Socially-Sensitive Labour Force Restructuring in South Eastern Europe

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Foreword

These guidelines were elaborated as a final contribution in the technical assistance provided during the period 2006–2008 by the International Labour Sub-regional Office for Central and Eastern Europe (ILO–SRO CEE) to representatives of the government and social partners in Serbia in order to improve social dialogue in the process of labour force restructuring.

This assistance was provided with the financial support of the Czech government, within the framework of the project ‘Socially responsible restructuring via social dialogue and social finance in Serbia: Putting in practice policy recommendations in Serbian Railways’. The project was aimed at increasing the effectiveness of social dialogue mechanisms in the design and implementation of plans for the re-integration of redundant workers in the restructuring of large public enterprises, taking Serbian Railways as a pilot sector.

The last phase of this assistance consisted in the dissemination of the lessons learnt from the support given to Serbian Railways, enriched by a series of case studies developed in a number of countries in the region (Croatia, Czech Republic, Montenegro, Slovenia, Slovakia). These case studies were presented and discussed during a Subregional tripartite workshop organised in December 2008 in Belgrade, Serbia. A summary of these case studies is presented in the annex of these Guidelines and the full text is available at www.ilo-ceet.hu. The conclusions and recommendations from the tripartite representatives in this workshop laid the basis for the formulation of these Guidelines.

One should not forget to mention the context in which this workshop and the formulation of these Guidelines took place. With the advent of the economic and financial crisis that has been hitting economies and societies hard since summer 2008, and whose effects will be strongly felt on labour markets in 2009, the importance of providing guidance on how to manage enterprise restructuring in a socially sensitive manner has been underlined by governments and social partners alike.

These Guidelines were elaborated with a view to assisting managers, workers’ representatives and governments concerning measures and processes to be considered when restructuring the labour force. They give, first, an overview of the international and European legal framework and principles to be taken as a basis. The detailed measures that can be adopted are then described, with some examples of good practices from Europe. They are intended to contribute to the
debate on how best to conduct enterprise restructuring, with a view to improving productivity and at the same time mitigating the effects on the workers.

The Guidelines were developed with contributions from Nikolai Rogovsky of ILO–MULTI and the team of national experts that conducted the national case studies: Anton Florijan Barišić (Croatia), Juraj Borgula (Slovakia), Zdenek Karasek (Czech Republic), Barbara Rajgelj and Matija Rojec (Slovenia), and Ivan Stosic and Vera Spasic (Serbia).

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Executive Summary

These Guidelines set out the main ways in which organisations can contribute to the socially-sensitive restructuring of the labour force. Section 1 reviews existing guidance and initiatives from international bodies such as the European Commission, the ILO and the OECD. It also sets out the EU-level legislative framework within which EU member states and EU candidate countries operate. It also examines the views and initiatives of EU-level cross-sectoral and sectoral social partners in the energy, manufacturing and transport sectors.

Section 2 examines the roles that social dialogue can play at national, sectoral and company level. It then examines the role and contribution of the state, both nationally and regionally.

The role of workforce consultation is then analysed, beginning with how restructuring plans should be announced to the workforce, how the workforce should be informed and consulted about the restructuring, and how negotiations concerning restructuring should be conducted. Ideally, information and consultation should take place in good time, allowing the views of workers and their representatives to be heard and discussed, and consultation should take place with a view to reaching an agreement.

Measures that can be put into place to lessen the impact of restructuring are then considered. These comprise:

- the introduction of different types of working patterns, such as more flexible schedules or shorter working hours with a corresponding cut in pay;
- cuts in pay and/or bonuses;
- internal redeployment within an organisation;
- external redeployment within the sector, or more widely;
- training and other measures designed to increase employability;
- a range of outplacement activities, such as help with job search, CVs and interview technique;
- priority of rehire, should vacancies arise in the future; and
- support for entrepreneurship, and investment in the local economy in order to encourage regeneration.
If redundancies are inevitable, a range of measures can be implemented to cushion their impact. These include:

- downsizing across the whole sector rather than closing an entire plant;
- spreading redundancies evenly across countries, if the redundancies are being implemented by a multinational company, in order to avoid a situation in which one country disproportionately bears the brunt of job losses;
- offering voluntary severance to employees (although it should be borne in mind that, ideally, passive measures such as severance should be combined with more active measures, such as the range of outplacement and training measures described above); and
- early retirement, although this should ideally be offered only to employees who are approaching retirement.

After considering these issues, in connection with the case study examples annexed to these Guidelines, a range of best practices and lessons learned were identified. These were as follows:

- The importance of training and development. It is clear from the case studies listed here and from other case study examples of best practice in restructuring that training and skills development is key, not only in a restructuring situation, but, if possible, throughout the careers of employees.
- The state and the EU play a vital role in restructuring and in helping specific sectors to restructure. In particular, former state-owned organisations need specific help in transforming into organisations that can function on a commercial basis in a market economy.
- The importance of a coordinated response. It is vital that all parties involved in a restructuring event – the employer, the employee representatives, the state, local and regional government and external bodies such as training providers – are coordinated and work together.
- Getting employees to ‘buy in’ to the restructuring. It is crucial to restructuring that the staff and the organisation’s managers buy in to it as something that is necessary and that will make the business stronger in the end. This will make restructuring run as smoothly as possible.
- Working with external organisations. External expertise and advice can be a valuable tool in helping the restructuring to go as smoothly as possible.
- Tailoring interventions. It is important to recognise that different sectors and organisations require different approaches and often tailored solutions. There is no ‘one size that fits all’.
- The importance of active labour market measures. While severance payments are a popular option among employees, this can encourage short-termism rather than stimulate longer-term career planning. It is therefore vital that restructuring is accompanied as much as possible by active employment measures, such as retraining, upskilling and a range of measures to support job search.
Looking after the ‘survivors’. In an organisation that has recently undergone restructuring involving significant redundancies, the remaining workforce is likely to be in something of a state of shock. The ‘survivors’ may also feel guilty that they are still in employment while many of their friends and colleagues have been made redundant. It is important for organisations to recognise and deal with this.

Looking to the longer term. It is vital for an employer to manage restructuring well, as the organisation will want to recruit again at some point in the future. If the restructuring has gone smoothly, former employees may want to come forward for jobs at a later date.

Finally, the case studies presented here have shown that social dialogue can have an influence on the outcome, for example, by encouraging employers to rethink restructuring plans or to reduce the planned level of redundancies. The factors that ensure that social dialogue can influence outcomes include the following:

- Structures for social dialogue must be in place, at whatever level the dialogue is to be carried out – national, regional, sectoral or enterprise. Ideally, these structures will have made it possible for the social partners to have worked together already, on other issues.

- A relationship of trust must be built up between the partners in order that the dialogue take place in an atmosphere of good faith.

- Social dialogue should take place at the appropriate level. If the dialogue is taking place in an organisation, it will usually take place at the highest level.

- Employees must believe that their representatives are representing them fairly and acting in their best interests. Therefore, it is important that trade unions or employee representatives act independently of, but on a constructive basis with the employer.

- The process of social dialogue should be planned logically and fairly. Time should be given to allow employee representatives to digest and respond to information, and meetings should be planned in a logical way so as to ensure that the process takes place as smoothly as possible.

- The process of selecting employees for redundancy should be undertaken fairly and according to known criteria in order to reassure the workforce that procedural justice is being followed. In some cases, prior agreed or statutory procedures on redundancy selection will have to be followed.
Introduction

The issue of enterprise restructuring and how this can be managed in such a way as to minimise the negative impact on the workforce, the local economy and the environment has been preoccupying policymakers for the best part of two decades. All around the European Union, there have been examples in recent years of enterprises deciding to restructure on the grounds of achieving cost savings, largely by moving production units overseas, to countries where labour and other costs are lower than in the host country. This should be seen in the context of an increasingly globalised and competitive world, within which enterprises must constantly seek to lower costs in order to remain competitive. Enterprise restructuring is being seen more and more as a part of normal business life rather than a one-off event, and therefore something that needs to be managed by all the actors involved – company representatives, trade union and employee representatives, representatives of the local economy and policymakers at local, national and European level. The current economic climate is increasing the level of redundancies across Europe and so this issue is particularly pertinent at present.

