

FWA IN SMEs – INCIDENCE, MOTIVATIONS, ADVANTAGES AND  
DISADVANTAGES



FLEXIBLE WORK ARRANGEMENTS IN SMALL AND  
MEDIUM ENTERPRISES – INCIDENCE, MOTIVATIONS,  
ADVANTAGES AND DISADVANTAGES

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# FWA IN SMEs – INCIDENCE, MOTIVATIONS, ADVANTAGES AND DISADVANTAGES

## Abstract

**Purpose** – Examine SMEs’ motivations for using flexible work arrangements (FWA).

Analyse the incidence of different types of FWA and explore employers’ perceptions of the advantages and disadvantages of those arrangements.

**Methodology** – Exploratory study based on semi-structured interviews to SMEs’ managers operating in Portugal.

**Findings** – The evidence suggests that the determined duration contract is the most frequent FWA used by SMEs. The findings indicate that the motivations for the use of FWA can be aggregated in voluntary, pull and push factors. The most mentioned factors were voluntary. Furthermore, the advantage and disadvantage most mentioned were, respectively, cost reduction and the decrease of productivity amongst flexible employees.

**Research limitations** – Exploratory study based on small and non-random sample. The results cannot be generalised for the Portuguese labour market. Additionally, there is a geographical and industry affiliation potential bias.

**Practical implications** – The study attempts to raise managers’ awareness about the implications of the use of FWA. Managers should examine whether disadvantages outweigh the advantages of FWA. Policy makers should be aware of the particularities of SMEs and design labour market policies to help SMEs and, at the same time, reduce vulnerability of flexible workers.

**Originality/value** – The use of FWA in SMEs is quite unexplored in the literature. This study contributes to fill this gap and illustrates mismatch between employers’ statements on motivations for using FWA and advantages and disadvantages of FWA.

**Keywords** – Labour market flexibility; Flexible work arrangements; Small and medium enterprises; Employers’ perceptions.

**JEL Classification** – J41 Labour Contracts; M54 Labour Management.

### **Resumo**

**Objetivo** – Examinar as motivações do uso de diferentes contratos flexíveis (CF) nas pequenas e médias empresas (PMEs). Analisar a sua incidência e explorar as perceções dos empregadores sobre as suas vantagens e desvantagens.

**Metodologia** – Estudo exploratório baseado em entrevistas semiestruturadas a gestores de PMEs em Portugal.

**Resultados** – Os contratos a termo certo são os CF mais usados. Existem três tipos de fatores que contribuem para o seu uso: voluntários, de atração, e de pressão, sendo os voluntários os mais mencionados. A vantagem e desvantagem mais mencionadas foram, respetivamente, a redução de custos e a diminuição da produtividade dos trabalhadores.

**Limitações** – Estudo exploratório baseado em amostra pequena e não aleatória. Os resultados não podem ser generalizados para o mercado de trabalho português.

Adicionalmente, existe um enviesamento potencial de afiliação geográfica e industrial.

**Implicações práticas** – O estudo pretende consciencializar os empregadores sobre as implicações do uso de CF. Os empregadores devem validar se as suas vantagens superam as desvantagens. Os legisladores devem estar conscientes das particularidades das PMEs e desenhar políticas adequadas e, ao mesmo tempo, reduzir a vulnerabilidade dos trabalhadores com CF.

**Valor acrescentado** – O uso de CF nas PMEs está inexplorado na literatura. Este estudo contribui para a diminuição desta lacuna e ilustra um desajuste entre as declarações dos empregadores sobre as motivações para o uso de CF e as suas vantagens e desvantagens.

**Palavras-chave** – Flexibilidade do mercado de trabalho; Contratos flexíveis; Pequenas e médias empresas; Perceção dos empregadores.

**Classificação JEL** – J41 Contratos de trabalho; M54 Gestão de trabalho.

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## **1 - Abbreviations**

CAE – Economic Activities Classification

CF – Contratos Flexíveis

CSR – Corporate Social Responsibility

DNA - Deoxyribonucleic acid

EU – European Union

e.g. – for example

FWA – Flexible work arrangements

IAPMEI – Support Institute for Small and Medium-Sized Enterprises and Investment

IEFP – Employment and Professional Training Institute

IRS – Internal Revenue Service

i.e. – that is

N/A – Not applicable

PMEs – Pequenas e Médias Empresas

SMEs – Small and medium-sized enterprises

## 2 - Introduction

Since the first half of the last century, the study of labour flexibility in the enterprises has been subjected to much debate. This debate was firstly focused on the ideological use of flexibility, and was considered by many, a way of managers regaining the powers they previously had in adjusting their workforce, since the implementation of a more strict employment protection legislation (Looise, Riemsdijk, & Lange, 1998). Since then, the debate on whether employment regulation harms or favours employers and employees has become more complex. Proponents refer that a strict employment protection legislation creates fairer societies, protecting employees' rights (Millán, Millán, Román, & Stel, 2013; Suleman, Lagoa, & Suleman, 2017), while opponents say that it hinders the manager's ability of adjusting their workforce (Suleman et al., 2017), and that this rigidity, by lowering the number of dismissals, lowers the number of jobs created in consequence (Millán et al., 2013).

This study examines the motivations of employers to use flexible work arrangements, trying to answer the following question: to what extent companies use flexible work arrangements and what motivates its use? Flexible work arrangement is defined as any work arrangement 'that alters the time and/or place that work gets done on a regular basis' (Workplace Flexibility 2010, 2006: 1). Available studies show that there are several external and internal factors that induce the use of flexible work arrangements. J. Atkinson (1985) and Creach and Brewster (1998) underline economic recession, technological improvements, work-life balance concern, among others, while Houseman (2000), The Outsourcing Institute (1998), Valverde, Tregaskis, & Brewster (2000) focus on internal factors, notably, business characteristics, workforce fluctuations and facilitated access to qualified resources. The literature focuses on foreign countries showing that studies on the motivations of firms operating in Portugal are scarce and deserve scrutiny.

The study contributes to fill this gap and examines the incidence of flexible work arrangements and the reasons of its use in firms operating in Portugal. It focuses on six types of flexible work arrangements: fixed-term contracts, temporary help agency contracts, rendering of services agreements, outsourcing, internships, and part-time; and explores the employers' perceptions on advantages and disadvantages of those arrangements. Here we define additional research questions: What is the incidence of each type of flexible work arrangement in the companies operating in Portugal? What

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are the perceived advantages and disadvantages of the use of flexible work arrangements?

An additional gap emerged from the literature. In fact, the available studies focus on large enterprises, leaving open a space for the aforementioned investigation in micro, small, and medium enterprises (SMEs). Although SMEs are constantly referred to as the ‘engine’ and the ‘backbone’ of our economy (European Commission, 2005, 2015) there is a lack theoretical framework regarding SMEs (C. Atkinson, Mallett, & Wapshott, 2016; Battisti & Deakins, 2010; Maxwell, Rankine, Bell, & MacVicar, 2007; Millán et al., 2013). Battisti and Deakins (2010) justify this with the fact that the SMEs diversity hinders the research. These considerations about the importance of SMEs aligned with the fact that a strict employment protection is seen as having greater negative effect on smaller enterprises (C. Atkinson et al., 2016; Millán et al., 2013) led us to conduct the study on SMEs. This study examines the use of flexible work arrangements in SMEs contributing, thus, to the general debate on flexibility.

### 3 - Theoretical Framework

Many organizations strategies and Government policies have been designed around the issue of ‘flexibility’. The need to be flexible has become a paramount concern to organizations that work in an environment, where those best equipped to deal with new pressures, such as: growing uncertainty, high competition and high diversity, will be the ones that prevail in the market. In this perspective being flexible arises as one of the only ways to survive in this environment (Carvalho, 2005; European Foundation for the Improvement of Living and Working Conditions, 1999).

The concept of flexibility can be defined as the ‘the corporate objective of being able to quickly and effectively respond to changing demands of the environment’ (Brewster, Wolfgang, & Morley, 2000: 39). The way that firms achieve this flexibility led to the arising of different theories which comprise alternative methods of overcoming market pressures through flexibility<sup>1</sup>. In this paper we will focus on labour market flexibility.

Blyton and Morris (1992: 116) define labour market flexibility as ‘the ability of management to vary the use of the factor labour (in terms of volume, qualifications and time) in a company, to fluctuations and changes in levels and patterns of demand’. This definition is directly related with divergent, albeit sometimes overlapping, categories of labour market flexibility which allow managers to attain flexibility.

The first theory worth analysing is the dual labour market theory. This theory favours the notion that labour market is divided in two: primary and secondary labour markets. Employees in primary labour market are recognized by their vast set of competencies and skills that employers will try to develop through training, and will be markedly compensated through good work conditions, high wages and opportunities of promotion, in short, high job security (J. Atkinson, 1985; Polivka & Nardone, 1989). In comparison, secondary labour market employees are the ones with lower qualifications, and consequently are not considered as valuable. These employees will receive lower wages, have fewer progression opportunities and less satisfactory work conditions, leading to high job insecurity (J. Atkinson, 1985; Polivka & Nardone, 1989).

Another dichotomy observed concerns ‘internal flexibility’ and ‘external flexibility’. Internal flexibility, as the name implies, is the flexibility that could be

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<sup>1</sup> Across the literature other methods of achieving flexibility can be found, for instance the use of ‘flexible specialization’ in the manufacturing industry (Piore & Sabel, 1984). However they will not be mentioned in this study since they are not related with the paper’s focus.



retrieved using the internal resources that the organization has at its disposal. It comprises the rearranging of work methods, such as the implementation of overtime or flexible working hours, or following a more proactive human resource policy, the development of the workforce's competencies, resulting in the increase of multitasking and job rotation (Blyton & Morris, 1992; Looise et al., 1998; Plantenga & Remery, 2010). External flexibility is regarded as the flexibility that could be obtained between different organizations, using resources from the external labour market. External flexibility is observed when managers implement policies that support the use of fixed-term contracts, temporary agency work or on-call work, or even hire freelancers or subcontracting (Blyton & Morris, 1992; Looise et al., 1998; Plantenga & Remery, 2010). Concluding, secondary labour markets are connected with external labour markets, and in turn, primary labour markets are related with internal labour markets (J. Atkinson, 1985).

Within the formerly mentioned distinction, a range of additional flexibility categories is formed. J. Atkinson (1985) suggests the three types of flexibility, notably, functional flexibility, numerical flexibility and financial flexibility, which are the ones most used in literature: Arvantis, Hollenstein, and Marmet (2003), Blyton and Morris (1992), Carvalho (2005), Carvalho and Cabral-Cardoso (2008), Ghosh et al. (2009), Lepak, Takeuchi, and Snell (2003), Looise et al. (1998), Plantenga and Remery (2010), Reilly (2001), Sarantinos (2007), Valverde, Tregaskis, and Brewster (2000), and Kovács (2004) among others, and even in European Commission official documents: Eurofound (1999).

Functional flexibility, also denominated 'qualitative flexibility' (Looise et al., 1998; Plantenga & Remery, 2010), 'long term', and even 'offensive' flexibility (Blyton & Morris, 1992) concerns with the adaptability that organizations require their workforce to achieve. Employees should be prepared to adapt themselves into new tasks and responsibilities in order to better cope with change. With the implementation of functional flexibility we see the erosion of the notion that an employee should always execute the same tasks during its working life. It can mean a complete change in career, and implies that the workforce moves with the market. Companies implementing this type of flexibility are the ones who rely more on training and the development of long-term and committed employment relationships, in order to realign the employees' skills and competencies with the organization's strategies. It is one of the categories that requires a greater investment on the organization's current workforce (J. Atkinson,

1984, 1985; Blyton & Morris, 1992; Carvalho, 2005; Carvalho & Cabral-Cardoso, 2008; Reilly, 2001; Sarantinos, 2007; Valverde et al., 2000).

Numerical flexibility is also referred as ‘quantitative’ (Looise et al., 1998; Plantenga & Remery, 2010), ‘short term’ or ‘defensive’ (Blyton & Morris, 1992) flexibility, it also concerns with the adaptability of the workforce, but on a ‘quantitative’ level. Meaning that companies implementing numerical flexibility, should, at any time, in an easy manner and with no great expense, change their employee’s numbers, so that the total number of workers used is the exact amount needed. This adaptability can be secured by the use of different contractual relationships: hiring temporary agency workers, implementing fixed term contracts, using specialists self-employed workers, freelancers, outsourcing, among others. Another method that could be employed, obtaining similar results, is the implementation of flexible arrangements related to working time, adopting shift working, variable working time, part-time working contracts, working time accounts or overtime (J. Atkinson, 1984, 1985; Blyton & Morris, 1992; Carvalho, 2005; Looise et al., 1998; Reilly, 2001; Sarantinos, 2007; Valverde et al., 2000).

