

## **New forms of employment**

### **Casual work, Hungary**

#### Case study 57: Plastic packaging company

*A food packaging company in Budapest uses Hungary's new simplified employment system to engage casual workers who are vital to the firm's efficient and cost-effective operation.*

### **Introduction**

Casual work can be defined as short-term employment whereby an employee works for a specific employer for only a few days. Such jobs are at the periphery of the labour market and generally imply relatively low wages and poor working conditions. Nevertheless, often it is the only legal income for many workers.

Casual work in Hungary is in the form of so-called simplified employment, regulated by Act 85 of 2010. The aim of the regulation is to offer less stringent labour law rules if the employment relationship lasts for only a few days. Also, to combat undeclared work, casual work falls under a more favourable tax regime. Simplified employment has become very popular since its inception in Hungary. The tax authority estimates that around 630,000 casual workers were employed in 2013. In recent years the applicable legal regulation has changed three times as the legislator struggled to find the most suitable legal framework to achieve the mentioned aims. Working conditions of casual workers is also a regular issue in the media.

This case study focuses on an employer who does not use casual work solely to fill temporary positions for a few days. In this case, casual work is integral part of the employer's HR operation and forms stronger ties between the parties involved than in the usual casual work scenario. As a result, this study could be considered as an example of good practice for applying decent employment practices even in casual positions.

This case study is based on interviews with

- the employer's HR manager
- the employer's two division managers who directly supervised casual workers
- the temporary work agency's manager who hired out casual workers to the employer
- two casual workers who worked for the employer at the time of the interviews (March 2014), an employee who started his carrier as a casual worker in the employer company and then advanced to be an agency worker.

### **General characteristics of the firm**

This case study is about an employer specialised in plastic packaging technologies for food products. The employer is part of a multinational company with over 25,000 employees worldwide. The Hungarian subsidiary is in an industrial zone near Budapest. The employer carries out two main activities, printing and converting. Special printing machines attaches

complex prints to plastic foils, which are later carved to different sizes and welded (converted) to bags and sachets. Such plastic products are used for packaging a wide variety of food, such as frozen meat, sausages and salami. The raw material plastic arrives ready-made from other subsidiaries, rolled up in huge so-called barrels. Around 90–95% of all products are delivered to other EEA countries and only a fraction is sold in the local market. In 2012, the Hungarian branch recorded revenues of HUF 22,542 million (€73 million).

The company has 300 employees in Hungary, of which around half work in the printing division and the other half in the converter section. To cope with unexpected workloads, up to 20 agency workers supplement the regular workforce. Two-thirds of all personnel are blue-collar workers. These positions require no qualifications, but need lengthy on-the-job training. New entrants learn to work with special machinery for three months. Another three months are needed before they are ready to oversee production on one machine by themselves. In most cases, one employee operates one machine, while production supervisors are delegated to supervise five employees each. Both the printing and the converter divisions have their own division managers responsible for the working process, while there is a factory manager at the top of the hierarchy. Most HR decisions are made autonomously by the local management, within the framework set by the international headquarters (for example, maximum staff levels are often defined on the international level).

The basic characteristics of the permanent staff and agency workers are the following (based on data in April 2014).

- The majority of the staff are male (70% of permanent staff and 65% of agency workers).
- Around 20–25% of permanent workers are aged 21–30 and 41–50, while 43% are 31–40. Agency workers are younger; 41% are under 30, 30% are 31–40, while no one is over 50.
- 80% of the permanent employees have at least secondary-level qualifications, while 50% of the agency workers only finished primary school.

Production is organised in three shifts with five working days a week, with occasional overtime during the weekends, which is not a common practice. Employees are paid a monthly wage, which is supplemented by bonuses depending on various indicators such as pace of work, punctuality and feedback from clients. The average monthly income of a blue-collar worker is significantly higher than the statutory minimum wage (HUF 101,500 (€330 on 25 April 2014)). The company's policy is to operate using regular staff. Staff turnover is low, around 2% yearly. Conflicts between the employees and the management are rare and disciplinary actions are exceptional.

There is neither a trade union nor a works council in the factory. There is no applicable collective agreement with the employer either.

## **Design and implementation process**

Casual workers are employed by the firm to select and compact waste materials. Both divisions have a relatively high waste content. Even millimetres of damaged surface or other quality problems with the plastic foils can cause inaccurate printing, sometimes making the whole barrel useless. While carving and welding the foils seems like an easy process, over 100 possible errors can occur in the manufacturing process of a given plastic bag. Despite strict quality policies, the factory cannot avoid a significant amount of waste materials.