Current Statistics on Restructuring

The European Monitoring Centre on Change (EMCC), based at the European Foundation for the Improvement of Living and Working Conditions, Dublin, produces regular research and statistics on enterprise restructuring around the European Union. It has found that restructuring involves both job losses and job gains, although the former outweigh the latter significantly. Where job gains occur, they are usually found in the new EU member states. It notes that 2008 was a particularly difficult year in terms of enterprise restructuring, exacerbated by the economic difficulties experienced around the world during the second half of the year. According to the latest figures from the EMCC,¹ in the third quarter of 2008 there were 304 cases of restructuring, involving 85,904 job losses and 48,804 job gains. More than 25,000 of those job losses were recorded in Germany, due largely to restructuring plans announced by the electronics group Siemens and the finance group Kommerzbank.

The largest job losses were at the computer group Hewlett Packard, which announced 24,600 job cuts worldwide due to a merger/acquisition; at Siemens, which will cut 16,750 jobs due to internal restructuring; and at Kommerzbank, which will cut 9,000 jobs in the EU, including 6,500 in Germany, due to a merger/acquisition.

Germany, the UK and France experienced the greatest number of job losses in the third quarter of 2008 (25,653, 13,218 and 9,329, respectively). The Czech Republic experienced 7,748 job losses, however, due largely to three cases of restructuring: at the postal services organisation Česká Pošta (2,500 job losses in administration and management-related functions), the glass production company Sklo Bohemia (1,200 job losses) and the electronics company Siemens Kolejová vozíčka (1,000 job losses).

The sectors with the highest number of job losses were motor manufacturing and finance (10,494 and 8,575 job losses, respectively, in the third quarter of 2008). For example, the French car manufacturer Renault announced 4,000 job losses in France, and the Sweden car maker Saab Automobil announced 800 job losses in Sweden. Conversely, the retail sector and activities auxiliary to the finance sector created the most jobs in the third quarter of 2008 (6,670 and 5,920, respectively).

Job creation is most prevalent in the new EU member states. For example, in the retail sector, Kaufland Romania, a hypermarket chain of the German Schwarz Group, announced the creation of 3,700 jobs between the end of 2008 and 2009. Furthermore, BauMax Romania, the Austrian chain of retail stores for building materials and household goods, plans to create around 660 new jobs with the opening of six new stores in 2009. Some significant job creation was also reported in some of the older EU member states. For example, in the activities auxiliary to financial intermediation sector, most of the job creation is due to French bank Société Générale, which announced the creation of 5,500 new jobs in France by the end of 2008.

In terms of the causes of job losses overall in the third quarter of 2008, the EMCC found that 55 per cent were due to internal restructuring, over 30 per cent were due to bankruptcy or closure, 10 per cent were due to mergers or acquisitions and 2.6 per cent were due to offshoring and relocation. This compares with figures for the third quarter of 2007 which show that internal restructuring was the cause of 78 per cent of the jobs reported lost during that quarter, while bankruptcy or closure was the cause of 13.9 per cent. Offshoring and relocation was the cause of less than 4 per cent of the jobs lost during that quarter.

Looking back to the third quarter of 2006, 69.5 per cent of jobs lost were due to internal restructuring and 11.5 per cent due to bankruptcy or closure. Offshoring accounted for around 9 per cent of jobs lost. Over the three years, therefore, there appears to be a trend for offshoring to account for a progressively smaller proportion of the total jobs lost, although this remains the main cause. There was no clear trend relating to jobs lost due to bankruptcy.
Existing Guidance

Given that enterprise restructuring can have negative consequences in terms of job losses and impact on the local economy and the environment, guidelines on how to manage restructuring in a socially sensitive way have been issued by a number of international organisations. For example, the Organisation for Cooperation and Development’s (OECD) Guidelines for Multinational Enterprises, most recently updated in June 2000, provide voluntary principles and standards to help multinational companies to act responsibly in a variety of areas, including employment and industrial relations, human rights, the environment, information disclosure, combating bribery, consumer interests, science and technology, competition and taxation. One of the guiding principles of these guidelines is consultation with employee representatives concerning restructuring plans in order to allow employees to influence the restructuring and mitigate any potential negative effects. Under the heading Employment and industrial relations, the guidelines state that enterprises should,

in considering changes in their operations which would have major effects upon the livelihood of their employees, in particular in the case of the closure of an entity involving collective lay-offs or dismissals, provide reasonable notice of such changes to representatives of their employees, and, where appropriate, to the relevant governmental authorities, and cooperate with the employee representatives and appropriate governmental authorities so as to mitigate to the maximum extent practicable adverse effects. In light of the specific circumstances of each case, it would be appropriate if management were able to give such notice prior to the final decision being taken. Other means may also be employed to provide meaningful cooperation to mitigate the effects of such decisions.

The International Labour Organisation (ILO) itself has long been active in trying to ensure that restructuring is carried out in a responsible way. It established a World Commission on the Social Dimension of Globalisation in February 2002, looking at ways of combining the social, economic and environmental objectives of globalisation. Furthermore, in February 2004 it issued a report containing a range of recommendations, arguing that strong representation of employers and employees at national level is vital if social dialogue is to be fruitful. Looking at the impact of globalisation on employment, it states that there must be a commitment to social dialogue in the formulation of economic and social policies and that there must be a ‘commitment to take the “high road” of business-labour collaboration to achieve efficiency gains, and to eschew the “low road” of cost-cutting and downsizing’.

ILO instruments setting out best practice in restructuring situations are the Termination of Employment Convention No. 158 (1982) and the related Recommendation No. 166.

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2 http://www.oecd.org/document/28/0,3343,en_2649_34889_2397532_1_1_1_1,00.html.
This Convention states that in the case of termination for an economic, technological, structural or similar reason the employer should inform and consult with workers’ representatives, giving them ‘as early as possible an opportunity for consultation on measures to be taken to avert or to minimise the terminations and measures to mitigate the adverse effects of any terminations on the workers concerned, such as finding alternative employment’. It also states that employers should notify the competent authority of the terminations as early as possible, in accordance with national law and practice, ‘giving relevant information, including a written statement of the reasons for the terminations, the number and categories of workers likely to be affected and the period over which the terminations are intended to be carried out’.

The ILO has also held a number of events to promote the discussion of restructuring and dissemination best practice. For example, a high-level international conference was held in April 2003 in Athens, which was attended by more than 200 participants. The participants examined the topic of ‘Socially Responsible Enterprise Restructuring’ (SRER) through an exchange of experiences and good practices between representatives from public authorities, business and workers, as well as academics and experts from EU and candidate countries. The conference gave a practical overview of the issue, with an exchange of different points of view and approaches. Case studies on the following industrial groups and enterprises were presented: Danone, Arcelor, Saint-Gobain, Carrefour, Deutsche Telekom, Swedish Post, Syndex, Hewlett-Packard, Deutsche Bank, Michelin, Schlumberger and Iveco.

One of the main conclusions of this conference was that ‘enterprise competitiveness and sustainability will be determined increasingly by conserving and nurturing the value of human capital, rather than relying purely on a company’s financial and physical assets. This valuable human capital is built on trust, social cohesion and corporate values.’

**EU Legislative Framework**

The European Commission has also been active over the past decade in trying to establish a framework at European level within which enterprise restructuring can be carried out in a socially responsible way. The Commission first consulted formally with the European cross-sector EU-level social partners on this issue in 1997, looking specifically at how employee representatives could be consulted about and involved in restructuring processes. The impetus for this was a high-profile case of restructuring carried out by the French motor manufacturer Renault in 1997, when the company decided to close its plant in Vilvoorde, Belgium, without prior information and consultation of the workforce. Following this consultation of the EU-level cross-sector social partners, the Commission drafted a new Directive on national information and consultation of employees. This Directive provides a framework for information and consultation of employees in all companies of 50 employees or more, on a range of issues, including restructuring that is likely to have an impact on employment (Directive 2002/14/EC).
Other EU Directives that play a role in restructuring, in terms of establishing conditions for informing and consulting the workforce concerning any plans to restructure that may have an impact on employment, include:

- Directive 1998/59/EC on the approximation of the laws of the member states relating to collective redundancies. This Directive states that where an employer is considering making collective redundancies, consultations with workers’ representatives should take place in good time and with a view to reaching an agreement. These consultations should cover ways and means of avoiding collective redundancies or reducing the number of workers affected, and of mitigating the social consequences of redundancies.

- Directive 94/45/EC on the establishment of a European Works Council (EWC) or a procedure in Community-scale undertakings and Community-scale groups of undertakings for the purpose of informing and consulting employees. This Directive applies to companies of 1,000 or more employees with at least 150 employees in each of two EU member states.