Lastly, financial flexibility is related with the need to reduce labour costs in order to increase organization’s profits. This flexibility is characterized, by J. Atkinson (1984, 1985), as the implementation of wage policies that go beyond the ‘simple’ reduction of wages to a competitive level. It is, in some part, related with the use of numerical flexibility and functional flexibility, since these types of flexibility might impose a need to change the way that workers are paid. It includes policies that connect the pay level with the workers performance (assessment based pay systems), so that a better distinction can be made between low and high performance workers (J. Atkinson, 1984, 1985; Sarantinos, 2007; Valverde et al., 2000). The introduction of financial flexibility can also mean the implementation of pay systems that depend on the firm’s performance, such as profit related pay or gainsharing (Reilly, 2001).

Besides the previously mentioned, additional contributions were given about the labour flexibility characterization. Temporal flexibility is overlapped with the notion of numerical flexibility, since it consists in the introduction of varying working hours in order to meet business and market requirements (Blyton & Morris, 1992; Reilly, 2001; Sarantinos, 2007). Reilly (2001) develops a distinction between unstructured and structured temporal flexibility. Unstructured temporal flexibility includes the use of

overtime and zero hours contracts, and structured temporal flexibility includes the use of shift-working, part-time working, job sharing and flexible working weeks.

The characterization ‘contractual flexibility’ (Brewster, Mayne, & Tregaskis, 1997a; Croucher & Brewster, 1998) has also common grounds with numerical flexibility. It includes all the types of employment contracts that can be implemented within the organization, that go beyond the flexibility of working time. Here are represented the more ‘atypical’ contracts such as eventual work, fixed-term contracts, temporary agency work, or in another perspective contracts where a relation between worker and company is not established or is very weak, for instance subcontracting, where a commercial relationship is formed instead of an employment relationship (Brewster et al., 1997a; Carvalho, 2005).

An additional form of flexibility is introduced by Reilly (2001): locational flexibility. This type of flexibility is characterized by the possibility to carry out the responsibilities entailed in the job contract outside of the company's premises (e.g. tele-homeworkers, freelance workers, self-employed workers or mobile-workers), or when the company's premises overlaps the worker's residence (e.g. homeworkers).

All these different characterizations enhance the complexity of the flexibility debate. This complexity is moreover mirrored in the different models that scholars developed in order to explain the organization's flexibility practices. The aforementioned dual labour market model suggests that the same organization cannot have, simultaneously, jobs with characteristics of the primary and secondary labour markets. Companies will be obliged to choose one or another form of flexibility, since they are contradictory (Carvalho, 2005; Smith, 1994).

However, J. Atkinson (1985) develops the model of ‘flexible firm’ introducing the notion that an organization can implement diverse types of flexibility, being able to combine functional, numerical and financial flexibilities. J. Atkinson (1985) argues that the different combinations between the three types of flexibility will lead to different policies. The organizations that venture in the implementation of functional and financial flexibility would be characterized by policies based on assessment-based pay schemes, and training. The combination of functional and numerical flexibility would lead to the introduction of a range of different types of employment contracts, and on the other hand, with the merge between numerical and financial flexibility companies would implement variable working time schemes (J. Atkinson, 1984, 1985; J. Atkinson & Gregory, 1986).

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The model suggests the division between core and peripheral employees, since all three types of flexibility could not be applicable to one employee. Core employees represent the use of functional flexibility. These employees are the ones that are seen as the most valuable to the company and that should require a greater investment in training, skills development and job enhancement from the organization. They will be expected to adapt to new and complex market demands and in return they will experience better working conditions and greater job security. Peripheral employees are, in turn, divided into: first peripheral group, second peripheral group. J. Atkinson (1984, 1985) and J. Atkinson and Gregory (1986) advocate that the employees belonging to the first peripheral group are full time employees, however their job relation is less secure since they are not considered as valuable to the organization as core employees. Therefore the investment on these employees is much lower, meaning that they have less opportunities on career development. Employees in the second peripheral group are used when the company needs to achieve numerical and functional flexibility at the same time: fixed-term contracts, part-time contracts, trainees, and job sharing or temporary contracts. Besides core and peripheral employees, J. Atkinson (1984, 1985) and J. Atkinson and Gregory (1986) also distinguishes an external group of employees. External employees are not considered employees of the organization. They are used to achieve greater numerical and financial flexibility. In many cases, the relation between employee and employer is non-existent, which will lead to a reduction of the company's responsibilities toward these workers. They comprise: temporary agency workers, subcontracting or outsourcing, and self-employed workers.

The reported literature suggests that employers adopt different types of flexibility, and variations exist among and between firms. It has to be noted that Atkinson's model is one of the most studied across literature, notwithstanding is one of the most criticized due to its perceived simplicity (Carvalho, 2005; Kovács, 2004; Valverde et al., 2000). Some consider that the model is a recommendation instead of a portray of real firms (Carvalho, 2005; Valverde et al., 2000). It is perceived as 'fit to all' model, applicable to every company. Valverde et al. (2000), add that it is clear that an organization is subjected to a multitude of factors (culture, legal framework, economic structure, and size) that will determine the firm's capability or not of introducing flexibility practices.

It becomes relevant to examine which type or combinations of flexibility employers in fact implement and what are the motivations behind those options. The

preposition of this study is that firms vary in the use of the different forms of flexibility, especially numerical flexibility, which will be our focus. Since, the use of numerical flexibility is translated into the use of flexible work arrangements.

### **3.1 - Flexible work arrangements**

It is virtually impossible to study labour flexibility market without observing that there is little agreement as how this subject should be designated. This discussion underlies implications of flexibility for individuals and labour market; and reflects the views that authors have on the subject. It is thus usual to find different expressions that classify similar practices of flexible work arrangements in the literature.

Expressions as ‘precarious’ and ‘vulnerable’ are used by authors that find inadequate the practice of work arrangements that are not permanent and/or are not full-time (Carvalho, 2005). A different term that translates a similar opinion is the term ‘contingent’. Contingent work is defined as ‘any job in which an individual does not have an explicit or implicit contract for long-term employment or one in which the minimum hours worked can vary in a non-systematic manner’ (Polivka & Nardone, 1989: 11). The definition used by Polivka and Nardone (1989) refers to the logic that the relationships established with ‘contingent’ workers are less secure than the ones established with the ‘non-contingent’. These expressions translate the authors’ views regarding the possible repercussions that the use of flexible work arrangements can bring to the individuals. However, some of these non-contingent practices are considered fairly secure, especially when referring to part-time contracts (Cappelli & Keller, 2013). In fact, this opposite view led us to observe that some authors designate flexible work arrangements as ‘family-friendly work arrangements’ (Dex & Scheibl, 2001).

There are also authors that refer to these types of work arrangements using the adjective ‘new’. This qualifier leads to some debate, since some of these arrangements are not new, such as temporary work, part-time work and independent work. The expression ‘new’ should be used not to these forms of work arrangements but to the increase of their use in the labour market (Carvalho, 2005; Kovács, 2004).

Besides the expressions mentioned previously, authors like Cameron (2000) and Ghosh, Willinger, and Ghosh (2009) also use the terminology ‘atypical’ or ‘non-standard’. The use of these nomenclatures can be, by itself, regarded as controversial,

since evidence suggests that the incidence of these types of work arrangements is increasing, thus becoming more ‘typical’ or ‘standard’ (Carvalho, 2005; Kovács, 2004).

Although the concept of flexibility is ambiguous and lacks theoretical consolidation, along this study the work arrangements not characterized as permanent and full-time, will be referred to as ‘flexible’. This denomination was chosen since it is the terminology most used in Europe (Brewster et al., 1997a) and it describes seamlessly what can be achieved by implementing these work arrangements: flexibility.

The flexible work arrangements that will be studied in our analysis are: fixed-term contracts, part-time contracts, temporary help agency contracts, rendering of services agreements, outsourcing and internships.

This range of flexible work arrangements was chosen since they are the most mentioned in the literature and represent a broad view of the diversity of contracts included in the designation ‘flexible work arrangements’.

### **3.2 - The increasing use of flexibility**

The employment relationship as observable today has been subject to many modifications caused by numerous social and economic factors. However one aspect that has not been seen many alterations is the fact that employment relationships have long been regulated by labour market institutions.

The first labour regulation concerned ‘master-servants’ relationships, which could be seen as a fairly flexible model of labour. The dissolution of this relationship led to the implementation of more fair work arrangements, with the goal of protecting both employers and employees from the market fluctuations observed in agrarian economies. This model was designated as ‘common law’ (Cappelli & Keller, 2013; Feinman, 1976).

The United States of America established a different doctrine, the ‘at will model’. This model differs from the ‘common law’ in the sense that an employer could, at any time, and without granting any explanation, terminate its relationship with the employee. The same would apply to employees. They could also resign their post, without providing an justification (Cappelli & Keller, 2013; Lee, 1996). Under the influence of this model, the labour market would function as any other market in the economy, driven by demand and supply fluctuations. This model was established as an

attempt to increase flexibility in the labour market after the institution of the ‘common law’.

The changes in the labour law propelled by the consequences of the Great Depression in the United States and the need to retain more skilled workforce due to the increase of mass-production, led to a new notion of employment, what many scholars refer to as ‘standard employment’ (Cappelli & Keller, 2013). According to Sarantinos (2007), ‘standard employment’ is characterized by the following variables: stable employment relationship, security, fairness, trust and loyalty. Employees work in a stable and secure environment where they could expect to perform the same roles in the same company during their working life. Furthermore employees had a great sense of loyalty towards the companies they worked in, and their commitment was rewarded in the long-term with salary increases and promotions, increasing their perception of fairness in the organization (Cappelli & Keller, 2013; Sarantinos, 2007).

The changes in the labour market did not cease after the noticeable developments in the first half of the 20<sup>th</sup> century. Particular new pressures in the market forced a new change that influenced the growing implementation of flexible work arrangements.

J. Atkinson (1985) argues that there were three factors that enforced the increase of flexibility: the economic recession, technological improvements and the adjustments in working time policies. The economic recession, which led to an increase of unemployment, competition and uncertainty, is one of the factors most used to explain flexibility increase (J. Atkinson, 1985; J. Atkinson & Gregory, 1986; Brewster, Mayne, & Tregaskis, 1997b; Cameron, 2000; Cappelli & Keller, 2013; Carvalho, 2005; Creach & Brewster, 1998; Houseman, 2014; Lee, 1996; Looise et al., 1998; Piore & Sabel, 1984; Sarantinos, 2007).

According to J. Atkinson (1985) increasing competitiveness is a paramount concern to companies. The author argues that by increasing competitiveness companies can establish a strong position in a market where investment is very limited. Companies began to rely more on labour productivity, and consequently, on reduction of labour costs as a way to increase their competitiveness. This course of action, according to J. Atkinson (1985), led to a generalized wave of unemployment and a strong reduction of the use of long-term employment. The unemployment increase was itself an agent of flexibility, given that workers are becoming more desperate and, are now, willing to accept more flexible arrangements since those became their only viable solution to

avoid long-term unemployment (J. Atkinson & Gregory, 1986). Along with all the factors described before, companies had to become more efficient, in identifying and dealing with new market opportunities or threats present in an increasingly uncertain environment. This desirable efficiency can be achieved by implementing flexible labour policies, adjusting the workforce in terms of quantity and job roles (J. Atkinson, 1985; Brewster et al., 1997a; Creach & Brewster, 1998).

The second factor identified by J. Atkinson (1985), is also correlated with an increasing environmental uncertainty. The technological advancements prompted changes in production processes and in the way that single organizations connect with the rest of the World. It encouraged the diversification of customer demands and, on the other hand, it also helped companies to predict and better exploit those demands. The communication and internationalization processes have been facilitated by technology leading to a 'smaller' World referred now as Global Village. Technological developments provoked changes in job content and in what employers require from their employees. Managers need human resources with higher levels of skills, capable to execute a wider and more complex range of tasks, so that the organization can more easily adapt to the ever changing environment (J. Atkinson, 1985; Brewster et al., 1997a; Creach & Brewster, 1998).