Casual workers have to select the spoilage among the finished products and collect it for the compressor machine. If a whole barrel of foils is waste, workers cut the plastic from the barrel before compressing it. This is a rather time-consuming manual activity. After compressing, the waste foils are delivered to recycling. Since waste handling is performed in a separate room, casual workers have little or no connection with regular staff.

Before using simplified employment, the employer had various difficulties managing waste handling. Firstly, the employer operates a just-in-time management system, meaning that all production is for specific orders and no stocks are held. Finished products are delivered immediately to the customer. This also means that human resources must be used in the most effective way, otherwise the company could not meet the strict delivery deadlines. As a result, when the factory is running on full capacity, there are simply no surplus personnel to manage the waste materials.

Secondly, this work has a very poor reputation among the employees. Even the agency workers who have already earned the company's respect and have been trained as machine operators complain about the work. The HR management found that workers assigned to waste selection felt as if they were being disciplined without a valid reason. Needless to say, this had a very negative effect on the efficiency of waste handling. In effect, all employees tried to avoid this task. The employer attempted to assign the task of waste management to employees who produced the most spoilage, but this plan also met with strong opposition from the employees.

Finally, in 2012, the company's management decided to use outside resources to handle the waste materials and authorised the HR manager to recruit casual workers. The new simplified employment seemed the right choice for two reasons: firstly, the number of workers needed was quite unpredictable, depending on the factory's actual production. Secondly, the factory manager and the international management strictly prohibited any increases in the workforce. It was easier to get their consent to recruit new personnel if it was just for a short time.

The employer decided to recruit and employ casual workers through a temporary work agency. The HR department operates with very limited human resources, thus the employer could not handle the time-consuming recruitment processes of casual workers by using in-house staff. The administrative constraints of operating a simplified employment scheme also required the involvement of a recruiting agency. Two of the most important constraints were related to the time limits and the maximum number of casual workers employed by a given employer. To implement the scheme according to all the legal requirements, the simplified employment was outsourced to the agency.

However, this form of hiring a temporary work agency as an intermediary in the simplified employment relationship is rather different from the standard agency work scheme. In Hungarian practice, agency workers generally spend much more time – around three to five months – at a given hiring company than the stringent time limits of casual work would allow. Also, according to data from the National Employment Service, two-thirds of agency workers have indefinite contracts. Casual workers, on the other hand, are always employed for a fixed term of a maximum of five consecutive days. Thus even when agency work is used to fill in temporary positions casual workers are recruited for even shorter periods, usually not exceeding a couple of days. While agency workers often perform different assignments within the framework of one employment contract, casual workers – even when recruited by an agency – are hired for one specific task. Another important difference is that casual workers fall under much more favourable common charges. Employers generally fill casual positions through agencies if they have no in-house resources to manage recruiting for very short-term employment. Payroll, the necessary declarations and all administrative tasks are the obligations of the agency, while the hiring company can instruct hired out casual workers and organise all working conditions as if they were its directly hired employees. In practice, the agency's involvement is necessary for purely administrative reasons; in other respects it is as if casual agency workers are in direct employment with the hiring company.

The employer already had a well-functioning relationship with a local agency that regularly provided the company with additional workforce. Since 2012 the agency has recruited nearly all new staff for the employer. The company uses a local (Hungarian) work agency, which employs around 100–150 people and operates in the central region of the country. It has built up a good

knowledge of the local labour market and it was a logical choice for the firm to use its services to find suitable casual workers.

The manager of the agency revealed that at first the employer had no clear idea of how the requested casual workers should be employed. It was him who recommended using simplified employment through his agency. Simplified employment combined with agency work was prohibited until the new Labour Code came into effect on 1 July 2012. The employer was among the first organisations to make use of agency work combined with simplified employment. Before starting the project, the employer had to get the consent of its foreign parent company. The advantages of this form of employment (see below) convinced the factory manager too.

During the recruitment process the agency advertised the casual positions as a stepping stone towards a permanent job with the employer. In the local community the factory had a reputation as a decent employer, which made it easier to fill these – otherwise not specifically attractive – positions. The agency told potential candidates that the time spent with the employer as casual workers would function as a probation period. The better they performed, the higher their chances would be for a permanent job. Note that the factory really intended to give best performers permanent positions. The agency's manager and division leaders of the employer found such a communication strategy important for the smooth operation of recruiting.

## **Working method, processes and procedures**

### **Recruitment**

The HR manager outlined a very flexible system for recruiting casual workers. Since division managers have the information on the workforce demand they may contact the agency directly if any casual workers are needed. It is enough to inform the HR department that they have asked for external resources. The employer naturally has to pay the agency fees for its services; nonetheless, the HR manager still found this system cost-effective as the company can save the costs of maintaining a bigger HR department.