- The Directive on the approximation of the laws of the member states relating to the safeguarding of employees’ rights in the event of transfers of undertakings, businesses or parts of businesses, known as the Acquired Rights Directive. This Directive dates from 1977 and was most recently amended and consolidated by Directive 2001/23/EC.

It should be noted that the EWC Directive is currently under review: in February 2008, the European Commission launched a second phase of consultation with the EU-level cross-sector social partners on possible revision of the Directive. The consultation had three main points of focus:

- enhancing the effectiveness of employees’ transnational information and consultation rights;
- resolving legal uncertainties and problems in the practical application of the Directive; and
- harmonising the EWC Directive with more recent Directives on employee representation.


Another consequence of the ‘Renault case’ cited above was that the European Monitoring Centre on Change was set up in 2001, based at the European Foundation for the Improvement of Living and Working Conditions, in order to monitor and report on cases of restructuring.

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5 Website of the European Monitoring Centre on Change: http://www.eurofound.europa.eu/emcc/.
Furthermore, an EU high-level group on industrial relations and managing change was set up in 2001 with a mandate to propose recommendations to European policymakers and European social partners on the contribution of industrial relations to the process of managing change in Europe.

**Corporate Social Responsibility**

The European Commission has also consulted and tried to stimulate wider debate on corporate social responsibility – one element of which is socially responsible conduct during enterprise restructuring – by publishing a Green Paper on promoting a European framework for corporate social responsibility in 2001. In this, it notes that restructuring in a socially responsible manner means to balance and take into consideration the interests and concerns of all those who are affected by the changes and decisions. In practice, the process is often as important as the substance to the success of restructuring. In particular, this involves seeking the participation and involvement of those affected through open information and consultation.

This Green Paper was followed in 2002 by a Commission Communication on corporate social responsibility in which it outlines the key elements of a European action framework for CSR and the creation of a multi-stakeholder forum on the issue. The Commission launched a further Communication on CSR in 2006 in which it links corporate social responsibility with the EU’s Lisbon Strategy of creating more and better jobs. In this Communication, it launches a European alliance for CSR, described as a ‘political umbrella for new or existing CSR initiatives by large companies, SMEs and their stakeholders’.

**The Views of the Social Partners**

The social partners have been active in recent years in considering how to manage restructuring. In order to encourage the EU social partners to express their views, in January 2002 the Commission launched a first stage of consultations on the scope for establishing EU-level principles to underpin ‘socially intelligent’ corporate restructuring. The primary aim was to promote the development and dissemination of good practice, and the Commission said that its preferred way forward would be the negotiation of agreements on this issue at cross-industry or sectoral level. After some months of discussions, in June 2003 the EU cross-sector social partners were successful in negotiating a joint text on managing change and its social

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The joint text was the result of negotiations based on consideration of 10 case studies of restructuring around the EU (seven large companies: Norsk Hydro, Danone, Marzotto, Deutsche Telekom, Barclays Bank, Siemens and Metso; two SMEs: Auwera and Abeil; and the revitalisation of the Asturias region in Spain).

The statement stresses that it is ‘essential’ for management to ‘explain and give the reasons for change in good time to workers and/or their representatives in the company concerned by setting out the company’s overall strategy’. It also stresses that it is important to allow workers and their representatives an opportunity to make their views known.

The statement also emphasises:

- the importance of maintaining and developing workers’ competencies and qualifications in order to foster internal and external mobility and employability;
- the need for concerted action by a range of key agencies, including the public authorities, when economic and social changes affect an entire region or locality; and
- the issues that arise specifically in relation to SMEs.

It states further that all possible alternatives to dismissal should be explored, such as:

- reassignment;
- training;
- ‘reconversion’;
- support for business creation;
- an agreement to diversify forms of work and employment and/or suspend or adapt some benefits on a temporary basis;
- personalised worker support; and
- ‘natural departures, notably through retirement or, as a last resort, early retirement’.

It should be emphasised that this text is not an agreement with binding legal force, but rather sets out guidelines to be followed to ensure successful change management, based on the lessons that the EU-level social partners learned from the case studies that they analysed. Commentators have noted that,

given that the text is intended as guidance only, without constituting a code of practice, its practical impact is potentially limited. However, it should be remembered that this is a politically sensitive topic and that any joint text between employer and trade union representatives at EU level needs to be acceptable to all signatory parties.10

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The European Commission instituted its second phase of consultation of the European social partners in March 2005 with a Communication on restructuring and employment, in which it called on social partners to become more involved in the ways and means of anticipating and managing change, within the context of setting out the role of the European Union in anticipating and accompanying restructuring in order to develop employment.\(^{11}\) No joint response on this was given to the Commission by the European social partners, although they have continued their work on restructuring in the ensuing years.

The Communication also provided for the setting up of a restructuring forum at EU level. This forum has met a number of times since its creation in 2005, covering topics such as anticipating change, restructuring in the automotive industry, restructuring in SMEs and anticipating change in the defence industry.\(^{12}\)

Furthermore, the EU-level and national social partners have an ongoing programme of work examining the issue of restructuring. One of their most recent activities was a joint seminar in June 2008 to exchange views on the role of the social partners in restructuring. Discussions were held on themes related to restructuring processes, such as flexibility and security, developing a shared diagnosis and agenda, and dealing with current and future skills needs.

Given the statistics issued by the EMCC on the ongoing waves of restructuring and job losses, and the likelihood of more restructuring in the current difficult economic climate, it would seem clear that enterprise restructuring is part of normal business life in the EU rather than a one-off event, particularly in some of the older, comparatively higher-wage EU member states.

Where jobs are lost to restructuring, the impact is felt not only by the individuals involved, but also by the local community, particularly if the restructuring has been undertaken by a major employer in a locality. It is therefore vital that support is available to employers to help them to manage restructuring in a way that has as little negative impact as possible.


\(^{12}\) More details on these forums can be found at: [http://ec.europa.eu/employment_social/restructuring/forum_en.htm](http://ec.europa.eu/employment_social/restructuring/forum_en.htm).
Sectoral Initiatives

The sectoral social dialogue at European level has resulted in a number of sector-specific initiatives in response to particular issues and problems. Here, initiatives relating to the energy, manufacturing and transport sectors are presented.

Energy Sector

In the electricity sector, in September 2002 the sectoral social partners, EMCEF (European Mine, Chemicals and Energy Workers Federation), EPSU (European Federation of Public Service Unions) and EUROELECTRIC (Union of the Electricity Industry), organised a conference on the social implications of restructuring in the electricity sector in the – at that time – EU candidate countries and adopted a joint statement on the issue. In 2003, they set up three workshops – in Prague, Bucharest and Tallinn – on the social implications of the internal electricity market. They also adopted a declaration on future skills needs in the sector in 2004. Most recently, in 2008 a toolkit was developed to help the social partners in this sector to manage restructuring.13

In the mining sector, in April 2004 EMCEF, with the support of the European mining employers’ organisations, organised a conference entitled ‘Which information and consultation on the future of mines in Europe: a social challenge’ [sic]. One of the topics dealt with was good practice in restructuring.

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Manufacturing

The automotive sector has played a key role in European manufacturing for many decades. In recent years, however, it has undergone a transformation as a result of a mixture of factors, such as market trends, international competition, technological innovation and regulatory changes. This transformation has entailed significant enterprise restructuring in many countries. The sectoral social partners at EU level, supported by the European Commission, have been active in trying to engage with the issue of how to manage restructuring in the automotive sector. In October 2007, a meeting of the EU restructuring forum was dedicated to this sector.

At this meeting, the sectoral social partners – the European Automobile Manufacturers Association (ACEA), the European Association of Automotive Suppliers (CLEPA) and the European Metalworkers Federation (EMF) – launched a joint statement entitled ‘The challenges of the automotive industry – towards a European partnership for the anticipation of change’, in which they stated their wish to launch and develop, together with the European Commission, a ‘European partnership for the anticipation of change in the automotive sector’ aimed at maintaining and strengthening the competitive position of EU automotive companies, creating quality jobs and reinforcing the employability of workers in the sector. They state further that mutual trust, innovation, investment in human resources and policy coordination are vital but will only succeed in ensuring the adaptation of the industry in a sound economic and social environment if they are supported by specific, tailor-made mechanisms and practices of anticipation, preparation and management of change and restructuring at all levels (EU, national, regional and company level).

