European companies have a key role to play in helping the EU reach the Europe 2020 targets of smart, inclusive and sustainable growth. How companies organise their work is important in facilitating innovation, improving performance and ensuring good job quality. Workplace innovation is increasingly recognised as a key source of growth, contributing as it does to developing human capital and boosting both creativity and productivity. The flagship initiative ‘Innovation Union’ – part of the Europe 2020 Strategy – sees workplace innovation as complementary to technological innovation and a prerequisite for achieving smart growth. Industrial relations systems are crucial in shaping how companies meet these challenges. Countries with well-established social dialogue and industrial relations institutions tend to have better economic and social situations, and to be more competitive.¹

The third European Company Survey (ECS) maps practices in establishments with 10 or more employees across the EU28, and in the Former Yugoslav Republic of Macedonia, Iceland, Montenegro and Turkey. In all, over 30,000 establishments were surveyed by Gallup Europe, with a target sample size per country ranging from 300 to 1,650. Topics comprise work organisation, human resources (HR) practices, employee participation and social dialogue, and how these practices support ‘smart growth’. Interviews were conducted in spring 2013 with HR managers, and with employee representatives (wherever possible). The third ECS provides new data on how organisations are organised – in particular, how employees and their representatives are involved in improving work organisation and work processes. In doing so, it aims to contribute to a better understanding of how to facilitate economic growth for Member States and better outcomes for employees. This résumé mainly describes the survey’s first findings of practices in establishments dealing with market activities – mostly commercial, private-sector activities, excluding fisheries and agriculture. Practices in establishments managing specific public services (health, education and public administration) are described at the end of the résumé. Further analyses will examine whether and how specific bundles of establishment features combine and are associated with performance.

¹ László Andor, European Commissioner responsible for Employment, Social Affairs and Inclusion, ‘Social dialogue – vital component of European social model, not a luxury’, speech, 15 April 2013.
Performance and innovation

Financial situation
In 62% of establishments in 2013, managers considered the financial situation to be ‘good’ or ‘very good’; another 30% of managers rated it as ‘neither good nor bad’, while 8% viewed the financial situation as ‘bad’.

Some 41% of managers said that the financial situation of their establishment had been stable over the preceding three years. Equal proportions said that the situation had improved and deteriorated – 29% in both cases.

Managers in the construction sector are more likely to report their establishment’s financial situation as bad or very bad compared to the average: 13% compared to 9%. This most likely reflects the impact of the property market slump across much of Europe on that sector. Managers in financial services are markedly more optimistic, only 5% reporting their establishment’s financial situation as bad or very bad.

Innovation
Managers report that the following forms of innovation had recently been introduced:

- in 34% of establishments, new or improved methods for marketing or communication;
- in 41% of establishments, new or significantly changed products or services;
- in 36%, new or significantly changed processes for producing goods or supplying services.

Differences between sizes of companies and economic sector matter. Innovations are most likely to be introduced in medium-sized and large establishments. The wholesale, retail, food and accommodation sector stands out in terms of introducing new marketing methods and new products or services (with 41% of establishments having done so). Establishments in manufacturing are most likely to introduce new processes (42%).

The survey indicates a relationship between innovation and financial performance. In 63% of establishments where managers reported a good financial situation, one or more of the above forms of innovation had been introduced. This compares with 59% of establishments that had introduced such innovation. In 34% of establishments that had introduced innovation, managers reported that the financial situation had improved, as against 23% of establishments in which innovations had not been introduced.

Organisational design and work organisation

The ECS examined work organisation from the perspective of: how interactions are coordinated and monitored, both within and between establishments; how knowledge is managed in the establishment; and a review of practices that support functional flexibility.

Organisational design
A key organisational challenge is the trade-off between standardisation, optimising work processes, innovation and remaining responsive to market demands. The ability to manage these competing tensions in turn depends on how a number of organisational features combine. For example, how departments are defined in an establishment can reflect the establishment’s focus. The ECS findings indicate a more frequent focus on resources, processes and administrative systems in EU establishments rather than on outputs and markets:

- 72% of establishments report having departments differentiated on the basis of function (sales and production, for instance);
- 46% are departmentalised according to products;
- 20% are departmentalised according to geographical market.