The last factor referred by J. Atkinson (1985) were the changes in the working time of the workforce. J. Atkinson (1985) observes that the pressure to reduce the working time was increasing and the number of hours worked during the week in United Kingdom was actually decreasing. The author believed that these pressures would continue to accentuate, and that companies would have to learn to design employment policies adjusted to this diversity.

J. Atkinson (1985: 9) concludes that ultimately, the joining of the three factors mentioned before (economic recession, technological developments and adjustments in working time) would lead to organizations that are:

increasingly looking for workforce which can respond quickly, easily and cheaply to changes in product and process...will be able to contract as readily as it expands to match market requirements... must not result in increased unit labour costs...must be capable of deployment over time to meet the needs of the job exactly through recourse to a range of working time options.



All the influences described earlier could be defined as ‘push factors’, since they are enforced on employers, making them feel pressured to adapt their labour policies (Brewster et al., 1997b).

In addition to ‘push factors’, some authors have also identified further pressures capable of influencing the increasing use of flexibility in the labour market. These additional pressures can be denominated as ‘pull factors’. ‘Pull factors’ are not enforced on employers, they are enablers of flexibility (J. Atkinson, 1985; Carvalho, 2005). Brewster et al. (1997a: 135) define ‘pull factors’ as ‘the opportunity it provides for sections of the labour market that would not otherwise be available for work or to retain valued staff who would otherwise leave’.

J. Atkinson (1985) advocates the notion that the majority of employers are no longer concerned regarding labour shortages since indicators in the market show that there is even a labour surplus. Since this concern is not relevant, the majority of employers do not feel the need to resort to ‘standard’ labour arrangements.

The author’s argument can, in some part, be observed in some sections of the Portuguese labour market. The Hays Global Skills Index (HSGI) (Hays & Oxford Economics, 2016) shows that in ‘high-skills occupations’, the ones that ‘require a higher than average amount of training, education and experience’ (Hays & Oxford Economics, 2016: 5), there is absolutely no skills shortages, therefore the pressure to increase wages and use standard work arrangements in these occupations is non-existent. A completely different result is obtained when assessing the wage pressures in high-skill industries, the ones that are more likely to undergo skills shortages since employees need to go through a high level of training and therefore are not easily replaceable (Hays & Oxford Economics, 2016). The index indicates there is a reasonably high skills shortage in high-skill industries, such as Information Technology, and therefore the wages in these industries are increasing at a faster pace than wages in low-skill industries, which will mean that in high-skills industries the pressure to use standard work arrangements, in order to attract and retain employees, is much higher.

Additional factors can be identified as enablers of the increasing reliance on flexible employment. Brewster et al. (1997a) defend that there are individuals, which in fact, prefer flexible work arrangements. According to the authors, these individuals might be employees with a high set of skills and competencies that can increase their wage in every alteration of job position, or that do not want to feel bound to one company and want to seek new challenges.

Also, to some extent, these forms of employment can be seen as ‘family friendly’ (Brewster et al., 1997a) since they grant an higher life quality, where individuals, particularly women, can better balance their careers with their family needs (Creach & Brewster, 1998), a balance that could not be obtained in a full-time job. Associated with these assumptions, Looise et al. (1998) stand by the notion that flexibility increase is a result of social and cultural developments, recognized in the increase of the level of education, individualism, and the modification of attitudes towards work and life. Furthermore, (Brewster et al., 1997a) defend that there might be employees that are working in more than one job at a time and see flexible employment as a way of combining their different responsibilities.

Although, the previous mentioned reasons, might affect the individual's choice of flexible employment rather than permanent employment, statistics from Eurostat<sup>2</sup> (Eurostat, 2016) show that the main reason identified by individuals for having a temporary employment contract is the fact that they could not find a permanent job (62,6%). Only 11,8% of the respondents answered that they did not want a permanent job. Taking a closer look at the Portuguese reality (Eurostat, 2016) the same trend is identified, but even more pronounced. The main reason that employees chose for being in a temporary job position was that they could not find a permanent job (83,1%), only 4,1% of individuals said that they did not want a permanent job position. Although, there might be an increasing awareness of work-life balance (Maxwell et al., 2007) and a growing use of flexible work arrangements, ‘standard’ employment is still largely preferred in the employees’ perspective, concluding that involuntary flexible work arrangements are the most predominant despite the influence of ‘pull factors’.

Concerning, still, the subject of ‘pull factors’, J. Atkinson (1985), J. Atkinson and Gregory (1986), Bidwell, Briscoe, Fernandez-Mateo, and Sterling (2013), Croucher & Brewster (1998), and Looise et al. (1998) say that the increasing use of flexible work arrangements can be attributed to decline of union membership. Croucher and Brewster, (1998) specify that trade unions are recurrently losing members since the 1970’s. This decrease in membership has reduced the union's collective bargaining power, causing a notable reduction of their political influence and their ability to resist to management practices that might be regarded as threatening to employee security (J. Atkinson & Gregory, 1986; Croucher & Brewster, 1998).

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<sup>2</sup> Statistics from a total of 28 European Union Countries. Relative to 2015.

Comparing the influence of ‘push’ and ‘pull’ factors, Brewster et al. (1997b) and Maxwell et al., (2007) (for the specific case of SMEs) defend that ‘pull factors’ are not the main motivators of an increase in flexible employment and go even further arguing that its increase is ‘driven by employer demands’ (Brewster et al., 1997b: 96).

Lee, (1996), brings to the discussion an additional point of view, in which he believes that one of the main attributors of flexible employment increase is public policy regulation. The author explains that public policy was established to protect and safeguard employees from fluctuations in the economic environment and consequently labour market adjustments. One of the ways of achieving this protection was the promotion of permanent employment and the erosion of the employment at-will doctrine, which in the author's vision does not allow managers to adjust rapidly and efficiently to market alterations. Thus, to contradict the negative effects of regulation, employers are relying more and more on flexible employment policies (Lee, 1996).

Bringing together all the main outlooks on the subject of flexibility increase, one aspect that all authors seem to agree upon, is that the flexibility increase was not caused by a single factor, but, on contrary, it was caused by several distinct, if related, group of factors.

### **3.3 - Flexible work arrangements: motivations, advantages and disadvantages in the employer's perspective**

The advantages of the use of flexible work arrangements in the organizations are directly linked with the reasons that organizations have to apply these employment practices. The generality of scholars that study flexibility in the workplace agree on the reasons of why employers choose to implement flexible work arrangements. Cost reductions, accommodate fluctuations on demand and on workforce, and screen candidates into a permanent position are among the most cited reasons for the implementation of flexible work arrangements and should be designated as general motivations since they are mentioned independently of the type of flexible work arrangement.

Houseman (1997) studied the reasons why employers use flexible staffing arrangements and concluded that many of the companies studied offered lower wages and fewer benefits to flexible employees. The study shows that workers in flexible work arrangements were much less likely to receive any kind of fringe benefits. Houseman

(1997) observed that there is a positive correlation between the company's use of fringe benefits and the use of flexible employment, and explains that these benefits can serve as a way to subdivide the organization's workforce, achieving more financial flexibility. This finding is correlated with the proposition that the use of flexible work arrangements can lead to a fairer compensation system. Employers can save on benefits, since the benefits are not attributed to every employee, and in turn they can develop a compensation system based on performance, increasing worker's motivation, hence increasing productivity (Lee, 1996). In a posterior study, Houseman (2000) adds that the use of flexible work arrangements may encourage financial flexibility without having negative repercussions on the 'regular' staff. Despite the evidences on the differences of cost between flexible and regular staff, the majority of employers did not define cost reduction as a reason or the main reason for the use of flexible staffing arrangements. Houseman (1997, 2000) justifies this fact by saying that many employers are not willing to admit or rationalize these savings advocating that employees in flexible arrangements are not as productive as regular employees, and therefore should not be compensated as such. In 1998, The Outsourcing Institute conducted a survey of current and potential outsourcing end-users, in which inquired more than 1200 companies about their main reasons to use outsourcing. On contrary to the results of the surveys conducted by Houseman (1997, 2000) the main reason mentioned by the employers in this survey was the reduction of the operational costs accompanied with a higher cost control (The Outsourcing Institute, 1998).

Besides the saving on compensation and operational costs, Polivka and Nardone (1989), refer that the costs saving could also be observed in the reduction on the number of hours that organizations had to keep an employee 'working' even when the work demand did not required it. Therefore, in the authors' perspective, when facing demand decreases, employment flexibility can reduce or eliminate the costs of having extra workers. Ghosh et al. (2009) also mentioned severance pay as an extra cost that companies can save when employing individuals in flexible work arrangements, since this exit costs are rather reduced in flexible work arrangements. Authors such as Brewster et al. (1997a), Cameron (2000), Chastre, Abecassis, Resende, Freitas, and Vaz (2014), Polivka and Nardone (1989), Pizarro (2010) and Valverde et al. (2000) agree with the notion that flexible staffing arrangements lead to cost reductions. However, unlike Houseman (1997, 2000) and Lee (1996), Cappelli and Keller (2013), show evidence that there is no correlation between the use of more fringe benefits in an

organization and the use of flexible staffing arrangements. In fact, they prove that ‘... the more benefits an establishment offered, the less they made use of nonstandard work’ Cappelli and Keller (2013: 896). We can conclude that the evidence on the financial benefits of flexible work arrangements is still not clear.

Exit costs are also related with the need to deal with market and workforce fluctuations, other reason of why employers implement employment flexibility. In her studies, Houseman, (1997, 2000) observed that the most common cited reason was to accommodate fluctuations in demand and in the regular workforce. This means that in an uncertain environment, flexible employment can help companies to adjust more rapidly to variations on demand (Houseman, 2000; Polivka & Nardone, 1989). Lee (1996) adds that companies will also be more capable to deal with new customer needs since they can hire, more easily, employees with a large range of skills. Furthermore, in organizations in which their activities are project-based, and the termination date of the project is unknown, flexible employment can help managers to attain the workforce they need for that unspecified period of time without major consequences to the company (Valverde et al., 2000). Fluctuations in the workforce, due to vacations or absenteeism also compel managers to increase the use of flexible work arrangements (Houseman, 1997, 2000; Polivka & Nardone, 1989). Houseman, (2000) also gives evidence that one of the most cited reasons, by employers, to the use of temporary agency workers is to fill a position while a permanent worker is not hired.

Flexible employment can also be used when managers want to screen employees before offering a permanent position (Houseman, 1997, 2000, 2014; Houseman & Polivka, 1999; Pedulla, 2011; Polivka & Nardone, 1989). This screening can help assess the worker’s competencies, and if they prove unfit, there are few costs and risks of termination (Houseman & Polivka, 1999; Lee, 1996). Polivka & Nardone (1989) mention that the labour legislation is designed to protect employees and if an employer wishes to terminate a permanent employment relationship it will be hard to justify it, and prove that it was not a wrongful termination.

Another motivation regards productivity increase. Evidence shows that there is a positive correlation between the reduction of working hours and the increase of productivity (White, 1987). So it can be perceived that the use of flexible working arrangements, mainly part-time work, can lead to an increase in productivity. In line with this thesis, Valverde et al. (2000) also observe a positive correlation between the use of temporary work and the firm’s performance.

Other motivations are not transversal to every type of flexible work arrangements, and are observed regarding specific types of contracts. For instance, authors such as Chastre et al., (2014) and Pizarro (2010) refer that the implementation of outsourcing can facilitate the acquisition of specific knowledge and facilitate the firm's focus on its core business, which in turn will lead to an increase in the products/services quality, ultimately leading to an increase on productivity. The results of the aforementioned survey conducted by The Outsourcing Institute corroborate the previously cited motivation. The second most cited reason the employers mentioned to use outsourcing was the increase of the company focus on its core business. Furthermore, a greater access to highly qualified resources, the opportunity to use internal resources for other purposes and the non-existence of internal resources, were amongst the most cited reasons to use this type of contract (The Outsourcing Institute, 1998).

Although flexible work arrangements are seen as a great advantage to organizations, there are also disadvantages that can be observed with the use of employment flexibility. Not unlike the advantages previously mentioned, there are also general disadvantages common to all types of flexible work arrangements studied, and some more specific. One of the most common cited disadvantage regards the lack of motivation observed in employees in flexible work arrangements. Cameron, (2000) argues that employees in flexible arrangements are less motivated than permanent workers. The commitment that should prevail in the workforce, so that the organization thrives in the market and operates efficiently (Brewster et al., 1997a; Sarantinos, 2007), is diminished with the use of flexible work arrangements (Sarantinos, 2007). Pizarro (2010) agrees with this assumption stating that in the specific case of outsourcing, the employees developing the outsourced activities high levels of insecurity, which in turn has a negative impact in their productivity. Moreover, companies are less willing to invest, either by offering training or by implementing compensation policies in employees, that they know, that will stay in the organization for a short period of time. This lack of commitment from the organizations is later reflected in the commitment that employees show towards their employers (Brewster et al., 1997a).