The Transport Sector

Road Transport Sector

The road transport sector has grown significantly over the past few decades. There has been an informal social dialogue in this sector at European level since 1965 and a social dialogue committee was formally created in 1999. The EU-level social partners in this sector are the European Transport Workers’ Federation (ETF) for employees and the International Road Union (IRU) for employers.

Rail sector

The EU sectoral social partners in the rail sector have an active social dialogue. These social partners are the European Transport Workers’ Federation (ETF) for employees and the Community of European Railway and Infrastructure Companies (CER) and European Rail Infrastructure Managers (EIM) for employers. The rail sector has been in decline for the past

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three decades, mostly due to increased competition from the road haulage sector and longer haulage delivery times due to a focus on passenger transport. Rail organisations in individual countries around Europe have experienced significant change over the past few decades, largely due to restructuring and full or part privatisation. In countries such as Serbia, restructuring of the country’s rail sector has taken place in the past few years and is included in the annex as a case study.

In response to the high levels of restructuring being implemented in national rail organisations across Europe, in 2001 the social partners in this sector published a report on employability and how the skills and competences of the rail sector workforce need to adapt to the new realities ushered in by the changing environment. This report was carried out on the basis of surveys conducted among European rail organisations, such as SNCF (France), Deutsche Bahn (Germany), FS (Italy) and RENFE (Spain). The social partners have also been active in responding to the European Commission’s Communications on liberalising the rail sector in the EU, focusing on trying to anticipate the social consequences of the restructuring that this would entail. Particular focus areas have been health and safety and training in order to ensure that workers have the requisite skills to work in a new, deregulated environment.
Restructuring in Eastern Europe and the Western Balkans

The countries of Eastern Europe and the Western Balkans have undergone a transformation over the past two decades, moving from planned economies, in which industries were wholly state-owned, to market economies featuring privatised industries and the encouragement of entrepreneurship. Although the countries of Eastern Europe and the Western Balkans have individual histories and economic and labour market conditions, the restructuring of these economies has largely been through privatisation. This process has been followed on an ad hoc rather than a methodical basis, resulting in the privatisation of some industries and the part-privatisation of others; in some cases, the privatisation process is not yet complete. There are also differences between the countries in terms of EU status. For example, the Czech Republic, Slovakia and Slovenia are already EU member states, and Croatia has the status of candidate country, while the remaining three countries in this study have potential candidate status.

Social dialogue is still underdeveloped in many of these countries, in comparison with western European countries, due to fragmentation among employers’ organisations and trade unions and relatively weak organisational capacities. Over the past two decades trade unions have suffered a decline in membership overall in the countries of Eastern Europe and the Western Balkans; the driving factors include the legacy of the former system of compulsory trade union membership, the effects of industrial restructuring, leading to a rise in unemployment, undeclared labour and a shift to employment in small enterprises.

Employers’ organisations in the region have a tendency to be fragmented and divided, due to the fact that, while there is still a high proportion of state-owned companies and employment in the public sector, SMEs are the main promoters of new and independent employers’ organisations. The presence of foreign investment can further disrupt national social dialogue as it usually introduces a different industrial relations culture that stands apart from national custom and practice.

Looking at the countries in this study on an individual basis, although the experiences of the past two decades have been broadly similar, there are a number of differences in national situations. In Croatia, for example, the economy is now stable, following restructuring and privatisation, although there are some concerns over the national debt and inefficient public administration.
Croatia has candidate status and is expected to join the EU in the medium term. The country’s transport, shipbuilding and metalworking industries are expected to undergo transformation and restructuring before EU accession, not least in terms of a reduction in the state aid awarded them. The restructuring of the shipbuilding industry is the focus of the Croatian case study in the annex to these guidelines.

The Czech Republic has been an EU member state since 2004. In common with other eastern European countries, the Czech economy underwent a transformation from the early 1990s as it moved from a centrally planned to a free market economy. Significant privatisation and restructuring initiatives took place throughout the 1990s, particularly in the country’s manufacturing sector. GDP has been growing strongly since 2002, reaching 6.1 per cent in 2006. The country has also benefitted from a high level of foreign direct investment, particularly in the automotive industry. Although unemployment rose considerably during the 1990s, the rate has been falling over the past eight years. The Czech case study in the annex to these guidelines examines the restructuring that took place in the country’s steel sector.

Montenegro has undergone significant changes since the early 1990s and has experienced upheavals in its social and economic situation. Many companies found it difficult to adjust to economic reform and there were many bankruptcies. This led to a rise in unemployment and mobilisation on the part of trade unions in an attempt to devise strategies to deal with restructuring in a socially responsible way. The example of the privatisation of Jugopetrol is contained in the annex to these guidelines.

The Serbian economy has been undergoing transformation and privatisation since the early 1990s in an attempt to increase competitiveness. The process has been slower than originally expected, however, and is still not completed. Furthermore, the process has not been as satisfactory as had been hoped in terms of generating viable new, private-sector concerns. The restructuring has had a significant effect on employment, and a range of measures have been put into place in an attempt to deal with this, usually with state backing. The Serbian case study in the annex to these guidelines looks at restructuring at the copper manufacturing group RTB Bor.

Restructuring in Slovakia began during the early 1990s, in common with other eastern European countries. At the beginning of the transition, the country’s economy was characterised by the predominance of heavy industry, a low rate of finished goods and a high rate of semi-finished products and weapons. The privatisation process included a high level of workforce restructuring, although this was backed up by social dialogue and collective bargaining and a range of government-sponsored active labour market measures. At the end of the restructuring, the car industry dominated the engineering sector, accounting for more than 60 per cent of production, and it is now almost exclusively export-oriented. There is now almost no military production and the sector has benefitted from significant foreign direct investment, particularly in the car industry, from Western multinationals such as Volkswagen and Peugeot. Slovakia has
been an EU member state since 2004. The Slovakian case study in the annex to these guidelines examines restructuring in the mechanical engineering sector.

In Slovenia, the first collective dismissals were effected at the beginning of the 1990s and the economy went into transition due to the disintegration of the former Yugoslavia. The country’s production output and overall employment contracted considerably in the early 1990s. However, a wide range of active labour market measures were implemented to mitigate the social effects of unemployment, and these programmes have had considerable success. These measures are detailed in these Guidelines and in the Slovenian case study contained in the annex. Slovenia has been an EU member state since 2004.

It is therefore timely to take stock of the progress made so far in the restructuring of the economies of Eastern Europe and the Western Balkans. The next part of these Guidelines looks in more detail at the elements that comprise socially responsible restructuring, with reference to case study examples drawn from eastern European and western Balkan countries.
The Role of Social Dialogue

In this section we explore the types of social dialogue arrangements that can have an impact on restructuring, at national, sectoral and company level. At all the levels of social dialogue discussed below, the success factors for successful dialogue include elements such as good relations and mutual trust, the holding of regular meetings and a willingness to engage, on both sides.

It should also be emphasised that all these levels of social dialogue are interlinked and can all play a role in restructuring: for example, a framework of reference can be set at national and/or sectoral level, and the detailed implementation of measures can then be negotiated at company level.

National-level Social Dialogue

Structures facilitating social dialogue at national level exist in many countries around Europe. For example, economic and social councils (ESCs), which are a general platform for tripartite social dialogue, are in place in all western Balkan countries. However, the creation of ESCs is relatively recent – the oldest was established in Croatia in 1993 – and their role and influence vary considerably from country to country, with some not functioning in any practical sense, while others are involved in negotiation and consultation procedures. Furthermore, the social partners are frequently involved in tripartite management or the boards of public employment services.

As many packages aimed at managing restructuring contain elements related to the employability of workers, training and help with finding alternative employment, national-level social dialogue can play a role in putting these arrangements into place and involving national bodies and authorities as appropriate.

In cases in which a restructuring event potentially involves major job losses, social dialogue at national level can be particularly valuable. For example, in the case study of restructuring in the Czech steel sector, it is reported that the tripartite dialogue between employers, trade
unions, the Czech Ministry of Industry and Trade, the Czech Ministry of Labour and Social Affairs and local employment agencies in the North Moravia region, where the restructuring was taking place, was extremely important in ensuring its smooth running. This dialogue took place at national and regional level and a consultative team was put in place in 2000, consisting of representatives of the Czech government, trade unions, employers and employment bodies. This team meets regularly to discuss issues related to steel sector restructuring: it has held over 50 meetings since its creation. It developed a social support programme to accompany the restructuring, aimed at alleviating social problems connected to redundancies.