Quality control systems are essential in reducing waste and improving the output of the organisation. However, quality control is not implemented equally across European establishments. In 76% of establishments, quality is monitored on a continuous basis; in 16%, it is on an intermittent basis; in 8%, quality is not monitored at all. Continuous monitoring is more common in larger establishments: 87% of large establishments monitor quality continuously. Continuous quality control is more common in subsidiary sites (being performed in 83% of establishments) than in headquarters (77% of establishments) and single-establishment companies (75%). It is most common in the manufacturing sector (83%).

Establishments use information systems to link stages of production or service processes – for example, in lean-production organisations. In 44% of establishments the use of such systems is reported in order to minimise stock levels or work-in-process – partially finished goods or partly delivered services. It is most common in manufacturing (51%) and in wholesale, retail, food and accommodation (48%).

Collaboration
Globalisation and the development of information and communication technologies have led to fundamental changes in the geographical distribution of economic activities and broadened the landscape in which organisations compete. As a result, local units can specialise more than previously: this has implications for collaboration both between and within
establishments. To examine this, the ECS explored to what extent different activities were either carried out in the surveyed establishments, or outsourced. The following breakdown emerged:

- production of goods and services: 58% of establishments;
- design or development of new products or services: 46% of establishments;
- sales or marketing of goods or services: 73% of establishments.

Sectoral differences are important. Establishments in the manufacturing sector are more likely to perform design and development and production – 61% and 82% of manufacturing establishments, respectively. Sales and marketing are most prevalent in the wholesale, retail, food and accommodation sector (where they are performed in 85% of establishments).

Value chains are organised through collaboration and outsourcing with other business units. Some 55% of establishments collaborate with other establishments or organisations in design and development, 50% in production, and 50% in sales and marketing. Some 27% of managers report that production is partly or entirely outsourced to a third party. In terms of design and development, 19% of managers report it is outsourced by their establishment; for sales and marketing, the figure is the same.

**Decision-making and hierarchy**

An important choice in work organisation is whether to centralise decision-making (so that it is performed solely by top management) or to decentralise it (so that the employee performing the job can take decisions). More latitude for decision-making at the workers’ level is associated with their greater well-being. In addition, organisations can have different numbers of hierarchical levels – the majority having three or fewer.

Managers or supervisors decide on the planning and execution of daily work tasks in 54% of establishments. In 40% of establishments, this decision is taken by managers and employees together. In only 6% of cases do employees decide by themselves.

On average, 28% of establishments have one or two hierarchical levels: 43% have three levels and 29% have four levels or more. Hierarchical organisations, with four levels or more, are more frequently found in establishments in the financial services sector. Organisational structures appear to be quite stable: 90% of managers report that the number of hierarchical levels in their establishment had not changed since the beginning of 2010.

**Teamwork**

Organisations implement functional flexibility in order to increase their ability to respond quickly to changing market conditions: more flexible employees can more readily be redeployed between tasks. This requires implementing different types of teamwork and training workers so that they can rotate tasks. In 57% of establishments where teamwork is practiced, workers belong to one team only. Employees are most likely to contribute to more than one team in the construction sector.

In 23% of establishments, most employees rotate tasks with other employees, in 44%, only some employees do so, while in 33% of establishments tasks are not rotated. In 5% of establishments, managers report that the high level of skills and expertise required prevent employees from rotating tasks. Task rotation is most prevalent in construction and in manufacturing: in 29% and 25% of establishments, respectively, most employees rotate tasks.

In autonomous or semi-autonomous teams, workers decide among themselves on the division of tasks to complete (at least part of) a product or service and are
Autonomous teamwork is practised in 20% of establishments; management-directed teamwork is practised in 53%. While teamwork overall is most prevalent in Austria, Malta and Luxembourg, the highest levels of autonomous teamwork are practiced in Finland, Denmark and Sweden. Management-directed teamwork is most common in Romania, Cyprus and Portugal.