Division managers usually inform the agency every Thursday about the employees needed for the next week. The order is sent via email with the number of workers needed for each shift. In most cases division managers specify the people they want to employ by name, but changes may occur. If the agency assigns new entrants, it sends the names and CVs before the work is started. Given good working relationships between the parties, the agency also accepts orders with shorter deadlines. In extreme situations, the employer orders casual workers only 24 hours in advance. The adaptability of the agency is very convenient for the employer, as otherwise it could not manage the smooth supply of human resources during the production peaks. For example, there have been occasions when waste pieces among 50,000 plastic sachets had to be sorted within a 48-hour period. Here the agency could recruit five additional casual workers in 24 hours. On the other hand, casual workers' availability also shows that most of them have no other job than the temporary assignment with the agency.

However, recruitment is hampered by the fact that the employer is in a remote location where public transport is very limited. Thus only people who can travel to the site on their own or who live around the route of the company's bus can be recruited. This limits the scope of recruitment mostly to nearby villages and towns.

The agency recruits casual workers by advertising the position in local newspapers. The agency's (present and past) employees are also informed about new vacancies, and they spread the word in their own circles. Two of the casual workers interviewed applied for the job on the recommendation of a friend who previously worked for the agency.

Division managers pointed out that the nature of the work requires high tolerance for monotony and physical strength. Most of their casual workers are young males, but women proved to adjust

better to monotonous tasks. The managers said they preferred to employ casual workers who have already finished terms (see below) at the factory as they already know the employer and need no basic training. From December 2013 until the time of the interviews (March 2014) the company employed the same four persons with two- to three-week long interruptions in their employment. It is important to note that the company usually runs at a lower capacity during the winter, so the period of employment of these four employees was still under the legal time limits.

### **Training and supervision**

The casual worker's first day at the company starts with compulsory training. First of all, production supervisors give a short practical lecture which includes information on the factory, the basic procedures and an overview of their specific tasks. As the employer produces food packaging materials, new entrants are introduced to the stringent hygiene regime, including rules on clothing and on the use of restrooms. Casual workers have to respect the same occupational health and safety measures as all other employees, so their training includes these policies too.

After the training is completed, new workers start working under supervision of the production supervisor (for the first 15–20 minutes). They are supplied with the necessary equipment: meaning a razor, ear-plugs and protective gloves. On the first day casual workers are supervised more closely than on later days. After the first day, the responsible division leaders supervise casual workers directly, as production supervisors – being responsible for five other employees – have no time for this. The two casual workers interviewed noted that the first-day training was very informative and helpful for their work.

### **Working time and wages**

Casual workers are recruited for a consecutive five-day term, from Monday to Friday. In most cases this is also the minimum period they spend with the same employer, meaning that the employment is terminated earlier only in the event of grave complaints about the employee's performance. On rare occasions, the newly hired employees quit before the end of the five-day term. The most common reason for this is the monotony of the work, but the agency tries to minimise such occurrences by employing a careful selection processes. Casual employees are paid after each term (every Friday) by the agency through transfer.

The daily working time is eight hours. Although it could be increased to a maximum of 12 hours, such long shifts would mean that workers cannot get home using public transport. Consequently, this possibility was declined by the employer. Two breaks interrupt the daily working time; the first lasts for 20 minutes, the other for 10. Work is organised in three shifts (morning, afternoon, night) and at least one casual worker is scheduled for each shift. When the factory runs at full capacity, the number of casual workers is raised to between two and five per shift. According to the agency's manager, given the temporary nature of casual employment, the company could not adjust such fluctuation in demand of workforce by any other means than increasing the number of employees.

According to the legal rules of simplified employment, a casual worker can work no more than 15 days in a month for the same employer. Thus casual employees work three five-day-long terms every month. This means they have a spare week each month with no salary paid for the inactive week. Only one of the casual workers interviewed worked elsewhere (for a different employer) during these weeks. Another colleague was doing a course to earn a driving licence in his free time, while the permanent worker who started working in the waste handling department had no other activity. In theory, casual workers are entitled proportionally to annual paid leave, but as they hold only five-day contracts, they never earn the right to paid leave. Nevertheless, the workers interviewed felt that one free week a month gave them enough rest time.

The division managers inform casual workers about the following week's schedule on Fridays. The weekly schedule also means that the casual worker is offered work for the next five-day term. Shifts change each week (for example, the worker starts in the morning shift during the first five days and if offered a further term, continues in the afternoon and so on). The weekly schedule is strict in the sense that the agency has to assign the requested number of casual workers to each shift, but there is flexibility in terms of workers, as they are not defined by name and changes are possible.