Particularly useful for the social partners at national level is the setting up of systems providing early warning of possible restructuring. These systems can be implemented at regional or local level, but it is helpful to have a national-level framework that underpins such activities. It is also helpful if support structures can be put into place in advance of redundancies. At the copper manufacturing group RTB Bor in Serbia, for example, a Centre for Transition of Employees RTB Bor was set up in 2005 in order to support those likely to be made redundant and their families. The Centre was created by the managing director of RTB Bor, in collaboration with the Serbian Ministry of Labour, Employment and Social Policy. The aim was to support the 8,500 workers threatened with redundancy and to help workers who had been made redundant during the previous downsizing in 2002. It had a specialist team made up of a range of experts and trade union representatives, which provided support in the form of a range of training programmes and training on how to set up new businesses, in collaboration with the National Employment Service.

Sector-level Social Dialogue

While restructuring is a whole-economy phenomenon, certain sectors are more susceptible to restructuring than others. This applies particularly to manufacturing sectors such as shipbuilding, the steel industry, the energy industry and motor manufacturing, and especially in the new EU member states, whose economies have undergone a transformation over the past two decades and former state-controlled industries have been or are in the process of being privatised. It is therefore useful for the sectoral social partners to set up structures enabling them to meet on a regular basis to talk about sector-specific issues and, if necessary, to discuss specific restructuring cases in their industry.

Social dialogue structures at sectoral level have been in place for many years in some countries and therefore tend to work well, as a high degree of trust has been built up between the main actors. In other countries, such as some of the newer EU member states and the candidate countries, social dialogue structures at sectoral level are not yet so well embedded.

Negotiations at sectoral level can also provide an important framework for the implementation of measures at company level.
Company-level Social Dialogue

Company-level social dialogue takes place between representatives of the employer and representatives of either the trade union established at that company or other types of employee representatives. Information and consultation of employee representatives at company level in situations likely to result in job losses is explicitly provided for by the EU Directives on collective redundancies and on European Works Councils (see above). Further requirements to inform and consult employee representatives on restructuring plans are contained in the EU Directive on national information and consultation and the EU Directive on acquired rights in the case of a business transfer.

It is at company level that detailed measures to manage restructuring are agreed. Where company-level negotiations are successful in helping to mitigate the social consequences of restructuring, both parties – employer and employees – must demonstrate a genuine willingness to engage in meaningful negotiations. In the case of the restructuring of Serbian railways, a dedicated team – the ‘team for managing change’ – was created at organisation level. This team had 10 members, made up of representatives of management, the relevant trade unions and the government. This team played an important role in explaining to employees the extent of the planned redundancies and how the organisation was planning to implement them. In the event, the restructuring was carried out with minimal social tension and virtually no negative publicity.
Role of the State and Other Institutions

The State

The state can play an important role in setting up early warning systems to predict which sectors or organisations might experience difficulties in the near future. However, the smooth running of these systems depends on the receipt of accurate information from organisations and from the social partners. In order to help early warning systems to function as efficiently as possible, employer and employee bodies should, wherever possible, furnish information on the financial and social situation of sectors and specific companies.

Once there is a definite restructuring situation, in order for measures to be negotiated and put into place as soon as possible, businesses should, if possible – and certainly if required by national law – inform and, if relevant, consult with relevant state or other public bodies.

In Slovenia, central government funds a series of work funds, which are private institutions operating across the country. These funds help to redeploy or improve the employability of workers who are faced with redundancy, thus helping them to avoid becoming unemployed. These funds also establish or strengthen connections between the social partners at local and regional level. The Slovenian government also has measures in place to help companies that are restructuring. In order to benefit from this aid, companies must prepare a restructuring strategy, which should include plans to manage redundancies and to put in place a training and education programme for redundant employees. The government makes state aid available in a variety of forms, including loans, reduced interest rates and delayed tax or social security contribution payments.

Central, regional and local governments can play a vital role in helping to implement restructuring measures. First, they have a role to play in providing the relevant funds to enable training to take place and to provide for the setting up of dedicated services to help redundant employees to find alternative employment. This can include career advice services, practical help with CVs, job search and guidance on interview techniques.
Second, the state can also play a valuable role in supporting social responsibility in restructuring through a range of active employment policies, usually working in collaboration with other bodies such as training and outplacement providers, and with the social partners. In Slovakia, for example, an employment fund was created in 1993 to provide support in a range of ways, including support for the employment of school leavers, the granting of state aid for the creation of ‘socially useful’ jobs, support for employers undergoing restructuring and support for the creation of jobs for people with disabilities.

**State Role in Regional Restructuring**

Many restructuring events are limited to particular regions, especially in areas where a major employer is planning to make significant job cuts. The danger is that the redundant workers will not be able to find alternative employment in the region, and that the job losses will have a knock-on effect on suppliers and other support businesses in the area. One successful example of regional-level social dialogue took place in 2004 in Italy, following the announcement by the heating components group Zoppas that it was to implement a significant number of redundancies in the Veneto region of northern Italy. However, following the conclusion of an agreement by the Veneto regional government, regional employers’ associations and the regional unions of the CGIL, CISL and UIL confederations, the number of redundancies was reduced from 620 to 417. The agreement also provided for two years of benefits from the Italian Wages Guarantee Fund (Cassa Integrazione Guadagni, CIG), an income support measure for firms affected by temporary or structural difficulties, which does not involve the dismissal of workers, and a financial incentive for voluntary redundancies. Furthermore, the redundant workers were assisted in their search for a new job by a support and counselling service, and local governments, with the backing of the employers and the trade unions, organised training and retraining courses for the workers affected by the reorganisation process in order to equip them with supplementary skills.

The state often plays a significant role in the restructuring of former state-owned organisations, which often affects a particular region. For example, government support was important in the restructuring in the Czech steel sector, as this affected the region of Moravia and Silesia, where the steel industry was a major employer. The Czech government issued a decree authorising a range of social support measures, contained in a social support programme based on a plan devised by a tripartite committee. These measures included state financial support to finance severance payments, training measures and encouraging employees to start up their own businesses. The government also implemented a regional development programme designed to stimulate the creation of new jobs in the regions affected by restructuring.

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Other Public Bodies

Some countries have standing structures to help workers facing redundancy. In Germany, for example, companies in economic difficulties may temporarily put employees on short-time working in order to help the organisation though a difficult period and to avoid redundancies. The Federal Employment Service provides part of the pay lost by employees as a result of short-time working. This measure may also be used by employers if there is a threat of collective redundancies and the reduction in working time need not be temporary. In this case, the employees affected are transferred, on a fixed-term contract, to another corporate entity, usually termed an ‘employment’ or ‘training’ company (Beschäftigungs- und Qualifizierungsgesellschaft) – also often referred to as a ‘transfer’ company (Transfergesellschaft) – which then functions as the employer. During the period that the workers are transferred in this way, they received short-term pay from the Federal Employment Service, which is broadly equivalent to unemployment benefit. Some sector-level collective agreements oblige the employer to top up these payments to a percentage of former net pay, usually 80 per cent.

After six months, the transfer company must implement training measures and measures designed to ease reintegration into the labour market. This system has advantages for both employer and employee. The employer can remove these employees from the payroll quickly without risking claims of unfair dismissal. The employees are not officially classed as unemployed and have the opportunity to use this time to improve their chances of finding another job, with help from the transfer company. At the end of their time in the transfer company, they have full entitlement to unemployment benefit.
The Role of Workforce Consultation

This section explores the role of workforce consultation, from the initial announcement of restructuring, through the information phase, consultation and, finally, negotiations with employee representatives.

Announcing the Restructuring

The first communication between the employer and the workforce is the announcement of the restructuring. This should be made as early as possible in order to give employees and their representatives good advance notice of the restructuring plans. Where employee representatives are present, best practice is to inform employee representatives prior to making a whole-workforce announcement. This indicates that the organisation is serious about working with employee representatives to find ways to manage the restructuring in a fashion that has as little negative impact on the workforce as possible.

Informing the Workforce

Informing the workforce about restructuring that is likely to have employment consequences is required by EU legislation on collective redundancies, the information and consultation Directive, the EWCs Directive and the acquired rights Directive (see above). The provisions of these Directives have been transposed into national legislation in the case of EU member states and form part of the body of law that candidate countries need to implement before joining the EU. National legislation in many other countries contains similar provisions.