The lack of commitment can lead to high turnover, increasing recruitment costs and the time that it takes to fill a vacant position (Valverde et al., 2000). Brewster (1995) advocates that, although, it can reduce costs, the implementation of employment

flexibility practices can also increase administrative costs, for instance payroll calculation, supervision and training (Brewster (1995) referenced in Cameron (2000)).

Challenges regarding communication are also observed by Brewster et al. (1997a). The authors argue that one way to resolve the lack of commitment would be by the increase of communication. However, in their point of view, this can prove to be difficult since many employees working in flexible employment practices do not work in the same place or at the same time as their peers or employers.

Finally Creach and Brewster (1998) defend that the introduction of labour flexibility in the organizations can lead to conflicts between top and middle managers. Additionally, middle managers may find it harder to achieve performance targets with the use of flexible employments, thus leading to a greater sense of insecurity, which can harm the company's efficiency.

Other non-financial costs can emerge in case of outsourcing and part-time. When the company is willingly reducing its dimension to focus on the core activity, it can be losing important human and/or technological resources that had a paramount impact in the organization's productivity. Also, issues such as loss of knowledge and expertise combined with concerns regarding the share of information with the outsourcer can ultimately lead to a loss of competitiveness (Pizarro, 2010).

The reported literature is unclear about the benefits and disadvantages of flexible work arrangements.

There is a consensus regarding the benefits of flexible work arrangements to adjusting to rapid fluctuations in demand and in workforce (Houseman, 1997, 2000; Lee, 1996; Polivka & Nardone, 1989; Valverde et al., 2000), and to screen employees before offering them a permanent position (Houseman, 1997, 2000, 2014; Houseman & Polivka, 1999; Lee, 1996; Pedulla, 2011; Polivka & Nardone, 1989). However, while some authors advocate that are obvious financial gains with the introducing of flexible work arrangements in numerous areas of the business activities (Brewster et al., 1997a; Cameron, 2000; Chastre et al., 2013; Ghosh et al., 2009; Houseman, 1997, 2000; Lee, 1996; Pizarro, 2010; Polivka & Nardone, 1989; The Outsourcing Institute, 1998; Valverde et al., 2000), some of those same authors (Valverde et al., 2000; Brewster, 1995 referenced in Cameron, 2000) refer that there also financial disadvantages propelled by the implementation of this labour practice. Concluding, the literature examined so far fails to give a proper answer to one of the core questions of the

flexibility debate: do flexible work arrangements really reduce costs? And this is also linked to another key question: does it impact positively productivity?

While some researches advocate the increase of productivity with the use of flexible work arrangements (Valverde et al., 2000; White, 1987), others point out that those arrangements can lead to lack of commitment, turnover and ultimately harm the firm's performance (Brewster et al., 1997a; Sarantinos, 2007).

A proposition that deserves scrutiny regards the perception of employers on the benefits and drawbacks of flexible work arrangements. Although, most of the studies focus on large firms leaving unexamined the small and medium firms, some authors have contributed to this analysis regarding SMEs, referring the main motivations to the introduction of flexible arrangements and the perceived advantages and disadvantages of those work arrangements.

The labour regulation is considered by some authors to be a inducer of the use of flexible work arrangements in the enterprises (Lee, 1996). For SMEs, this is further propelled by the fact that a strict labour regulation has more negative impacts on SMEs than on larger firms (C. Atkinson et al., 2016; Millán et al., 2013). However, some authors consider that the negative consequences, caused by regulation, and mentioned by SMEs employers, are in some way excessive (C. Atkinson et al., 2016). C. Atkinson et al., (2016) refer that, often, employees act according with the perceived psychological contract established in the beginning of the employment relationship, which is more pronounced in SMEs, instead of focusing in the regulation established. The authors add that: 'Despite high degrees of formality, informal practices pervaded the firms and were often preferred to formal procedures' (C. Atkinson et al., 2016: 28). In spite of the regulation established, SMEs owner-managers are still able to adapt themselves fairly easily (C. Atkinson et al., 2016).

There is also evidence that a less strict employment protection legislation has a positive impact in the enterprises' productivity by enabling labour mobility (Millán et al., 2013), since there are fewer costs related with hiring and firing employees (Van Landuyt, Dewaelheyns, & Van Hulle, 2016).

The impact of labour regulation in SMEs is yet another point in which the literature is not clear.

Marlow and Patton (1993) refer that in smaller firms the potential to use flexibility is higher because of their small nature that allows them to adapt more rapidly and observe the results of that adaptation more effectively. Notwithstanding, SMEs are



in disadvantage when compared with larger firms since they lack resources that enable the introduction of flexible work arrangements (Dex & Scheibl, 2001; Georgiadis & Pitelis, 2011). This reality can be directly linked with the fact that ‘cost reduction’ is not often mentioned as an advantage of the use of flexible work arrangements amongst SMEs employers (Dex & Scheibl, 2001) since SMEs require added resources for the introduction of flexible work arrangements which can reduce the final financial gain (Dex & Scheibl, 2001; Georgiadis & Pitelis, 2011).

According with Alves, Bouquin, and Pocas (2007), the use of time flexible work arrangements (e.g. part-time) in SMEs helps them to adjust more swiftly to variations on demand and increases firm’s productivity.

Dex and Scheibl (2001) show that, besides business motivations, the introduction of flexible work arrangements, specifically time flexible work arrangements, is propelled by employees’ motivations.

Besides advantages, Maxwell, Rankine, Bell, and MacVicar (2007), identified operational problems and administrative burdens as being the most common cited disadvantages of a range of time flexible work arrangements (e.g. part-time) amongst SMEs.

Apparently, the literature does not reveal profuse disparities between larger and smaller firms’ motivations to use flexible work arrangements. There are, however, motivations, related with the aforementioned pull factors, that are only mentioned in SMEs. Specifically the need to adapt firm’s contracts arrangements in order to deal with employee’s choices. These similarities between larger and smaller firms will be further verified with our empirical evidence.

### **3.4 - The incidence of job flexibility**

J. Atkinson (1985: 3) refers that the changes in the labour market ‘are likely to persist beyond the current labour market climate’. Although this was cited more than thirty years ago, its evidence still shows today. The European Union employment rate continues to grow, albeit still below, in many member states, the European Union target of 75%. This growth was caused by an increase in the use of both standard and flexible work arrangements. Comparing permanent and temporary contracts, evidence shows that both types of contracts have been increasing. However, despite the representation of

less than 15% of temporary workers on all European Union employees, this contractual arrangement has been growing at a faster pace (2,8%) than permanent contracts (1,4%). In full-time jobs and part-time jobs the same tendency is observed. However, here we find an undoubtedly larger growth for ‘standard’ contracts, 1,3% for full-time employment and 0,8% for part-time employment (European Commission, 2016b).

With the analysis of this data we can observe that the growth in the European Union employment rate was caused, mainly, by the growth of the use of flexible work arrangements (3,6%) when compared with the growth of standard employment (2,7%).

Temporary agency work has been increasing in Europe since the beginning of the 21th century (Voss et al., 2013). In Europe, the number of individuals employed through agency work accounted for 8.7 million people in 2013 (CIETT, 2015).

In outsourcing we can observe the same tendency, around 70% of the European enterprises use outsourcing in at least one function of the work processes (Ernst & Young, 2008).

In Portugal, the number of permanent contracts increased in 2014 and in the beginning of 2015, along with the decrease of the unemployment rate. Since 2010 until 2012, the number of temporary workers decreased due to the high wave of dismissals caused by the economic crisis. The dismissal of temporary workers is much less costly than permanent ones, so in times of recession, the dismissals will be firstly focused on these employees. Although the number of temporary contracts is not increasing, Portugal still represented, in 2014, one of the highest shares of temporary contracts (21,4%), compared with the European Union average of 14% (European Commission, 2016a).

The penetration rate of agency workers in Portugal was, in 2011, 1,7% (CIETT, 2015). Meaning that from the total working population, 1,7% were individuals employed through agency work.

Regarding outsourcing, there is no official data reporting the use of this type of contract amongst Portuguese enterprises, what is in fact known are the sectors in which outsourcing is most used: information technology, business processes such as finance, accounting and human resources, facilities management such as cleaning and security and property management (Chastre et al., 2013).

The unemployment issue is one of the major concerns of the Portuguese Government. In order to reduce the unemployment rate, many policies were defined. One of them is concerned with the development of professional internships,

contributing to the increase of the employment rate to 75% (Programa Nacional de Reformas, 2016). Although there are not European statistics regarding the incidence of internships, it is clear, at least in Portugal, that this type of flexible employment is regarded as a useful tool in the labour market. This observation will be later corroborated with our empirical evidence.

#### **4 - Method**

The focus of this study is the analysis of the employers' motives to use flexible work arrangements in SMEs operating in Portugal, also mentioning the possible advantages and disadvantages that the use of flexible work arrangements can bring to the organization and the incidence of those work arrangements.

This study will examine six types of flexible work arrangements: fixed-term contracts, part-time contracts, temporary help agency workers, rendering of services agreements, outsourcing and internships. The Council directive 1999/70/EC of 28 June 1999 concerning the framework agreement on fixed-term work concluded by ETUC, UNICE and CEEP (1999) defines fixed-term worker as:

a person having an employment contract or relationship entered into directly between an employer and a worker where the end of the employment contract or relationship is determined by objective conditions such as reaching a specific date, completing a specific task, or the occurrence of a specific event.

The Portuguese Labour Law divides fixed-term contracts into two types 'determined duration contract' and 'undetermined duration contract'. Determined duration contracts are the ones with a specific expiry date, thus the duration of the contract is known. The undetermined duration contracts, are contracts with no specific expiry date, in which the duration of the contract is unknown (Lei n.º 7/2009 de 12 de Fevereiro, 2009). In this thesis the analysis of 'fixed-term' contracts shall be governed by the Portuguese Law, comprising both, determined and undetermined duration contracts.

Part-time worker is defined by the Council Directive 97/91/EC of 15 December 1997 concerning the framework agreement on part-time work concluded by UNICE, CEEP and ETUC (1997) as 'an employee whose normal hours of work, calculated on a weekly basis or on average over a period of employment of up to one year, are less than the normal hours of work of a comparable full-time worker'. Additionally, it defines

that a ‘comparable full-time worker’ is a ‘worker in the same establishment having the same type of employment contract or relationship, who is engaged in the same or a similar work/occupation’.

Temporary help agency workers, are defined by Pedulla (2011: 6) as ‘those workers who are on the payroll of another firm (the ‘temp agency’), but who work on a temporary basis at the firm of interest’. We will use this definition to identify temporary help agency workers.

In this paper rendering of services agreements will be defined by the Portuguese Law. Rendering of services agreements, are the ones ‘in which one of the parties is required to provide a certain result of its intellectual or manual work, with or without remuneration’ (DL n.º 47344/55, de 25 de Novembro, 2016). This type of contract is distinct from the regular labour contract in three aspects: the contractual object, the relationship between the two parties, and the remuneration. The Portuguese Civil Code establishes that the contractual object of the rendering of services agreements is the result of the activity, while in a regular contract it is the activity in its own. Additionally, the individual working with a rendering of service agreement is autonomous and it is free to execute his activities in the way that he considers most effective. Finally, the last distinction regards remuneration, since rendering of services agreements are not required to be remunerated (DL n.º 47344/55, de 25 de Novembro, 2016; Veloso, 2014).

Regarding outsourcing we will adopt the definition used by Greaver (1999: 3) ‘Outsourcing is the act of transferring some of an organization’s recurring internal activities and decision rights to outside providers, as set forth in a contract’.

Finally, trainees are regarded as individuals that have the theoretical knowledge to perform activities, and are in process of practical training in an organization in order to develop their skills and competencies (INE, 2000).

