in many cases the main company objective, i.e. the reduction of production costs, has been reached at the cost of workers, many of whom have experienced liberalisation and privatisation primarily as a worsening of employment and working conditions. This has been achieved by a far-reaching fragmentation of labour standards. In some sectors and countries, such as postal services in Austria and Germany, liberalisation and privatisation even threaten to transform a public service into a low-wage sector. While most case-study companies have increased productivity, usually as a result of staff cuts, the consequences for the quality of services are mixed: there has been some improvement in areas where it was possible to combine quality gains with investment in new and often labour-saving technology (e.g. the next-day delivery of post items). However, quality aspects that depend on substantial labour input, such as patient care or bus driving, have suffered as a result of liberalisation and privatisation.

In sum, the main objective of companies in liberalised and privatised markets is to make profits and they do so, among other things, by cutting costs. Not surprisingly, in their efforts to reduce costs, companies adopt practices, such as outsourcing, that have often been used - or are current management fashions - in the wider economy. Frequently this has been combined with improvements in productivity and, in some cases, in quality. Often, however, cost reductions have been based on worsening employment and working conditions, which more than once have had a negative effect on quality. Overall, the changes have clearly contributed to increases in societal inequality, both among European citizens, who are affected by customer differentiation and discriminatory price policies, and workers, who receive increasingly different wages for doing the same job.



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## PROJECT INFORMATION

The PIQUE project (“Privatisation of Public Services and the Impact on Quality, Employment and Productivity”) explores the impact of liberalisation and privatisation strategies in public services on employment, working conditions, labour relations, productivity and service quality. Focussing on the sectors of postal services, local public transport, electricity and healthcare/hospitals, the research covers six European countries: Austria, Belgium, Germany, Poland, Sweden and the UK.



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