In general, as much information as possible should be given to the workforce, ideally via representatives, so that as broad a picture of the situation as possible can be conveyed. If the employer imparts high quality information to the workforce in a timely way, this will help to gain the trust of the workforce and its ‘buy-in’ to the process of restructuring. If the workforce feels that it is being kept out of the loop and that the employer is withholding information, this is unlikely to foster good relations and smooth management of the restructuring, particularly if employment consequences are likely.
In the case of the restructuring of Tehnomont Shipyard in Croatia, for example, a number of information meetings were held with employees and their representatives, at which management sought to convey its vision for the future of the organisation and attempted to obtain the support of the workforce.

In-house bulletins can be used to good effect to inform the workforce of developments and decisions related to restructuring. This was the case with the restructuring of PE Serbian Railways, where the in-house magazine *Pruga* published a special bulletin containing questions and answers on aspects of the planned restructuring.

### Consulting the Workforce

Consultation of the workforce in a restructuring situation is explicitly provided for by EU legislation. The EU Directive on collective redundancies also notes that the consultation should take place ‘in good time and with a view to reaching an agreement’, implying that the consultation should be undertaken in good faith by the employer. As with the legislation on informing the workforce, EU member states have transposed EU legislation on consultation into national legislation.

Best practice is that employers should consult with their workforce on their restructuring plans in good time and in a way that enables meaningful dialogue between the employer and employee representatives. In practice, this means that while the overall aims of the restructuring may have been decided, the decision on how the restructuring should be implemented should be discussed and reached jointly between the employer and the employee representatives.

### Negotiations

Negotiations between employer and employee representatives on restructuring measures, which goes beyond information or consultation of employee representatives, are considered best practice as they give employee representatives an opportunity to influence the outcome of the restructuring.

In order to do this, employers should give as much information as possible to employee representatives, give them time to react to the information and then meet with them to engage in meaningful negotiations. It should be remembered, however, that certain information may be confidential and the employer will therefore not be able to share it with employee representatives.

These negotiations may involve an exchange of views and, if relevant, elements of bargaining. The negotiations should take place with a view to reaching agreement on issues that affect the workforce in a restructuring situation.
Negotiations between management and employee representatives – such as trade unions and works council members – can result in improved terms and conditions for redundant workers. This is particularly true in the case of severance pay. For example, in the case of the closure of the tobacco factory Tobačna d.d. Ljubljana in Slovenia in 2004, employee representatives negotiated redundancy payments that were higher than the legal minimum.

Intervention by workplace representatives can have a real impact on the final outcome of employer decisions to outsource or relocate production. In Germany, the 2007 WSI works council survey\(^\text{16}\) found that in around 20 per cent of establishments surveyed where relocation measures had been announced, the employer dropped the plan in the end. Furthermore, in around 17 per cent of cases the employer abandoned the plan to outsource. In over 50 per cent of the cases where the plans to relocate were revoked, the change was attributed to the works council’s intervention; the intervention of the works council accounted for over two thirds of the revoked plans for outsourcing. It was reported that in 58.9 per cent of cases in which relocation plans were abandoned, and in 45.8 per cent of cases in which outsourcing plans were abandoned, concessions on the part of works councils played a role.

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Measures to Lessen the Impact of the Restructuring

Ideally, a selection of measures to lessen the social impact of restructuring should be negotiated between employer and employee representatives. As a general rule, redundancies should be a last resort: a range of other options should be considered beforehand. This may have the effect of at least reducing the overall number of redundancies.

The following is a non-exhaustive list of the types of measures that could be negotiated and implemented in order to lessen the impact of restructuring.

**Reducing Non-core Staff**

One of the first options open to employers who are looking to restructure and reduce their workforce is to lay off their non-core employees, such as those on temporary and fixed-term contracts. At the French food group Danone, an agreement dating from May 1997 between the management and the International Union of Food Workers (Joint understanding in the event of changes in business activities affecting employment or working conditions17) – which is held to be a best-practice model – states that in the event of a need to reduce the workforce, saving permanent jobs should be considered the priority. Cut-backs should be made first among all other types of employment, such as temporary work and subcontracting. It is important to note that workers on temporary and fixed-term contracts suffer a lack of employment security compared with their counterparts on open-ended contracts. Therefore, while an individual employer’s obligation will be first and foremost to its core workforce, it should not be forgotten that temporary workers will be first in the firing line in a restructuring situation and that these workers will also need the help of measures designed to support alternative employment.

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17 See [http://www.iuf.org/cgi-bin/dbman/db.cgi?db=default&ww=1&uid=default&ID=164&view_records=1&en=1](http://www.iuf.org/cgi-bin/dbman/db.cgi?db=default&ww=1&uid=default&ID=164&view_records=1&en=1).
Often, the workforce can be reduced somewhat by ‘natural wastage’, that is, not replacing workers who leave the organisation for one reason or another, although this has limited effect in the case of collective redundancies. However, in the restructuring of the equipment and machinery company Goša in Serbia, it was possible to reduce the workforce by 305 by not filling vacancies.

**Introduction of Different Working Patterns**

Introducing different working patterns requires agreement between the employer and employee representatives – if present – as some elements, notably shorter working hours, will involve a reduction in pay. More flexible working is also likely to result in a fall in employees’ incomes through the loss of overtime payments. However, this type of measure has proved successful in halting restructuring measures such as overseas relocation of production.

There have been a number of cases in Germany, particularly during the late 1990s, where threatened relocation was halted following ‘concession bargaining’ and a subsequent agreement either on different forms of working or shorter working time, or longer working time with no extra pay. One recent agreement of this type was the accord at the electronics group Siemens in 2004, between company management and representatives of the German metalworking trade union IG Metall. This agreement increased the working week from 35 to 40 hours at two mobile phone plants, with no extra pay for the workers involved, in order to prevent the company from relocating production. Two months prior to the agreement, Siemens management had announced its intention, if unions did not make concessions to reduce labour costs, to relocate at least 2,000 jobs from the two plants to Hungary. At the time, it was estimated that Hungarian production costs were 30 per cent lower than in Germany, due to significantly lower wages. A number of other companies at that time were engaged in negotiations with employee representatives on lengthening the working week in exchange for not making redundancies, including the components manufacturer Bosch and the German rail company Deutsche Bahn.

Trade unions are generally uncomfortable with these arrangements, often viewing them as a power play on the part of management, but recognise the real threat of relocation of production to places with lower labour costs as a key management tool to cut overall costs. They have successfully countered this strategy in some cases. In Germany, the trade unions were anxious to emphasise that the Siemens agreement reported above should not be taken as a precedent, but was a reaction to a particular set of circumstances.

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Measures to Lessen the Impact of the Restructuring

In Italy, too, a high-profile agreement on more flexible working arrangements in order to prevent relocation of production was agreed between management and trade union representatives at Siemens Vdo Automotive (part of the German-based multinational) in January 2005.\(^{19}\) The agreement introduces Sunday working as part of a move to operate plants on a continuous cycle of three eight-hour shifts. In return the company promised new investment and the recruitment of additional workers, while the working week was shortened from 35 to 32 hours. This agreement was viewed by commentators as innovative in the context of Italian industrial relations as it sought to increase competitiveness by innovation rather than relocation.

Temporary unpaid lay-offs, which are a way of shortening working time, can also play a part in cutting costs on a temporary basis. This measure is widespread in manufacturing and was used in the restructuring at PE Serbian Railways.

Cuts in Pay and/or Bonuses

Negotiated reductions in pay and bonuses, usually on a temporary basis, can be a way of avoiding or at least reducing planned redundancies. As with the negotiation of different forms of working, this can be a difficult issue for trade unions as it results in a worsening of terms and conditions for members, although this can be balanced against the threat of job losses.

There are some examples of multi-employer – that is, sectoral – downward wage flexibility, usually in response to a difficult economic situation affecting a particular sector. Usually, employer and employee representatives negotiate provisions that allow individual employers to award increases below sectorally-agreed rises, or provisions that allow employers to opt out from or delay sectorally-agreed increases. For example, in Germany payment of the 2007 wage increase negotiated in Germany’s metalworking sector was postponed for four months because of the economic situation.\(^{20}\) In the German chemical industry, the sectoral agreement contains an opening clause that allows for reductions in working time, with proportional wage reductions, explicitly in order to prevent relocation or to safeguard jobs. Furthermore, in the manufacturing sector in Greece, provision has been made for pay increases below those specified in national sectoral agreements in seven geographical areas that are grappling with problems of industrial decline and rising unemployment.