The fact that SMEs in Portugal constitute 99,9% of all enterprises in the country is prove that they play a major role in the Portuguese economy. However, these types of organizations have not been the major focus of studies developed in this field. The majority of the studies, either national or international, already developed around this subject were focused in large enterprises (e.g. Cameron (2000); Carvalho (2005); Creach and Brewster (1998); Ghosh et al., (2009); Lepak et al., (2003)). Unlike the previously mentioned literature, this study will be focused, exclusively, in small and

medium-sized enterprises<sup>3</sup> (SMEs). With an incidence as large as 99,9%, it can be assumed that the environment found in these types of organizations differs a lot between enterprises, even in the same sector of activity, which could mean that many different labour practices could be found.

Besides the type of enterprises chosen for this study, another issue in which this analysis differs from many of the previous studies developed in this field is the data collection. The data used in the majority of the studies developed in this area was obtained through national surveys (Cappelli & Keller, 2013; Houseman, 1997, 2000; Pedulla, 2011), international human resources management networks (Brewster et al., 1997b; Tregaskis & Brewster, 2006; Valverde et al., 2000) or financial and statistical databases (Ghosh et al., 2009). While some surveys conducted at a national level depict many forms of employment, to our knowledge no study includes information regarding all types of contractual arrangements studied in this analysis. Furthermore, the scope of many of the databases used in the previous developed studies did not include data from Portugal. These reasons lead to the use of a different method for data collection, semi-structured interviews. The use of semi-structured interviews instead of previously collected data, posed as itself a difficulty, since the attainment of interviews with Portuguese enterprises is very difficult, as already mentioned by other authors (Kovács, 2004).

In order to define the sample for the study, we used the *PME Líder 2015* (SME Leader 2015) list<sup>4</sup>. The development of this list has the goal of certifying the companies that have a great performance and contribute to the development of the Portuguese economy. Any firm classified as small and medium-sized enterprise may register as *PME Líder* depending on the fulfilment of a specific set of standards defined by the partner institutions (IAPMEI, 2017).

In 2015, IAPMEI and Turismo de Portugal certified 7270 SMEs as *PME Líder 2015* (Exame, 2016; IAPMEI, 2016), from this total we selected the companies located in Lisbon, leaving us with a total of 417 enterprises. Afterwards, with the objective of obtaining a more diversified sample, we classified the remaining 417 enterprises in four

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<sup>3</sup> In order to be certified as SMEs the enterprises must comply with two of three criterion: staff headcount, annual turnover and annual balance sheet total (Commission recommendation of 6 May 2003 concerning the definition of micro, small and medium-sized enterprises, 2003).

<sup>4</sup> SME Leader 2015 list was developed by IAPMEI (*Instituto de Apoio às Pequenas e Médias Empresas e ao Investimento* – Support Institute for Small and Medium-Sized Enterprises and Investment) in partnerships with *Turismo de Portugal* (Portuguese Tourism Institute) and 10 Financial Institutions operating in Portugal (IAPMEI, 2015)

different sectors of activity, using the classification provided by e-PME (2010) that combines CAE (*classificação das atividades económicas* – economic activities classification) with the following sectors: services, trade, tourism and industry, each of them with 135, 113, 72 and 16 companies located in Lisbon. In order to reduce the list of enterprises that would potentially be contacted to held an interview, we completed the information already obtained in the IAPMEI's list with the enterprises' number of employees obtained from the 386<sup>o</sup> edition of the Exame magazine (Exame, 2016), and excluded the companies with less than 15 employees in 2014. The final list included 89 services enterprises, 59 trade enterprises, 45 tourism enterprises and 12 manufacturing enterprises, a total of 205 companies.

Unfortunately we unable to establish contact with all firms from the aforementioned list. The companies were contacted, in a first instance, via telephone, given an introductory explanation regarding the objective of the study, and then received, via email, a more complete overview of the analysis purpose and the role of the company in the study. Overall, we were able to contact 95 firms, 51 of them in the services sector, 22 in the trade sector, eight in tourism and nine in manufacturing. At the end of three months only nine enterprises had shown interest in participating in the study.

The total number of interviews performed was eleven, nine companies had the *PME Líder* 2015 certification and were located in Lisbon. The remaining did not have that statute and were located in Fundão. The interviews were conducted to three owner-managers, five human resources managers and three managers, in person, in the enterprises headquarters, or via Skype. Six participants are male and five participants female. At the beginning of the meeting an additional brief explanation of the purpose of the study was made and the interviewees received assurance that their confidentiality and of the firm that they represented would be maintained. The interview would begin after the participants give informed consent. The interviews were conducted in Portuguese, tape-recorded and their length varied from 25 minutes to 55 minutes.

The interview guide derived from the literature aforementioned and was revised and modified after conducting a pilot interview. The pilot interview was the first interview developed, with the objective of assessing the questions effectiveness in producing answers that addressed the issues intended. The modifications made regarded mainly the structure of the interview, creating a more fluid guide, and, at the end, additional queries were added to the guide since supplementary insights were obtained

in the pilot interview. This interview was not included in the analysis since the interview guide was revised afterwards.

The interview guide was divided into six sections (Annex 2): 1 - Interviewee information; 2 - Generic description of the enterprise's activities and global financial situation; 3 - Employment arrangements; 4 - Motivations for the work arrangements used; 5 - Advantages and disadvantages of the work arrangements used; 6 - Motivation to avoid the use of flexible work arrangements. The first two sections of guide were included with the objective of gaining a broader view of the enterprise's context and of the participant's role in the company. However, in what regards the interviewee information and the global financial situation of the company, the participants did not show much willingness in answering the questions, giving very short answers. In the remaining sections, the responses seemed honest, revealing strong opinions and sometimes strong emotions in what regards the reasons behind the use of that enterprise's specific work arrangements.

The main information obtained from the interview was transcribed in order to simplify the analysis. The table 1 depicts the sample used for the study.

Despite all the efforts to include enterprises from all business sectors previously mentioned, the sample only includes enterprises from the services and trade business sectors. The CAE denomination was included in order to have a more specific view of the business activities and to make better comparisons between enterprises. As seen in the table, we can find companies with many diverse years of beginning of activity, which can be useful to understand if the age of the enterprise as any influence in the work arrangements used.

Regarding the gender of the employees, we were not able to identify the exact number of female and male employees in the enterprises. Therefore the columns 'female workers' and 'male workers' show the predominant gender in the enterprise with a sign plus (+). Concerning the average workers' age, we can see that the average age of all 10 companies is 37,6 years old.

Lastly, an analysis of the final column of table 1 shows that in 90% of the companies the majority of the persons employed have a higher education level (bachelor or master's degree).

Besides the data described in table 1, we also analysed the evolution of the number of workers from 2014 to 2016 (table 2 in annex 1). The testimonials given to us by the interviewees allowed us to observe an increase tendency of the permanent

contracts caused by a positive business evolution. Regarding now the ‘decrease’ tendency, the data collected suggests that the financial crises observed, either at a national or international level, is the principal force that led to the restructuring of the workforce. Although, the way that the companies dealt with this situation in terms of staff headcount diverges between them.

The firms number eight and nine perform in the same sector of activity and, therefore, experienced similar obstacles in the previous years, which led to a workforce reduction: ‘In the last three years, also due to the market, it decreased sharply.... The people with permanent contracts reduced and in the determined duration contracts we always have coming in and people leaving’, stated the manager of the firm number eight. The human resources manager of the ninth enterprise said:

Unfortunately in the last three years we have reduced due to the crisis that we have in the country, in this sector especially. We have reduced a lot of employees but we have managed to maintain the number of permanent workers in the company.

In the first case the company policy focused on the reduction of permanent workers while maintaining the same number of workers in flexible work arrangements. The second case represents the opposite, there was reduction of flexible workers, and the number of permanent workers has maintained. This difference is representative of the human resources policy of each company.

Regarding the evolutions of flexible work arrangements, the majority of employers did not deemed necessary to make adjustments, either positive or negative, to this section of the workforce.



**Table 1** – Sample description

Company	C1	C2	C3	C4	C5	C6	C7	C8	C9	C10
Business sector	Services	Services	Services	Services	Trade	Services	Services	Services	Services	Services
CAE	Accounting and auditing activities; tax consultancy	Advertising agencies	Accounting and auditing activities; tax consultancy	Computer programming activities	Retail sale of other, non-specified, household articles in specialized stores	Computer consultancy activities	Computer programming activities	Engineering activities and related technical consultancy	Engineering activities and related technical consultancy	Data processing activities, domiciliation of information and related activities
Activity beginning	2010	2009	1982	2012	1936	2001	2002	1981	1977	1987
Total number of workers (2016)	53	21	157	21	114	64	82	81	108	137
Female workers	+	=	+	-	-	-	-	-	=	-
Male workers	-	=	-	+	+	+	+	+	=	+
Average workers' age	35 years	30 years	45 years	28 years	48 years	31 years	29 years	47 years	49 years	34 years
Turnover (2014)	1.030.049 €	6.151.507 €	5.035.372 €	33.000 €	7.193.806 €	2.807.868 €	2.696.971 €	3.797.621 €	4.224.634 €	8.060.162 €
Workers' education level	Bachelor Degree	Bachelor Degree	Bachelor Degree	Master's Degree	Middle School	Master's Degree	Master's Degree	Bachelor Degree	Bachelor Degree	Bachelor Degree

## 5 - Results

The empirical analysis focuses firstly on the incidence of each type of work arrangement in the enterprises of our sample. The type of contracts that were analysed in this study was defined with basis in the previous studies developed around this topic and in the results of the held interviews. The interviewees were asked to define the type of contracts used in the firm that they represent and the staff headcount for each contract. This information is illustrated in table 1 present in annex 1, and the percentage of the use of flexible work arrangements against the total number of workers is visible in table 2.

A brief analysis of table 2 shows that permanent contracts are still the most often used by the enterprises, only 24,2% of the total number of workers are employed via flexible work arrangements. We can observe that every company uses at least two forms of flexible work arrangement, being the most used the determined duration contracts in full time, 8,9% when compared with the total number of workers. This type of contract along with the internships are the only two that are used by all firms in the sample. The internships are the third most used type of flexible contracts, 3,5%. The two least used forms of employment are rendering of services agreements and permanent contracts in part-time. In fact, the use of part-time contracts, in permanent and flexible contracts, represents only 1,19% of the total number of workers.

The row 'outsourcing' does not represent the number of outsourced workers, since the interviewees were not certain of the total number of workers in this form of contract. Instead of defining a number of outsourced workers the interviewees referred if this type of contract was used or not. The companies usually require the services of another firm, not individuals, therefore it becomes harder to verify the number of workers in this situation.

**Table 2** – Percentage of workers in FWA against the total number of workers.

Company	C1	C2	C3	C4	C5	C6	C7	C8	C9	C10	Total
Flexible contracts:											
Determined duration contracts full-time	5,7%		8,9%	9,5%	17,5%			2,5%	9,3%	17,5%	8,9%
Determined duration contracts part-time	3,8%				1,8%						0,5%
Undetermined duration contracts			2,5%					46,9%	27,8%		8,6%
Temporary help agency workers					1,8%	3,1%				0,7%	0,6%
Rendering of services agreement full-time	3,8%	4,8%		9,5%			8,5%		4,6%		2,0%
Rendering of services agreement part-time							1,2%				0,1%
Outsourcing		Yes		Yes							
Internships	1,9%	14,3%	4,5%	23,8%	1,8%	4,7%	2,4%	1,2%	2,8%	1,5%	3,5%
Total number of flexible contracts	15,1%	19,0%	15,9%	42,9%	22,8%	7,8%	12,2%	50,6%	44,4%	19,7%	24,2%

The data collected allowed us to discriminate the enterprises main motives to hire workers in a specific type of contract. The following tables (table 4 and 5) detail the motives behind the use of each type of flexible contract, and inside each cell we find the company number that referred the motive.

Before analysing these motives a brief analysis should be done regarding permanent contracts (table 3 present in annex 1). As can be seen from table 3, in annex 1, the main motivation is to attract and retain workers especially those with high performance. One interviewee referred: ‘Good professionals are fewer than bad professionals, unfortunately.... If I have a good professional in my company I want to ‘grab him’. I have to compensate him better, monetarily and at a security level’ (C5). For the human resources manager of the company number six, the use of permanent contracts allows them to attract more employees: ‘We have already thought about making one-year contracts and then alter it to permanent ones but we thought it would make us less competitive’.

The next most mentioned motive is related with the companies’ willingness to provide a stable and secure environment to their employees, in which the company’s policy centres on permanent contracts: ‘Our protocol are the permanent contracts.... It is really because it is the company’s policy’ (C1), and ‘I think it is part of the company’s DNA’ (C10).