The workers interviewed said they were free to change the shifts among themselves if necessary. They also have to inform both the agency and the division manager in advance. Such changes are rather rare and occur mostly if someone gets the opportunity to work somewhere else. While such changes are possible, workers cannot refuse to come to work as ordered by the employer without organising the substitution.

Wages for casual employees are higher than the statutory minimum wage. Since simplified employment means favourable tax and social security contributions, the employer decided to use part of its savings to raise the net wages for the employees. If a casual worker can work all three terms per month, his/her net income can reach HUF 75,000 (approximately €244 as of 17 April 2014). For a comparison, the net monthly minimum wage is around HUF 66,000 (€214). It is important to keep in mind that casual workers have to do only three weeks' work for an income higher than the monthly minimum wage. Nevertheless, low social security contributions mean that casual workers are not eligible to all services of social security (for instance they are not covered by health allowances). As for other benefits, like all other employees working for the company casual workers are granted free transportation by private buses belonging to the company. Other special elements of pay (such as bonuses) are not applicable to casual workers.

### **Transition to permanent posts**

Casual workers handling the waste are recruited specifically for temporary positions. The simplified (casual) contracts are concluded for five days. If the employee performs well, he/she gets additional contracts. Division managers evaluate the performance of casual employees and if the new entrant's skills are higher than needed for the position, these workers are offered a fixed-term agency work contract for positions requiring more skills. Such offers are usually made at the beginning of spring when the company faces the highest annual workforce demand. After six to nine months of casual work, the employer evaluates the worker's performance. If at that time the employer is looking for permanent staff, the best agency workers are offered a permanent position.

According to Hungarian labour law, the maximum length of the probation period is three months. It can be prolonged to six months, if the collective agreement allows for this. The company HR manager believes that three months is not enough to judge whether a new employee is suitable or not for a specific job in the factory. Using the system described above, the employer has a six- to nine-month period to select its permanent staff. The company HR manager as well as the agency manager both mentioned that nearly all of the employer's permanent staff went through these steps.

The employee interviewed was undergoing the second stage in the process at the time of the interview (March 2014). He shared his experiences about the transition from casual to agency worker. Although he is still very young (around 20 years old), the employee decided to finish his studies early and had to find a job. He started his career with the employer as a casual worker selecting waste. He confessed that he only took the job for the opportunity to get a permanent position. He heard that the employer was a very good one and therefore decided to work hard from the very first day. His efforts convinced the supervisors to move him to an agency worker position sooner than usual. After two months he got a six-month fixed-term contract with the agency and started working as an operator. This meant a significant rise in pay and more qualified

work for him. He only does morning shifts, which allows him to work with the same colleagues and supervisor, thus creating closer working relationship with his colleagues. At the time of the interview, the employee was still learning to be a permanent machine operator and remembered his work with the waste materials as considerably simpler and less challenging than his new job.

If a casual worker is not offered a new contract, his employment automatically ceases upon the expiry of the last contract. As they are employed for a fixed term, the rules on notice periods and severance pay do not apply.

## **External support**

The employer does not use any external support apart from the temporary work agency's recruiting services. The HR manager evaluated their cooperation as excellent and was satisfied with the price–value ratio of the agency's services.

## **Outcomes**

At the macro level, given the limited number of casual workers employed in the factory (four to 10 in a month), the system may have only a limited effect on the local labour market. However, these positions serve as an important stepping stone towards more stable jobs. Also, the HR manager noted that unattractive but important job positions, such as waste handling, were a feature of all neighbouring factories. If all of these positions were filled by casual workers, a large number of workers could obtain temporary jobs at least. She believed that their model of casual work was transferable to other employers and could serve as starting point of a career. The other factories face the same problems with filling these positions (usually permanent staff handle these tasks with reluctance).

At micro level, the HR manager expressed her complete satisfaction with casual work. First and foremost, it helped the company solve the problem of performing the waste handling job which none of their permanent workers wanted to take. Casual workers are usually motivated and diligent in sorting waste materials because they want to gain a better position. Both division managers interviewed noted that casual work lifted the heavy burden of organising waste management from their shoulders. Most casual workers performed well and, with rare exceptions, were diligent and willing to do the work as efficiently as possible. For example, the division managers mentioned that casual workers were the first ones to complain about inefficient work practice using the razor the employer had given them. Before employing casual workers, no permanent employee designated to waste handling told them that the work equipment was inadequate and slows down the work. Based on the supervisors' experience, casual workers generally respected the performance deadlines defined for them.