In terms of company-level downward pay flexibility, a European Foundation comparative survey on wage flexibility dating from 2008 notes that there are relatively few instances of individual companies implementing pay cuts:


Although in principle the outcomes of company wage negotiations are likely to reflect the economic conditions which companies face, reported instances of recent ‘downwards’ wage flexibility were limited and confined to manufacturing. In Estonia’s and Latvia’s manufacturing sectors, wage freezes or settlements below inflation were reported to have occurred among companies facing difficult economic conditions, but the companies concerned were not covered by collective bargaining.21

Internal Redeployment

In situations in which a large organisation announces restructuring involving the downsizing or closure of a specific facility, one option is to look at ways in which workers may be redeployed to other sites within the organisation. This has the benefit of allowing continuity of service and enabling workers to continue in jobs broadly similar to those they had before. However, there may be logistical difficulties, such as needing to move geographically. Nevertheless, many workers may find that internal redeployment is preferable to redundancy.

Enterprise restructuring can often involve the breaking up of a large organisation into smaller enterprises. This has been particularly common in the case of large and unprofitable former state-owned organisations. The creation of smaller and profitable enterprises creates an opportunity for workers to be redeployed. This was the case in the restructuring of the Tehnomont Shipyard in Croatia, where a number of subsidiary companies were set up in which the shipyard’s workforce was subsequently redeployed. This can work well in terms of giving employees more employment security, although it should be borne in mind that individuals may need support in terms of training and reskilling, and that some individuals may not be able to transfer to new activities.

The 1997 agreement at Danone states that, before any other measures are considered, the transfer of employees affected by the decisions to other positions within the companies of the Danone Group should be examined. It states further that, to the extent that it is feasible, jobs to which employees are transferred should be located in the same vicinity.

External Redeployment within the Sector and Outside the Sector

The external redeployment of redundant workers within or outside the sector can be a valuable tool in mitigating the impact of restructuring. However, this generally needs more external support than redeployment within a single organisation. In particular, regional and central government financial support is extremely valuable in underpinning retraining, reskilling and

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employability initiatives. In many countries, particularly those in which the manufacturing sector is being restructured in the context of transformation from a planned to a market economy, state financial aid is often available and can make a significant difference.

There are many examples from the case studies where this has helped workers to be redeployed either within the sector or more widely in the economy. In the case of PE Serbian Railways, for example, the government made more than €29 million available to help organisations facing redundancies. Although many of the labour market measures in this case were ‘passive’ measures that relied on severance payments, active measures included retraining and reskilling workshops for managers and executives, additional training programmes for unskilled workers and a range of training programmes, including targeted training for a known employer, more general labour market training, regional training programmes and programmes aimed at moving individuals into work following redundancy, in the case of administrative staff.

In Slovenia, the government provides financial support for individuals to move to a new locality in order to take up a new job, covering transport and removal expenses. However, in practice this entitlement is not usually taken up.

Private employment agencies can also play a part in helping to find jobs for redundant workers. In Slovenia, employers work with agencies such as Adecco, with the help of the Ministry of Labour, Family and Social Affairs: the agencies employ the redundant workers and lease them back to the employer. In this way, the employer is relieved of the risks and obligations deriving from labour legislation. When Slovenia’s largest paper manufacturer, Vipap Videm Krško d.d., closed its cellulose pulp unit in 2006, out of 141 employees, 116 were expected to find work elsewhere in the region.

Training and Other Measures to Increase Employability

Training is a vital tool in mitigating the social impact of restructuring. While it is generally important to ensure that workers have access to lifelong learning and upskilling in order to ensure employability in a changing world, it is particularly important to be able to equip workers faced with losing their jobs with the skills needed to find alternative employment. Training and employability-enhancing measures can take a range of forms. Some are provided by the employer and targeted at specific types of employee who hope to acquire specific skills. Others can be arranged on a sectoral basis, following agreement between the social partners at sectoral level. Training measures often involve an external training provider, which works in partnership with the employer. Local, regional or national government funding can also help, and is common in some countries. In the case of workers threatened with redundancy at the Zoppas heating components group in Italy (cited above), the regional government (Veneto) organised training courses with priority access for workers affected by the company crisis to equip them with skills demanded by other sectors, such as services, tourism and agriculture.
Furthermore, the 1997 agreement at Danone entitles employees affected by structural changes to appropriate training, either external or internal. The employee bears none of the training costs: the agreement states that ‘management shall see to it that employees are not required to incur expenses in connection with training. Any outlays in this connection are to be underwritten by management.’

Other examples of training provision can be drawn from the case studies in these Guidelines. For example, as part of restructuring at Tehnomont Shipyard in Croatia, the organisation set up an education centre, in cooperation with a local school, to equip people with the skills needed by the restructured organisations and in the shipbuilding industry more widely.

In the Czech Republic, the large-scale restructuring programme implemented in the steel sector at the beginning of this decade in the eastern region of Moravia and Silesia involved close cooperation with employment agencies. An Employment Agencies Programme, unique in the history of the Czech Republic, was drawn up and funded by the Ministry for Regional Development. External services to the regional employment agency were provided by a private consultancy and training firm. Between 2001 and 2006, a range of services were provided to workers threatened with redundancy, such as:

- individual company consultations with the relevant public bodies on how to prepare and implement measures to support the employability of workers made redundant due to restructuring, and of other workers without a job;
- coordination with employment offices and other institutions, including EU bodies, with a view to improving the employment rate in the region;
- regular meetings with employers in order to look for new job opportunities for redundant workers;
- consultancy and training services for personnel staff at the companies undergoing restructuring;
- consultancy and support in areas such as entrepreneurship and finding a new job, offered to workers being made redundant and other unemployed people recommended by labour offices;
- the financing of retraining and other training courses for redundant workers.

Training was a key element in supporting workers made redundant by the restructuring process at RTB Bor in Serbia. During the 12 months to mid-2007, 446 workers attended training programmes offered by the Centre for Transition of Employees RTB Bor, aimed at helping individuals to acquire new knowledge and skills, to retrain and to upgrade existing skills. A total of 21 training programmes ran during this time in areas such as information technology, traditional craft skills, modern craft skills and accounting. Subsequent surveys found that the knowledge gained by individuals as a result of these training programmes had been actively used by two thirds of attendees, one third found a job in the field for which they had been
training and one third in another field; moreover, three quarters of attendees were interested in continuing to attend training.

This Centre also offered training to the workers who remained at RTB Bor in order to update their skills. For example, several hundred workers did not have adequate qualifications for the jobs that they were carrying out, or the required knowledge to work with new technologies and equipment that has been or is being introduced for copper production and manufacturing. Here the organisation financed measures to develop skills in areas such as safety at work, environmental protection, drilling and mine supervision.

**Help with Job Search**

Helping employees who are to be made redundant to look for alternative employment is an important element in any package of measures designed to reduce the social impact of restructuring. Employers can aid individuals in the first instance by giving them time off to seek alternative employment. More active measures can also be implemented, either by the employer or by an external provider (outplacement activities). These can include help with CV design, interview technique and the search for appropriate employment. Such measures can make a real difference to the long-term outcomes of restructuring. For example, in 2000, when the Norwegian industrial group Norsk Hydro restructured its activities in France, Germany, Sweden and the UK (this company was one of the case studies underpinning the EU-level social partners’ joint text in 2003 – see above), intensive outplacement assistance and other assistance was provided so that 18 months later, only 12–15 per cent of the employees who had been made redundant were still out of work.

In the Czech Republic, a range of support services were provided to workers faced with redundancy as a result of restructuring in the steel sector, in order to help them find alternative employment. These services were provided by an external provider and financed by the government, and included:

- individual consultations to build up a profile of occupational experience and to register in an employment database;
- help and advice to determine future career progress;
- helping individuals to cope with contact with new employers and to prepare for job interviews;
- provision of information about job offers and help with developing job search skills;
- provision of a dedicated room with Internet access in order to undertake online job searches.
**Priority of Rehire**

Organisations implementing restructuring with redundancies may be experiencing only a temporary dip in fortunes and so be able to begin hiring staff again later on. It is therefore valuable to both the employer and redundant employees to guarantee the latter priority of rehire, should the organisation subsequently be able to expand its workforce. This provides employees with the prospect of future security and employers with potential employees with knowledge of and experience in the organisation, who can be more easily integrated than new workers.

**Support for Entrepreneurship**

Many employees faced with redundancy are keen to set up their own business and can become successful entrepreneurs given the right support and encouragement at the outset and in the short term. Organisations can offer help by providing entrepreneurial guidance, competency training, consulting, technological training and access to credit and financial support, either internally or externally.