A completely opposite perspective can be found when an interviewee stated that the use of permanent contracts is ‘...a legal obligation’ (C8) and when another referred that its use is motivated by: ‘...legislature reasons. The contracts reach the maximum number of allowed renovations and have to be converted into permanent ones’ (C2). In this case, and the constant use of determined or undetermined duration contracts is not viable since ‘Our industry is a talent-based industry, so it's hard to find the right people’ (C2).

Now we turn to the motivations behind the use of flexible arrangements. Herein, we explore the specific reasons of using a particular flexible work arrangement (table 4). Furthermore, we examine the specificities of trainees’ recruitment (table 5).

On contrary to the motive ‘stability-based management’ we find the motive ‘flexibility-based management’, which is mentioned by the enterprises that implement the use of some forms of flexible work arrangements as an internal company policy, ‘...what we do is when we hire someone, first comes with a one year contract and then is renewed for a permanent contract, it is our philosophy’ (C4). The company number

two does not have, in 2016, any worker employed via a determined or undetermined contract. However, this reality was caused by the national and international crisis and does not represent the company's internal policy in what regards the use of flexible contracts: 'naturally, when they ingress the company, they always ingress, with rare exceptions, with a determined duration contract'.

We can also observe that in the opinion of two of the interviewees the age of the company plays an important part in the determination of the use of flexible work arrangements:

The [company number two] is a company with a few years ... it is easier than companies that are already on the market at 20 and 30 years... and that it is not easy to adjust the employees depending on the losses or the earnings of its clients. So we are still in this phase of being easier and so what we have done is hire employees with determined duration contracts....

The owner manager of the company number five agrees with this proposition stating:

Unlike newer companies that use determined duration contracts and renew them ... we because we are already a very old company we have a very high number of permanent personnel.... Although there have been sometimes some market oscillations we do not have as much flexibility to adapt the staff.

Related with flexibility-based management, many participants referred that the use of determined and undetermined duration contracts, rendering of services agreements and outsourcing is directly linked with the nature of the services that the companies provide. The fact that they work majority in projects of unknown duration influences the type of contracts used: 'We have many projects ... we can have a project that lasts one year or two years, normally the contract is uncertain because it is unpredictable' (C8).

**Table 4** – Organization’ flexible contracts’ motivations

Motivations	Flexibility-based management	Project-based management	Worker Screening	Market fluctuations	Workforce fluctuations	Access to qualified resources	Coping with workers’ choices
Determined and undetermined duration contracts	2, 4	1, 3, 8, 9	2, 3, 4, 5, 9, 10	2, 3, 5, 10	5		
Part-time					5		1, 4, 6, 7
Temporary help agency workers				5,6	5, 10	6	
Rendering of services agreements	4	1				1	2, 7, 9
Outsourcing		4				2, 4	

**Table 5** – Internship contracts’ motivations

Motivations	Cost reduction	CSR - Corporate social responsibility	Employer branding	Acquire new knowledge and skills
Internships	1, 3, 4, 7, 9, 10	1, 2, 4, 9, 10	4, 6	2, 3, 5, 8, 10

## FWA IN SMEs – INCIDENCE, MOTIVATIONS, ADVANTAGES AND DISADVANTAGES

The possibility of using flexible work arrangements, in this sample solely determined and undetermined duration contracts, to analyse the workers performance appears as one of the motives most used by the participants. Many interviewees suggest that offering a determined or undetermined duration contract before a permanent one reduces the companies risk and possible losses, when there is high insecurity regarding the performance of a specific worker. One interviewee claims that the company uses determined and undetermined duration contracts if ‘...we do not have absolute confidence that that person will correspond to our expectations’ (C3), other adds that ‘it is very complicated to hire a permanent worker without knowing his work’ (C9). Company’s one manager disagrees with these propositions stating that executing flexible work arrangements in order to validate their performance ‘... is not a good solution. People, sometimes, can surprise us, positively or negatively. In a determined duration contract they can be very motivated and when converted to a permanent contract think: ‘I am safe’.

Still regarding this motivation we asked the interviewees if the experimental period of 90 days established by law was sufficient to appraise the workers performance, to which some respondents answered in a positive way: ‘If we hire a junior profile, in three months, that person will have to be able to have some autonomy. So at the end of three months we can see if the person has the potential we need or not’ (C3). Other respondents claimed that in some cases this period could be insufficient, so, as allowed by law they would extend it, making the use of FWA unnecessary: ‘It depends on the position that the individual will occupy, if it is a position with some complexity we can go up to 180 days’ (C1). However, in other cases, the extension of the experimental period would still prove insufficient: ‘I can be an actor for 90 days, being an actor two or three years is more difficult.... A minimum of a year to have a deeper image of the worker’s performance’ (C5), here we find that there is a great insecurity regarding the workers’ performance, mainly caused by past experiences. The human resources manager of the company number 10 also believes that the 90 days experimental period is insufficient, but for different reasons: ‘In our case no. They are in training, they only begin to produce results, more or less, at the end of a year, so those 90 days are manifestly insufficient’, here we do not note as much insecurity as company number five, the 90 days of experimental period insufficiency is only caused by the complexity of the company’s activities.

## FWA IN SMEs – INCIDENCE, MOTIVATIONS, ADVANTAGES AND DISADVANTAGES

We also analysed if after this assessment period, the workers that manifested high performance levels would be hired through a permanent contract. The majority of the company's converted a part or every flexible contract in a permanent one, in 2015. Some responses were vaguer than others, just stating that the 'goal is to convert all flexible work arrangements in permanent ones' (C7) regarding rendering of services agreements and internships. Others interviewees had similar responses: '...in 99% of the internships... the trainees always receive proposal to continue with us' (C1), and 'at the end of the internships they are always offered a permanent contract' (C3). However there were some cases in which this was not a reality, the owner-manager representing company number two stated that the internships would not normally be converted in permanent contracts: 'it was more exceptions, but it already happened', and the owner-manager of company number five stated that 'three percent maximum' as the number of workers that saw their contract converted in 2015, and that 'a very small percentage' of interns were offered a determined duration contract.

Market fluctuations also have an important role in the use of flexible work arrangements:

...it is a market that is very volatile.... When you lose a client you naturally develop the strategy of conquest and replacement of this client but it can take some time, and the companies do not have the financial capacity to maintain the collaborators while that time does not arrive. (C2)

We can conclude that market fluctuations drive companies to resort to simpler, more flexible work arrangements. The owner manager of the company five detailed how he manages the use of determined duration contracts and temporary help agency workers:

We have two periods of seasonality. Our employees go on holiday between May and October.... From May onwards we begin to use some reinforcements for the holiday period and Christmas. Maybe we have eight months with determined duration and temporary workers and then four months we dismiss them because we do not need them from January to April.

In this case we can observe another motivation for the use of flexible arrangements: workforce fluctuation. This motivation is caused by any predictable or unpredictable changes in the staff headcount, and is only mentioned by two companies: number five and 10. Besides, the aforementioned reason (i.e. holidays) the owner manager of the company number five adds that: 'some stores are open during the lunch time... The part-time is always usually used to make lunch time'. However a different situation is



described by other respondent: ‘we can use [temporary help agency workers] for temporary replacement, to people who go on maternity leave’ (C10).

In addition to market and workforce fluctuation, we can also observe that in some cases using flexible work arrangements is the only way to obtain specialized workforce, not directly linked to company’s main activities. This is the case for companies’ number two and four in what regards outsourcing. The human resources manager of company number six also stated that they resort to temporary help agency workers because: ‘We cannot find, at the pace at which we need, people in direct recruitment. And then...we turn to temporary agencies partners who have a much larger network than us who send us people for a few months...’ With this statement we could consider that these contracts would end after the conclusion of the direct recruitment process. However, when we asked the human resources manager if the use of this type of flexible contract was used, exclusively during the direct recruitment process, the manager answered: ‘That is where it starts, but afterwards things are very dynamic. It is very difficult to say that after all, this person will eventually replace that’. Although these types of contracts are initially established for a real necessity, we can observe that, in some cases, the companies become acclimated with this employment method and it becomes preferable.

The last motive that we identified regards the companies’ necessity to comply with the workers’ choices. In some cases, the workers are the one who define which type of contract they are employed with. In our sample, this is a reality for part-time: ‘There are people who sometimes enter in part-time, for some reason, for instance, because they are studying.... We have some part-time and rendering of services agreement workers but because they prefer to, because they do other jobs’ (C7) and for temporary help agency workers.

The internships contracts were separated from the remaining flexible contracts since the motives identified to use this type of employment arrangement were very specific. Although it was not mentioned in the 10 held interviews, regarding the remaining flexible work arrangements, the cost reduction appears as the most mentioned motive to use internships. The human resources managers of the companies seven and nine were two of the companies that identified this motive: ‘...are people that we want but who are eligible for internship and the financial difference is very great’ and ‘in a way, reduce somewhat the cost of the company in this time of crises. The companies that identified this motive have identified in what way they reduce employment costs.

## FWA IN SMEs – INCIDENCE, MOTIVATIONS, ADVANTAGES AND DISADVANTAGES

Many of the internships referred are professional internships managed by IEFP (Employment and Professional Training Institute - *Instituto do Emprego e Formação Profissional*) and part of the intern's remuneration is supported by this institute. Furthermore, for curricular internships the remuneration received corresponded, in the majority of cases, to the meal and/or transport subsidy which was of a much lower value than the average company salary.

The other motives identified regarded CSR – Corporate Social Responsibility, in which the enterprises believe that they have the responsibility to go beyond their financial interests and contribute to the development of the society. The companies should be able to provide opportunities to recent graduate students and ease their ingress in the labour market: 'I believe that companies have to play an important role in training young people.... It is a perfect symbiosis, young people end up entering the labour market through our company and we end up 'drinking' what young people bring us' (C2). Aligned with this motive we find an additional one: employer branding. The fact that students perform an internship in the company brings advantages to some companies in terms of company's visibility amongst students: 'We believe that it is important to maintain our contact with the universities and to make ourselves known to the students and this is one of the ways we do it' (C10).

Finally the last reason identified by the companies of our sample to implement internship's contracts was the acquisition of new knowledge and skills: 'The years go by and we will get into rhythms and perspectives of how the world exists that begins to be formatted. And so trainees, are people of new generations that come with new ideas with new tendencies' (C2).

Besides the motives previously identified for the use of permanent and flexible arrangements additional information could be extracted through the held interviews. During the interviews we asked the participants what they perceived to be the advantages and disadvantages of the use of flexible work arrangements. Besides the advantages and disadvantages mentioned, some participants also mentioned obstacles that prevent them from using flexible work arrangements. The results of this analysis are described in table 6. All the disadvantages, advantages or obstacles of the use of flexible work arrangements mentioned by the participants are signaled with an 'X', 'N/A' would be used if the participant has not mentioned any advantage or disadvantage.

One interesting observation found when comparing the motives identified to use flexible work arrangements against the advantages of the use of flexible work arrangements, is the fact that cost reduction was not mentioned by any participant as motive regarding the use of flexible employments with the exception of internship, even in the cases in where workers in determined or undetermined duration contracts receive lower wages than permanent ones. Such is the case of the company number five ‘naturally they receive lower wages.... I am of the opinion that the worker has to ‘sow to reap’’, and of the company number nine, where the human resources manager answered affirmatively when asked if the company’s costs increased with the use of permanent workers.

However, in this analysis, the advantage ‘cost reduction’ appears as the most mentioned advantage of flexible arrangements. When confronted with this discrepancy, we asked the participants if the cost reduction was not accounted for when making the decision of hiring employees through flexible arrangements, if it was only a benefit gain by the company with the use of flexible employment. The participants answered affirmatively: ‘exactly’, said the human resources manager of the company number nine.

In addition to the cost reductions caused by wage differences, other costs such as training, recruitment and dismissal were also mentioned by the participants:

When the determined duration contract ends the person can be asked to leave, there is no place for renewal. In the limit, and depending on the type of contract that is made, without taking any severance pay, without adding a cost for the exit of that person. (C9).

This notion leads us to another advantage voiced by the participants: coping with labour market regulation. This advantage is particularly cited when referring to the increased easiness of restructuring the staff headcount when necessary: ‘...It is an advantage....It is the fact that the company is prepared to terminate the contract. Therefore, in a permanent contract I cannot do so, whereas in a determined duration contract it is much easier’ (C1). The ‘flexibility’ that the flexible work arrangements bring to the company is the second most mentioned advantage in the sample.