**Knowledge management**
Knowledge is increasingly seen as a key source of competitive advantage. Knowledge management involves an organisation’s gaining control of a key intangible resource – the knowledge of its employees – by collecting and systematising it and so making it available to the entire organisation. The expected benefit of knowledge management is a greater capacity to adapt, and hence compete. Organisations may also monitor the market place and developments in other organisations to track technological developments or new ideas in products, processes and services. In 62% of establishments, employees document and keep records of good work practices or lessons learnt so that these may be shared with colleagues. In 29% of establishments, external ideas or technological developments for new or changed products, processes or services are monitored by staff assigned specifically to this task. In 39% of establishments, the monitoring of external ideas is part of the responsibilities of general staff; in 32% of establishments, external ideas are not monitored.

**HR practices**
HR practices are an important complement to work organisation, being essential in terms of recruiting staff, rewarding performance and developing human capital. As such, they have an impact on workplace innovation.

**Contracts**
In the vast majority (78%) of establishments, most employees (80% or more) have an indefinite contract. The use of indefinite contracts differs between sectors. They are most prevalent in financial services, where, in 86% of establishments, most employees (80% or more) have one.

**Career development**
Some 88% of managers agreed or strongly agreed with the statement that ‘the majority of employees who had a temporary contract got a further contract afterwards’. Some 86% of managers agreed or strongly agreed with the statement that ‘when recruiting, management usually first looks for suitable internal candidates’. In 70% of establishments, performance appraisals or evaluation interviews are carried out for at least some employees. This practice is more prevalent in medium-sized establishments (84%) and large establishments (92%).

**Skilled jobs**
In 51% of establishments, less than 20% of the workforce is in a high-skilled job; this is defined as a job that requires at least a year of on-the-job learning in order to become proficient in the tasks. Conversely, in 24% of establishments, most employees (80% or more) are in such high-skilled jobs.

**Training**
Some 71% of establishments provided paid time off for training to at least some employees in the 12 months preceding the survey. Conversely, in nearly a third (29%) of establishments, no paid time off for training was provided to any staff. Small establishments are least likely to give time off for training: in 32%, no employees get any paid time off for training. In contrast, this is the case for only 9% of large establishments.

Providing paid time off for training is least common in Bulgaria, Greece, Croatia and Lithuania, where in the

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*Figure 2: Proportion of staff for whom paid time-off for training is provided, by country (%)*
preceding 12 months more than 60% of establishments had not provided paid time off for training to any employee. Providing paid time off for training to at least some employees is most prevalent in Austria, Finland and Sweden. But in terms of providing paid time off for training, the Czech Republic stands out, 42% of Czech establishments having provided paid time off for training to all their employees in the year prior to the survey, followed by Sweden, Portugal and Italy.

Where paid time off was given, the training undertaken most often aimed to extend and improve the employee’s skills for their current job – particularly in financial services, other services, and wholesale, retail, food and accommodation. Boosting awareness of health and safety issues and hazard prevention was another important objective, especially in manufacturing, construction and transport.

Working time
Seven out of ten (69%) establishments in the EU have at least some part-time workers. There are large differences in the prevalence of part-time work between Member States. Almost all establishments in the Netherlands (93%) and in Austria (90%) have at least some part-time workers. In contrast, only 14% of establishments in Croatia and 22% in Portugal have any part-time workers.

In 65% of establishments, at least some employees can adapt the time when they begin or finish their daily work to their personal needs (‘flexitime’). Establishments in the Nordic countries and Austria are most likely to offer flexitime to their employees, 80% or more doing so. Establishments in Cyprus (37%), Bulgaria (33%) and Croatia (30%) are least likely to offer it. In 69% of establishments, employees can use accumulated overtime for days off. This is more common in large and medium-sized establishments (81% and 74% of establishments respectively offering this option) than in small establishments (68%).

