LABOR MARKET FLEXIBILITY MEASURES TO REDUCED LABOR COST

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In Filipinos daily life, we are much dependent on the information brought by social media. We heard about globalization issues and increasing number of casual or contractual employees. This aspect is one problem of our labor market today.

First, we must understand the labor market or our labor market flexibility. How is the flexibility when it comes to labor cost?

Labor market flexibility refers to the willingness and ability of labor to respond to changes in market conditions, including changes in the demand for labor and the wage. Labor market flexibility is an important aspect of how labor markets function to adjust supply to demand.

Labor cost is defined as the total expenditure borne by employers in order to employ workers. Labor costs include the direct costs linked to remuneration for work carried out such as direct remuneration, bonuses and ex gratia payments not paid at each pay period, payments for days not worked, severance pay, benefits in kind. They also include indirect costs linked to employees, independently of the remuneration paid by the employer, such as direct social benefits, vocational training costs and so on.

We might think now that businesses are need to adjust and have countermeasure to become flexible and reduced their labor cost to earn profit. Companies reduce the core of permanent workers and increase temporary and casual workers. We commonly notice this casual worker in fast food and malls. Or in short “contractual employees”. Casual employees do not receive same benefits as regular employees that can help the company to reduce cost in payments of benefits and incentives. They also increase employment of women workers, trainees and unskilled workers. Trainees or unskilled workers do not demand high salary compare to skilled or workers who have specialization on the job. We sometimes also experience that companies have done subcontracting services like transport, packaging, maintenance, security, etc. which are performed by regular employees. We are aware that most of the security guards in the firm and utility maintenance are under manpower agencies. In this case the companies also reduce labor cost because agencies are the one who is responsible in giving the other benefits and
incentives of the security guards and utility maintenance. Manufacturing companies and call centers increase the number of shifts to reduce overtime. Mostly they have 3 shifts in 24 hours. Example the first shift schedule is 6am to 2pm, second shift is 2pm to 10pm and third shift is 10pm to 6am. Pay system are also adjusted. Companies replace their pay system based on working time. Example from monthly to daily to hourly rates to ensure that workers finish their job on time. Introduction of internal and re-training systems that lead to multi-skilling of workers. Once employees are multi-skilled, they can replace or relieve the other workers or they can maximize their time in their job assignment to help the others who can not meet the target on their job assignment.

Companies promote this countermeasure to just maintain their profit for their reasonable investments, expansion and growth.

References:

http://www.answers.com/Q/What_is_the_meaning_of_contractualization