**Table 6** – Participants perceptions of flexible work arrangements

Enterprises	C1	C2	C3	C4	C5	C6	C7	C8	C9	C10
FWA advantages										
Cost reduction	X		X	X	X		X	X	X	X
Coping with labour market regulation	X	X	X	X		X		X	X	
Coping with services characteristics	X		X					X	X	
Pressure on productivity					X				X	
FWA disadvantages										
Decrease motivation/productivity	X		X	X		X	X	N/A	X	
Turnover			X	X			X		X	X
Cost increase		X	X		X	X				
Workforce conflicts				X						
Obstacles to use FWA										
Portuguese culture		X								

## FWA IN SMEs – INCIDENCE, MOTIVATIONS, ADVANTAGES AND DISADVANTAGES

The advantage ‘coping with services characteristics’ refers to the fact that sometimes, using flexible work arrangements is the only way to diminish the possible negative consequences that the uncertainty of the projects duration can bring to the company. This advantage is directly linked with the motive ‘project based-management’ and was mentioned by every participant that referred this a motive to use flexible work arrangements.

The last advantage withdrawn by the analysis regards the possibility of increasing workers’ productivity through the use of flexible work arrangements. The statements from the owner-manager of the company number five clarify this notion:

When they are hired through a determined duration contract, they invest a little more in their work for fear of losing their jobs. Then they become permanent workers, and unfortunately there more cases in which they change to a negative situation instead of maintaining or even improving their performance.

The respondents consider that flexible work arrangements can pressure employees to be better at their job, ultimately increasing their productivity. A completely opposite perception is expressed by other participants, who consider that flexible work arrangements lead to a decrease in the workers motivation and then to a decrease in productivity. This disadvantage is one of the most mentioned by the participants ‘The worker may not feel integrated in the company and that can harm his productivity’ (C1), and ‘... feel a little demotivated...even though they try not to show it, we can tell that they become e little sad because they feel that they are not being recognized by the company’ (C9). This last statement was pronounced by the same human resources manager that believed that the workers would decrease their productivity when permanently hired. We can conclude that in the company number nine the both realities have happened and that all depends on the specific individual. This dichotomy is voiced by an additional participant:

If I have a determined duration contracted employee this can go both ways. He can exceed his work while having this contract, in order to show us that he should stay and then reduce his productivity when permanently hired. Or the opposite that is ‘these people do not care about me so will not work as hard’ (C2).

The demotivation aforementioned can ultimately lead to a high turnover. This is another disadvantage mentioned by the participants. The human resources manager of the company number seven explained:

... if these employees feel that the company does not bet on them, if they feel that they are in an unstable situation... more easily, if they have another opportunity, they will consider leaving the company to take advantage of that opportunity.

## FWA IN SMEs – INCIDENCE, MOTIVATIONS, ADVANTAGES AND DISADVANTAGES

As previously stated there are some participants who believe that flexible work arrangements can help reduce the companies' costs. However, there are participants who express the exact opposite opinion. They believe that the use of flexible work arrangements will ultimately increase the companies expenses, notwithstanding in a reduced incidence. The owner-manager of the company number one said:

I do not consider a trainee a cost reduction, the trainee for me is a cost.... He does not get a salary, but the time my people spent in his training is much more expensive than paying him a wage.... If I could account the cost, I would have much more cost than profit.

The human resources manager of the company number three also mentions a cost increase: '...the recruitment process and the training would become more expensive'.

The last disadvantage, workforce conflicts, was only mentioned by one participant, the owner-manager of the company number four. The owner-manager has experienced it in his company, and even said that 'it is a reality', referring to conflicts between workers caused by the fact that, in the same team, there were workers with different types of contracts.

Lastly, in addition to advantages and disadvantages, the owner-manager of the company number two mentions that the Portuguese culture prevents him from using more flexible work arrangements. So we specified another section considering the obstacles of the use of flexible work arrangements. The participant perceives that the majority of individuals search a permanent job in order to achieve a certain security (e.g. financial security) so the number of individuals willing to accept a flexible job position is much reduced:

Formerly it was 'go work for the state because it is a safe thing'. And now it is 'do not go to any company that does not give you a permanent contract, so you can be guaranteed'.... If I had to start making more flexible contracts now, people might not want to accept the offer. This can be considered a cultural resistance.

A synthesis of the combination between the motivations for the use of flexible work arrangements and the participants' perceptions of the advantages and disadvantages can be found in table 7.

**Table 7** – Correlation between FWA motivations and participants perceptions

Motivations	Perceptions	
	Advantages	Disadvantages
Involuntary	Coping with services characteristics Coping with labour market regulation	Cost Increase Workforce Conflicts
Voluntary	Cost Reduction Pressure on Productivity Coping with labour market regulation	Turnover Decrease motivation/productivity

With this analysis it is possible to observe that involuntary and voluntary motivations lead to a different set of advantages and disadvantages. Involuntary motivations are the ones composed by factors that force companies to use flexible work arrangements. While voluntary motivations are the ones that lead employers to implement flexible work arrangements deliberately, since it will bring diverse benefits to the enterprise.

From the total set of motivations mentioned by the participants, the involuntary are: project-based management, market and workforce fluctuations, and coping with workers' choices. In turn, the voluntary are: flexibility-based management, workforce screening and access to qualified resources. In what regards the use of internships, all motivations identified by the participants can be considered voluntary.

The participants that mentioned coping with services characteristics felt that they were obliged to use flexible work arrangements since it was the only way to deal with market fluctuations and the unknown duration of the projects they develop. This last issue is translated in the other involuntary motivation mentioned: coping with labour market regulation. The companies who developed services in basis of projects with uncertain duration regard flexible work arrangements, mainly undetermined duration contracts, as the only contract arrangement allowed by the labour regulation in order to perform their activities.

On the contrary, the participants that use flexible work arrangements for voluntary reasons believe that financial advantages and productivity increase could be obtained with the use flexible work arrangements. In this section we find employers who believe that flexible work arrangements could lead to cost reductions, mainly with the use of internships, and employers who believe that the sense of insecurity amongst flexible work arrangements employees can influence them to be more productive in order to prove that they deserve the position they hold in the company. Interestingly, one of the motivations expressed can be

considered both involuntary and voluntary. The need to cope with labour market regulation can emerge, not by being forced on employers, but solely because some advantages could be obtained by the use of flexible work arrangements. Some interviewees mentioned that the dismissal process would be facilitated with the use of flexible work arrangements and its costs diminished. These advantages can be considered inducers, but not mandatory factors, of the use of flexible work arrangements.

The observed results conclude that disadvantages caused by the use of flexible work arrangements could emerge either by introducing these types of contracts for voluntary or involuntary reasons. As seen in table 7 the disadvantages are transversal to all types of motivations. Which could lead us to assume that no matter the motivation, flexible work arrangements will always lead to disadvantages. What employers must consider when deciding between permanent and flexible contracts is if the advantages outweigh the disadvantages, which it will all depend on the structure, culture and business sector of the company.

## **6 - Discussion**

This study examined the motivations for the use of flexible work arrangements on SMEs in Portugal. Beforehand, it looked at types of flexible contracts as well as the incidence of each work arrangement. A relevant evidence to highlight is that flexible arrangements represent 24,2% of the total number of employees of our sample and include determined and undetermined contracts, temporary agency works, rendering of services agreements, outsourcing, internships, and part-time. These figures are close to the ones reported in the literature for Portuguese and EU labour markets, suggesting that permanent contracts prevail as the firms' most relevant option (European Commission, 2016b). The determined and undetermined duration contracts are less frequent and are not expected to grow at a faster rate than permanent contracts. So, it has to be noted that there is persistent pattern of stable employment relationships in the Portuguese labour market (European Commission, 2016a). As regards flexible arrangements, employers prefer to use determined and undetermined duration contracts because of the nature of their activity notably project-based work, which are by nature, activities with undetermined duration. The other types of flexible contract are less frequent. This is the case of temporary agency workers which corroborates previous figures from CIETT in 2015, where the penetration rate of temporary agency work in Portugal was 1,7% in 2011.



On the other hand, the empirical evidence in this study showed that SMEs tend to use internships frequently. We notice that employers take advantage of an employment policy that encourages employment amongst young people (*Programa Nacional de Reformas*, 2016), the internship, to acquire resources with low or no wage costs. Those trainees work in SMEs but are excluded from the workforce statistics as well as outsourcing.

Our study further analysed the reasons for the use of flexible work arrangements. According to the literature, we suggest two motivations groups: push factors and pull factors (Brewster et al., 1997a). To this classification, we add the distinction between voluntary and involuntary motivations. Summing up, three types of motivation can be observed: push motivations, pull motivations and voluntary motivations. Push motivators are the ones that force companies to opt for flexible work arrangements and can be considered involuntary motivation; pull motivators are defined as the ones that promote the use of flexible work arrangements, without forcing it; and finally, voluntary motivations consists of factors that lead the companies to introduce flexible work arrangements deliberately.

Push factors are related with the type of activity developed by the SMEs, more specifically project-based management, as well as the need to maintain or strengthen the market position during market fluctuations. The need to adjust workforce was also mentioned, although with a lower expression. All these findings show similarities with previously developed studies (Houseman, 2000; Polivka & Nardone, 1989; Valverde et al., 2000).

SMEs also use flexible work arrangements to cope with labour market (Lee, 1996). Some interviewers underlined that one of the reasons to use permanent contracts is to cope with labour law regulation. However, C. Atkinson et al., (2016) considers that SMEs are still able to adapt and introduce informal practices in the enterprise which allows them to be more flexible. We are not able to corroborate or disprove this thesis since we focused on the used formal practices.

J. Atkinson (1985) identified economic recession as one of the factors that led to the increasing use of flexible work arrangements. In our sample, economic recession appears as a major force leading to the restructuration of the workforce, mostly the dismissal of permanent and determined and undetermined duration contract workers. Since the remaining forms of flexible arrangements prevailed stable, we can only conclude that when facing recession the enterprises choose to maintain these type of workers (i.e. temporary help agency workers, rendering of services agreements, outsourcing, internships). However an increase in its use, caused by economic recession, is not confirmed in our study.

Regarding now the pull factors, there is evidence that the use of some forms of flexible arrangement is caused by workers' preferences (Brewster et al., 1997a; Polivka & Nardone, 1989). This argument is verified in our study, where six out of the 10 enterprises say that they use at least one type of flexible arrangement because the employees prefer it in detriment of a permanent contract.

The impact of the company's characterization in the choice of work arrangements is also mentioned as an enabler or withholder of flexible work arrangements use. The sample characterization allowed us to conclude that there seems to be no correlation between the number of female workers in the company and the increasing use of 'family-friendly working arrangements', which contradicts some previous findings (Dex & Scheibl, 2001; Suleman et al., 2017).

Another factor that could be interpreted as a pull factor is the date of beginning of activity of the enterprise. Some interviewees perceived that companies that have recently initiated their activity would be more prone to use flexible work arrangements, than companies that have been in activity for a long time, since the majority of their workers would already have permanent contracts. This perception was not corroborated in the literature and in our study, which showed that the use of flexible work arrangements was predominant in companies that have initiated their activity more than 30 years ago.

Lastly, regarding voluntary motivations, Houseman (1997, 2000) and Dex and Scheibl (2001) observed that the majority of the employers, in larger and in smaller firms, did not perceived cost reductions as a motivation to introduce flexible work arrangements. Nonetheless the authors' explanations for this fact differs according with company's size. In larger firms this is mainly caused by the employers lack of acknowledgment of those financial gains (Houseman, 1997, 2000), in smaller firms this is justified by the fact that SMEs require new, and sometimes unknown resources which could increase the human resources cost instead of reducing it (Dex & Scheibl, 2001; Georgiadis & Pitelis, 2011). In our study we find that employers are not willing to admit the financial benefits caused by flexible work arrangements even when there are wage differences between permanent and flexible employees. This motivation was only mentioned regarding internships.

Although these cost reductions do not seem to motivate employers to hire flexible workers, the participants were willing to admit that flexible work arrangements can bring cost advantages in terms of training, recruitment and dismissal, this evidence is supported by Ghosh et al. (2009). This dichotomy between cost reduction as motivation and as an advantage translates a difference between theory and practice, and is yet another illustration

of the fact that employers are not willing to admit cost reduction as a motivation to introduce flexible work arrangements.