The division managers mentioned only a few disciplinary problems with casual workers. As the factory cannot be reached by public transport, an employee who misses the employer's bus also misses the entire shift. If this occurred repeatedly, the casual worker was not offered additional terms of employment. Occasionally, casual workers did not wear the compulsory protective gloves or were found sitting while the employer ordered them to perform work in standing position, which is safer. There was one case where a casual worker misled the agency and the employer by telling them that he had agreed with a fellow employee not to come to work the next day. This casual worker was not employed again after the expiry of his five-day term.

The printing division's manager said that most casual workers had work experience only from agriculture and the construction industry. The factory is a totally different working environment, with much less autonomy for employees. However, most of the casual employees adapted quickly to the new working environment. Also, their background meant that the casual employees were more able to meet the physical challenges related to their tasks.

The agency's manager added that the success of the 'casual work project' made a good impression on the employer, as it proved the agency could come up with a functioning solution to the client's challenge.

According to the agency's manager, the current legal background is suitable for casual work. He recognised that constraints set by the regulations were quite strict. Nonetheless, the agency had no particular problems adjusting its operations. He added, however, that the relief from compulsory health examinations for casual work could be problematic, as the employer could not make a judgement about the employee's physical abilities without medical expertise. At the same time he acknowledged that such examinations would be impossible in the setting of casual work and would mean significant financial burden, making simplified employment less attractive (one examination costs around HUF 3,000–6,000, €9.70–19.50). In the case of this employer, the agency did not experience any problems as the work casual employees performed was not dangerous. Nonetheless, the same health and safety requirements apply to casual workers and the employer's responsibility for damages is also the same.

The older casual employee interviewed was satisfied with his job and liked his clean and friendly working environment. He emphasised that transportation on the employer's buses was very convenient and he found it important that his work was acknowledged. His younger colleague's experience was also positive.

## **Strengths and weaknesses**

The following strengths show that casual work could fit in with the regular HR operations of the employer.

- The employer could not use its permanent workforce for such low-skilled jobs as handling waste materials. Most casual workers, on the other hand, had no objections to such work and performed the assigned tasks with great care and devotion.
- Casual work is an integral part of the employer's internal career pathway and is used to select permanent staff. The opportunity for casual workers to transfer to permanent positions significantly raises their motivation and loyalty to the employer.
- Favourable taxation rates and more flexible social security coverage rules allow employers to save resources and enable them to pay relatively high wages to casual workers.

The weaknesses mainly stem from the temporary nature of this employment form.

- Casual work can only be used for positions which require little or no training. Production peaks could not be handled by recruiting casual workers if the training period was substantially longer.
- Casual workers are recruited by agencies. The system requires smooth cooperation between the agency and employer.
- The temporary nature of casual work comes with a risk that employees might find a better job elsewhere and leave the employer after the end of the five-day term.
- Casual work cannot exceed 90 days per calendar year. If the employee is not promoted at the company during this period, he or she is likely to leave the company.
- Public transport to the factory is very limited. The remote location makes recruitment difficult. If the employee misses the company's bus, he or she is likely to miss the entire shift.

## **Future plans**

Despite the overwhelmingly positive evaluation of casual work in the waste handling department, the managers interviewed expressed their doubts about using this employment form for other jobs. They emphasised that machine operators needed at least six months' training before they



were able to work alone. These positions require permanent staff. The HR manager added that while the international management would not mind a bigger share of casual workers in the company, they simply cannot hire employees for the production peaks, because the training period would normally last longer than their whole fixed-term assignment. The manager of the converter division pointed out that operators are required to be fast and precise. Since product quality is supervised directly by them, only well trained employees can fill these positions. In short, the employer believes it could extend casual work only to other simple jobs, such as cleaning or packaging. However, the company had no such plans at the time of the interview (March 2014).

The older casual worker stated that he was totally satisfied with his job and looking forward to earn a permanent position in the company. He might be promoted to an agency work position in spring when production in full capacity would start. The permanent employee planned to remain with the employer. He has also recommended the employer among his friends and family, and there were casual workers who came to the company upon his suggestion. The younger casual worker was not sure of his future plans, and had no firm intention to stay with the employer.

## **Commentary**

In this case study, casual work involves a better quality position than the jobs that are generally available through simplified employment procedures. Under casual work in the firm analysed, the minimum period of the employment relationship is five days and this can be extended if the employee performs well. In addition, casual workers can advance to higher-level positions if they show willingness and good results. Nevertheless, this form of employment is temporary and does not include full social security coverage. Moreover, when compared to the national average, it offers a relatively low income, although it is still higher than the minimum wage.

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