Variable pay
Variable pay can take a number of forms: payments for results (piece rates, provisions, brokerages or commissions); other forms of performance-related pay linked to the individual or collective (team or group) performance (mainly bonuses); or payments linked to the company’s financial results (in profit-sharing schemes). In some cases, companies may offer variable extra pay in the form of share-ownership schemes. Almost two-thirds (63%) of establishments use some kind of variable pay. The most common form of variable pay is extra pay linked to individual performance, followed by payment on the basis of results: piece rates, and extra pay linked to company performance, to team performance and through share ownership. Variable pay is more prevalent in large and medium-sized establishments (84% and 78% respectively) than small ones (60%). Similar differences between size classes are found for all types of variable pay.

Social dialogue and employee involvement
The ways in which employees are involved in shaping their lives at work is a central element in this survey, covering as it does both social dialogue at establishment level and direct forms of employee participation. The presence of formal structures of social dialogue is mapped, as are the resources available for employee representation.

Structures of social dialogue
On average, a formal elected structure of employee representation (recognised trade union, works council or national variety of statutory representation) is present in 32% of establishments.3 The mapping of prevalence of national structures is based on information received from Eurofound’s European Industrial Relations Observatory (EIRO) network; see http://www.eurofound.europa.eu/eiro/about_index.htm

![Figure 3: Presence of an official structure of employee representation, by country and establishment size (%)](image-url)
representation, as against 60% of medium-sized establishments and 82% of large establishments. The differences between the Member States are huge. In Finland and Denmark, 68% and 77%, respectively, of small establishments have an elected employee representation, while medium-sized and large establishments approach full coverage. By contrast, in Portugal, Latvia, and the Czech Republic, fewer than 10% of small establishments have an employee representation. In these three countries and in Greece and Malta the figure for medium-sized establishments is between 20% and 30%. In Latvia and Greece – even for the largest establishments – the proportion with an official employee representation does not exceed 50%.

Membership of an employer organisation is slightly less common than the presence of official structures of employee representation: 26% of managers report that their establishment is a member of an employer organisation that participates in collective bargaining. Affiliation to an employer organisation is least common in wholesale, retail, food and accommodation (23%) and most common in transport and financial services (31% and 32% respectively). Differences between countries are huge. Few establishments are affiliated to an employer organisation in Romania (6%), and Bulgaria and Estonia (both 7%); the extent of affiliation is much higher in Denmark (59%), Austria (68%) and Sweden (78%).

Resources for employee representation
The capacity of social dialogue depends to a large extent on the time and resources available to employee representatives. More than half (56%) of the employee representatives report that they can spend as much of their working time as is necessary on their duties. Almost a third (29%) report that they have a designated number of hours that is sufficient for fulfilling their duties. Smaller proportions report that they are not entitled to use their working time (6%) or that they have a designated number of hours that is insufficient for fulfilling their duties (5%). A further 3% work full time as employee representatives. Almost a third (32%) of employee representatives reported receiving training related to their role in the 12 months preceding the survey. Some 37% reported that the employee representation has access to funding for external advice.

Level of involvement in decision-making
Both managers and employee representatives were asked about the extent to which the employee representation (if present) was involved in the decision-making process on the most important recent change in the establishment (in terms of its impact on working conditions). In around 88% of establishments where an official employee representation was present, it was informed by management of the most important recent change. In 69% of establishments, the representation was asked to give its views ahead of the decision, and in 60% of establishments it was involved in joint decision-making with the management. The likelihood that management will inform, consult and negotiate with the employee representation increases slightly with establishment size.

Information and consultation
The Information and Consultation Directive (2002/14/EC) requires the provision of information to and the consultation with employee representatives in all companies with 50 employees or more, or establishments employing at least 20 people. Information and consultation must take place with regard to the financial and employment situation of the company as well as with regard to decisions likely to lead to substantial changes in work organisation or in contractual relations.

In most establishments – 80% and more – employee representatives report that they are provided with information about the financial and employment situation of the establishment. In a slightly smaller majority of establishments, information is provided on the introduction of new products and processes and strategic plans for the establishment. The likelihood that management will provide information to the employee representation increases with establishment size. In 85% of establishments with a social dialogue structure, information provided on the financial situation includes future expectations. Future expectations are included in information on the employment situation in 83% of establishments. The majority of employee representatives (83%) are satisfied with the timeliness of the information provided; 87% are satisfied with the quality of the information.