Still regarding company's costs, Cappelli & Keller (2013) show evidence that the use of flexible work arrangements was reduced in companies that used fringe benefits. We analysed the companies' use of fringe benefits and concluded that the companies that use these benefits have, in average, a higher percentage of flexible workers. Yet another point in which the results of our analysis differs from the previous studies is the fact that there is no evidence that the increased use of flexible work arrangements leads to fairer compensation systems (Lee, 1996). The interviewees were asked if they had compensation systems based on performance, and 50% responded affirmatively. However these employers were the ones with less use of flexible arrangements.

Many participants revealed that the risks of hiring the worker without accessing his performance is too large, so flexible work arrangements presented themselves as a way of doing that at minimum risk, allowing them to screen the employee to a permanent job position. This evidence goes in accordance with many previous studies (Houseman, 1997, 2000, 2014; Houseman & Polivka, 1999; Pedulla, 2011; Polivka & Nardone, 1989).

Although it was only mentioned by one of the three companies that use temporary help agency workers, our evidence supports Houseman, (2000), in that these workers are hired while a worthy candidate to occupy a permanent position is not found. However, in this case we also observed that afterwards, these employees were not substituted for permanent ones, since their performance was already acceptable. This leads us to the observable employer's necessity of recurring to flexible work arrangements in order to have greater access to highly qualified resources (Chastre et al., 2013; Pizarro, 2010; The Outsourcing Institute, 1998).

A set of motivations are identified in our study without corroboration from the literature. It could be said that the most relevant was the motive 'flexibility-based management', in which the employers admitted that they implemented flexible work arrangements as part of the company's internal policy. This finding is paramount to our research since it explicitly shows that there are voluntary motives for the use of these types of contracts which are not induced by pull factors nor forced by push ones.

Further voluntary motivation are not mentioned in the literature (i.e. corporate social responsibility, employer branding and acquire new knowledge and skills). This could be explained by the fact that these motivations were identified in what regards the use of

internships, and the study of the motivations behind the use of internships in Portugal is practically non-existent.

Besides motivations, our study also focused in the possible advantages and disadvantages of the use of flexible work arrangements. Our finding showed very similar results with the previously analysed studies. Cost reductions, coping with labour market regulation and services characteristics were mentioned by at least one interviewee as advantages of the use of flexible work arrangements, in accordance with many authors (Brewster et al., 1997b; Chastre et al., 2013; Houseman, 2000; Lee, 1996; Polivka & Nardone, 1989; Valverde et al., 2000). The only mentioned advantage that shows distinct results from the literature regards the impact of flexible work arrangements in the firm's productivity. We did not find any evidence that suggests an increasing company's performance by the use of flexible work arrangements, in contrast with Valverde et al. (2000) and White (1987). However some employers believe that the use of flexible work arrangements could induce employees to be more productive in order to prove that they deserve a permanent position in the organization. In contradiction, more than half of the interviewees referred that one of the disadvantages of flexible employment was a reduction on workers' motivation and productivity (Cameron, 2000; Pizarro, 2010; Sarantinos, 2007; Valverde et al., 2000).

Cost increases can also be originated by the use of flexible work arrangements (Brewster (1995) referenced in Cameron (2000)), this evidence is also verified in our study as well as the possible increase of workers' conflicts. Creach and Brewster (1998) refer that the conflicts occur mainly between top and middle managers. In our study the participant did not specify the positions held by the employees, but we can conclude that the conflicts were mainly caused by an increase sense of injustice amongst flexible employees.

## 7 - Conclusion

Our study aimed to understand to what extent SMEs performing in Portugal use flexible work arrangements, what leads companies to introduce these types of work arrangements, and what advantages and disadvantages can be drawn by its use.

The focus on SMEs constitutes a paramount contribution of this study to the ‘flexibility debate’ since the majority of studies developed on this subject failed to include data from SMEs. Particularly, in case of Portugal, the data collected about SMEs is insufficient to have a broader view of the incidence, advantages and disadvantages of the use of flexible work arrangements.

We focused on the analysis of seven different types of flexible work arrangements: determined and undetermined contracts, part-time contracts, temporary help agency workers, rendering of services agreements, outsourcing and internships. The empirical evidence suggests that determined and undetermined duration contracts represent the most used type of FWA. This incidence can be justified by the nature of the companies’ activities, since they are mostly project-based and by the fact that the typical called ‘fixed-term contract’ is usually considered to be the entry form of employment in a company. Furthermore, the findings indicate that the internships are use in all firms in the sample. This means it is the third most used form of FWA. The remaining forms of employment do not have a significant presence in the sample. It is important to note that when discussing the incidence of flexible work arrangements we should consider in what way the national figures reflect the reality of the use of flexible work arrangements in Portugal. A brief analysis of the national reports conducted around this subject so far fail to mention many diverse types of flexible work arrangements, amongst them: internships, outsourcing and temporary help agency workers. Moreover, even when the relevant data is collected at a national level (e.g. rendering of services agreements in the single report – *Relatório Único*) it is not studied and thoroughly analysed.

Our study reaches to a set of results that point to a distinction of three different types of motivations: push motivations, pull motivations and voluntary motivations. These results translate the different factors, voluntary or involuntary, that lead managers to make the decision of introducing flexible work arrangements. While in push motivations we can see factors that inflict the use of flexible work arrangements, in pull motivations we see factors that induce that decision without forcing it. Lastly, as the most relevant category, we find voluntary motivations. Here we can see that flexible work arrangements are used as a mean to achieve an end, expected to bring many diverse advantages. In general, the number of

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voluntary motivation identified is larger than the involuntary motivations (push and pull motivations). Being the most often mentioned: cost reduction (in internships and worker screening. With the same number of enterprises we find yet another motivation: coping with employee's choices, which means that pull factors have also an important role to play when deciding to introduce flexible work arrangements. This distinction between types of motivations is one of the most relevant finding of the study since it allows us to observe all the different aspects (company's sector of activity, market performance, business performance, employee's choices, among others) that influence the employer's decision making process.

Besides all the factors that can, in some way, influence the use or not of flexible work arrangements, employers are aware of potential positive and/or negative consequences of their choice. The most often mentioned advantage was cost reduction and the most often mentioned disadvantage was the decrease in the employees' motivation and ultimately in their productivity. The interesting fact is that some interviewees also mentioned cost increase as a disadvantage, and other mentioned productivity increase as an advantage. This dichotomy, is yet another prove of the different perceptions that employers have regarding the use of flexible work arrangements, caused by different business realities and different past experiences.

We are unable to conclude whether flexible work arrangements bring more advantages or more disadvantages to the company, and what plays the most important role in the decision making process, voluntary, push or pull motivations. We are only able to refer that when deciding between permanent and flexible work arrangements the managers should consider all factors and all consequences of that decision, and see if the advantages outweigh the disadvantages.

One critical aspect regarding the SMEs that was observed both in the literature and in our empirical evidence was the impact of labour regulation in the use of flexible work arrangements. Some authors believe that the claimed negative impacts of labour regulation in SMEs are in fact exaggerated (C. Atkinson et al., 2016), however these negative impacts were also mentioned in our study, which lead us to consider if the labour regulation should be adapted to the needs and characteristics of SMEs, which represent 99% of the Portuguese corporate structure.

There are several limitations bound to a qualitative study such as this. Since the data is qualitative, the results obtained cannot be generalized to all SMEs performing in Portugal. Furthermore, our sample is small and non-random. Future researches should be developed

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including a larger sample of SMEs, from different sectors of activity and from diverse regions of the country, since our research includes only companies from the services and trade sectors of activity, located in Lisbon and Fundão.

Although this was not a comparative study, we noted no major differences between the use of flexible work arrangements in larger (examined through the literature) and smaller firms. However, this is yet another aspect in which scholars should focus in order to understand the particularities of the human resources management in SMEs against larger firms.

It is clear that future researches should be developed in order to overcome these limitations, and to try to help managers and policy makers make better decisions in favour of business sustainability and economic and social development. However we believe that our study brings new and challenging points of interest regarding the ‘flexibility debate’ and hopefully, it will motivate and help others to develop these areas of research.

## 8 - Annex I

**Table 1** – Number of workers by each type of contract

Enterprise	1	2	3	4	5	6	7	8	9	10	Total
Permanent contracts:											
Permanent contracts full-time	45	17	132	11	88	58	69	40	60	110	630
Permanent contracts part-time				1		1	3				5
Total number of permanent contracts	45	17	132	12	88	59	72	40	60	110	635
Flexible contracts:											
Determined duration contracts full-time	3		14	2	20			2	10	24	75
Determined duration contracts part-time	2				2						4
Undetermined duration contracts			4					38	30		72
Temporary help agency workers					2	2				1	5
Rendering of services agreement full-time	2	1		2			7		5		17
Rendering of services agreement part-time							1				1
Outsourcing		Yes		Yes							
Internships	1	3	7	5	2	3	2	1	3	2	29
Total number of flexible contracts	8	4	25	9	26	5	10	41	48	27	203
Total number of workers	53	21	157	21	114	64	82	81	108	137	838



**Table 2** – Number of workers evolution by type of contract (2014 to 2016)

Enterprise	1	2	3	4	5	6	7	8	9	10
Permanent contracts										
Permanent contracts full-time	+++	---	+++	+++	0	+++	+++	---	0	+++
Permanent contracts part-time				0		+++	0			
Flexible contracts										
Determined duration contracts full-time	0	---	0	0	0			0	---	+++
Determined duration contracts part-time	0				0					
Undetermined duration contracts			0					0	---	
Temporary help agency workers					0	0				0
Rendering of services agreement full-time	0	0		0			---		---	
Rendering of services agreement part-time							0			
Outsourcing		0		0						
Internships	0	0	0	0	0	0	0	0	---	0

**Table 3** – Organizations’ permanent contracts’ motivations

Motivations	Attract and retain employees	Stability-based management	Complying with labour law
Permanent contracts	2, 3, 4, 5, 6, 7, 8, 9, 10	1, 6, 7, 10	2, 5, 8

**9 - Annex II**

**Interview guide**

**I – Interviewee Information**

Name:

Gender:

Age:

Responsibilities:

**II – Generic description of the enterprise’s activities and global financial situation**

1 – Describe the enterprise’s history and main activities

2 – How was the worker’s evolution in the last three years?

**III – Employment arrangements**

3 – Which types of work arrangements are used, and in what proportion? How was their evolution in the last three years?

Types of work arrangements	Use (yes/no)	Proportion (2016/2017)	Evolution	Sociodemographic characteristics
Permanent				
Fixed-Term				
Part-time				
Temporary help agency workers				
Rendering of services agreements				
Outsourcing				
Internships				
Other				

4 – In your opinion why do enterprises use flexible work arrangements?

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- 5 – What are your motivations to use permanent contracts?
- 6 – What are your motivations to use fixed-term contracts?
- 7 – What are your motivations to use part-time contracts?
- 8 – What are your motivations to use temporary agency workers?
- 9 – What are your motivations to use rendering of services agreements?
- 10 – What are your motivations to use outsourcing?
- 11 – What are your motivations to use internships?
- ↪ If cost reductions - question 12
- ↪ If not cost reductions - question 13
- ↪ If market fluctuations - question 14
- ↪ If workforce fluctuations - question 15
- ↪ If worker screening - question 16
- ↪ If not worker screening – question 17
- ↪ If productivity increase - question 18

### **IV - Motivations for the work arrangements used**

- 12 - Which types of costs are reduced or eliminated by the use of flexible work arrangements?
- 12.1 - Which are, and how are defined the different remuneration components?
- 12.2 - Are there differences in the remuneration components between permanent and flexible work arrangements?
- 12.3 - Does the company has a defined performance evaluation system?
  - ↪ If yes:
    - 12.3.1 - Is the compensation system based on performance evaluation?
- 13 - Are there differences in the remuneration components between permanent and flexible work arrangements?
- 14 – How do you characterize the company’s sector of activity in terms of volatility and competitiveness?
- 15 – How was the absences rate in 2015/2016?
- 16 – How many flexible arrangement contracts were converted to permanent contracts? Why?

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16.1 – How much time do you deem necessary to evaluate the performance of a specific worker before hiring him permanently?

16.2 – Do you consider that 90 day are enough to evaluate a worker's performance?

16.3 – In which way is the workers' performance evaluates?

17 – Do you consider that the use of flexible work arrangement is a effective way of evaluating the worker's performance before hiring him permanently? Why?

18 – What is the global financial situation of the company?

### **V – Advantages and disadvantages of the work arrangements used**

19 – What are the advantages and disadvantages of the use of flexible work arrangements?

### **VI - Motivations to avoid the use of flexible work arrangements**

20 – What are the reasons to not use some of the flexible work arrangements previously mentioned?

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