Communication with employees
Management uses a range of methods to involve employees in the decisions made in the establishment. The extent to which different methods of communication are used varies with establishment size. Regular meetings between employees and their immediate manager are held in more than 80% of establishments in all size classes. Staff meetings open to all employees are used in just over 60% of establishments. Less interactive and less personal tools such as newsletters, employee surveys and suggestion schemes are more common in larger establishments, as are temporary committees or ad hoc groups. Social media and online discussion boards are not (as yet) predominant as a way of interacting with employees; nevertheless, 24% of managers in large establishments reported that they use them.
HR challenges and work climate

In the survey, managers gave their opinion on a number of HR issues and questions related to the overall work climate in the establishment: sick leave; recruiting people with the right skills; retaining employees; cutting staff in the wake of the recession; and motivating employees.

One out of seven establishments (13%) in the EU encounters problems with high levels of sick leave; this is more often cited as a problem in larger establishments. The lowest proportions of managers reporting high levels of sick leave are in Greece and Romania (both less than 5%); the highest are in Luxembourg (31%) and Germany (24%).

Four out of ten European establishments (39%) have difficulties finding employees with the required skills. Problems with finding suitably skilled employees are most common in the manufacturing sector (43%), and least common in financial services (30%). Over 60% of establishments in Austria and the Baltic states have difficulties finding suitably skilled employees; this is substantially more than in Croatia, Cyprus, Greece, or Spain (less than 25% in each).

The crisis years preceding the third wave of the ECS were characterised by rising unemployment across the EU. However, 10% of EU establishments still report that they have difficulties retaining employees. Difficulties with employee retention are reported most in Lithuania (28% of managers reporting this) and Hungary (21%). In contrast, the issue is reported least in Spain (3%) and Denmark and the Netherlands (both 4%).

In 2013 many European establishments were still struggling with an adverse economic climate. 17% of managers indicating that their establishment needed to reduce staff numbers. Furthermore, 38% of establishments that had cut their staff numbers since 2010 needed to make further cuts. There are considerable country differences in this respect: the proportion of establishments where managers indicate the need for staff cuts is highest in some southern European countries: Cyprus (52%), Greece (41%), Portugal (35%) and Spain (32%). In contrast, in only 6% of German establishments and 10% of UK establishments do staff numbers need to be reduced. Managers in establishments in construction more frequently report the need to reduce staff numbers (23%) than those in financial services (13%).

Around 17% of managers in EU establishments reports having to deal with problems of motivation. Poor employee motivation is most often reported in the construction sector (20%) and manufacturing (19%); it is least often reported in financial services (13%).

Some 84% of managers rated the general climate in their establishment as good or very good. Against the background of the economic crisis, some 13% of managers indicated that the climate had worsened since 2010, while 31% indicated that it had improved. Small establishments are more likely to have a good or very good climate than medium-sized and large ones.

Data on public services

The ECS also collected information on establishments (both public and private) dealing with public services in the public administration, health and education sectors; these are analysed separately from those in market services. This section shows some highlights from the results for public services in the areas of work organisation, HR practices, social dialogue and employee involvement.

Work organisation

Overall, teamwork is most common in the health sector, followed by education. Autonomous teamwork, however, is most common in education.
HR practices
Establishments in health are most likely to provide time off for training. Establishments in education and public administration are almost equally likely to provide training to all, or a large proportion (60% or more) of employees. However, establishments in education are much more likely to not provide training at all than the other two sectors.

Social dialogue
Official structures of employee representation are present in a large majority of the public services establishments in the sample. They are most common in public administration.

Employee involvement
In the public services, as in other sectors, the dissemination of information through newsletters, websites or notice boards is the most common method for involving employees in the way work is organised. Staff meetings open to all staff are most common in education. The less interactive, but by definition bottom-up, method of suggestion schemes is most prevalent in health.