This approach has had notable successes. For example, from 2001 to 2003, when Danone restructured its activities in Belgium, France, Hungary, Italy and the Netherlands, it provided assistance for the creation of new activities and the start up of companies. Further, recent data from Slovenia shows that 70% to 80% of new entrepreneurs that received the subsidy for self-employment are still in business after two years. During the restructuring of Tehnomont Shipyard in Croatia the organisation supported new business creation by former employees. This support included the leasing of intellectual and material resources on preferential terms, and offering administrative services, initially free of charge.

The support programme that accompanied the restructuring plan in the Czech steel sector also provided significant help to individuals wishing to start their own business. For example, a total of CZK 109 million was made available in the form of interest-free loans to support new entrepreneurs.

In Serbia, the restructuring at the motor manufacturing group Zastava included a support element for workers wishing to set up their own business. Such workers could apply for a publicly-funded start-up loan and a self-employment subsidy through the National Employment Service. Individuals were also entitled to expert assistance in the preparation of business plans and general training in entrepreneurship.

In Slovenia, the government views the promotion of self-employment as an important element of its active employment policy. It provides lump-sum non-repayable payments to individuals to help them set up a business after being made redundant, equal to four monthly minimum wages. This is intended to cover start-up expenses such as wages, social security contributions and payroll tax.
Investment in the Local Economy in Order to Help Regeneration

The local impact of restructuring at a major regional employer has already been mentioned and cannot be understated. Best practice cases of restructuring by large employers have involved a commitment on the part of the employer, usually in collaboration with the regional social partners and the regional authorities, to invest in the local area. This usually involves state aid designed to attract alternative employers to the locality. Often, the departing employer will make all or part of its former premises available for new employers.

The 1997 agreement at Danone makes explicit reference to support for the wider community in the event of restructuring. It states:

Management, aware of the economic repercussions for communities where jobs are being eliminated, shall propose to support efforts aimed at creating new jobs and stimulating economic development through measures designed to promote the development and growth of local firms. Such support may, if appropriate, be given jointly with local government authorities. It may consist of various measures, such as consulting services, market or feasibility studies and possibly financial assistance.

In the case of the restructuring programme in the Czech steel sector, significant attention was paid to the situation of the region in which the restructuring was taking place (Moravia and Silesia), as the steel industry was a significant employer in this area. The restructuring procedure resulted in a significant reduction in employment in the area. Therefore, the focus was not only on the situation of the workers made redundant due to restructuring, but also on coordinating activities with local employment offices and other bodies that might have a positive influence on the overall employment rate in the region.

In Slovenia, where redundancies might have a significant impact on the local environment public support events are sometimes provided on-site, with a number of agencies participating in a ‘one stop shop’.
Measures to Cushion the Impact of Redundancy

Where redundancies are inevitable, measures to try to soften the effects of redundancies should ideally be negotiated with employee representatives. These can include any of the measures presented below.

Downsizing Across the Sector

If possible, it is desirable to avoid closing entire plants, as this has a much more negative impact on a region than downsizing. This is particularly the case if an organisation is a major employer in an area and there is therefore little alternative employment. Plant closure in this case can devastate a region in employment terms, as it has an impact not only on the workers directly involved, but also on supplier and support companies.

There have in the past been examples of employee representatives influencing and ultimately reversing employer decisions on plant closures. One example is that of Danone: in May 2001, Danone agreed to suspend the planned closure of its Győr plant in Hungary, pending discussions with local and national Hungarian unions on the future of the plant. An IUF-appointed expert conducted a study on the situation in Hungary and was then able to submit a proposal for a ‘credible’ alternative to the company’s plan. The alternative plan aimed to keep the Győr plant open and save between 200 and 300 jobs at that site. The plan was ultimately accepted.22

Spreading Redundancies Evenly Across Countries

If a multinational business wishes to engage in restructuring, it is best for it to try to spread planned redundancies evenly across the countries in which it operates, rather than focusing on one country. This is an issue that can be, and has been, taken up by employee representatives at European Works Council level.

In 2001, when Danone announced the restructuring of its biscuit division, it implemented the process in accordance with the principles contained in the 1997 accord with the IUF. Accordingly, it made a commitment to support production in each country, and negotiated its plans with its European Works Council.

**Voluntary Severance**

Voluntary severance is seen as a relatively pain-free way to implement job cuts and was a key element of restructuring in the case studies contained in the annex to these guidelines. By attracting enough volunteers for severance, employers can often avoid compulsory redundancies altogether, which is also the ultimate aim for employee representatives. The main component of a voluntary severance package is the redundancy payment. In the majority of cases, there is a statutory or agreed minimum payment that acts as a floor to compensate workers who are losing their jobs. In the case of voluntary severance packages, the level of the severance payment is usually significantly above statutory or agreed minima, and usually linked to factors such as length of service and age. Employee representatives can play a significant role in negotiating the level of these severance payments.

Examples of negotiated severance payments are to be found in many case studies. For example, in the case of the Ormož Sugar Factory (Tovarna sladkorja Ormož d.d.) in Slovenia, closure was covered by the sectoral collective agreement in the food sector, which provides for severance payments of one month's pay per year of service. Furthermore, employer and employee representatives negotiated a 27 per cent increase in wages, which was then taken as the calculation basis for the severance payments.

In Montenegro, the privatisation of the oil group Jugopetrol in 2002 involved severance payments of between €550 and €2,000 to redundant workers, depending on length of service.

Although voluntary severance, accompanied by relatively generous severance payments, appears to be a win–win situation, there can be a downside. For the employer, it may be that the employees that are most valuable to the business decide to take the voluntary severance, and it can often be difficult for the employer to influence who stays and who decides to go. Typically, older, more experienced workers with longer service and therefore a right to high severance payments may choose to volunteer for severance. Ultimately, this may weaken the business from a skills, experience and expertise point of view. For the employee, the attraction of a lump sum is undeniable, although this can encourage individuals to think in the short term, rather than make career plans for the medium or long term.

For example, in the case of restructuring at a range of organisations in Serbia, severance payments were not high enough to enable individuals to start up their own business. Furthermore, it was reported that severance payments were largely spent on the acquisition of consumer goods rather than on actions linked to career planning. Subsequent research carried out in Serbia has
Measures to Cushion the Impact of Redundancy

shown that severance payments are relatively quickly spent, leaving employees in a difficult social situation – that is, with no job and without much money.

The case study of restructuring at PE Serbian Railways predominantly used severance payments and recognised that this was a passive rather than an active measure. However, it should be noted that many of the workers affected by redundancy were close to retirement or on relatively low incomes; in the latter case, severance payments were particularly meaningful for recipients.

Early Retirement

Early retirement can also be seen as a relatively painless way of reducing the workforce. If offers of early retirement are accompanied by relatively generous financial provisions, such as an enhanced or full pension, the offer is inevitably attractive to workers and therefore popular. Early retirement therefore often forms a significant component of restructuring packages. However, as with voluntary severance, an employer may find that the majority of workers over 50 leave the enterprise, taking with them significant amounts of skill and experience. This can create problems for the business in terms of a lack of mentors for younger employees. For the individuals who take early retirement, although this may seem like an advantageous option at first, they may then be inactive from the age of 50 onwards, which has severe implications in terms of demographics, the social security system and the informal labour market. Western European countries are already finding that the ageing population is putting a strain on state welfare systems that are based on pay-as-you-go principles. The EU is acting to address this, and one of the key targets of the EU’s Lisbon Strategy is to achieve an average EU labour market participation rate for older workers (aged 55–64) of 50 per cent by 2010. The current average labour market participation rate for workers aged 55–64 in the EU-27 is 44.7 per cent (2007 data), up from 36.8 per cent in 2000 (EU Labour Force Survey). The EU is advising national governments to discourage the use of early retirement and many countries have done so by reforming incentives to take early retirement.

On balance, it would seem that early retirement can be an extremely useful tool to mitigate the effects of restructuring if it is offered to individuals who are a few years away from retirement age. It is less positive, however, if it is offered more routinely to workers who are younger (such as those in their early 50s), who should have many more years of active labour market participation ahead of them.

In the case of the Czech steel industry, for example, early retirement was offered to individuals who were between two and three years away from retiring. Likewise, early retirement was offered to employees at PE Serbian Railways in Serbia who were up to two years from retirement age.
Best Practice and Lessons Learned

In this section we set out a range of best practice examples and lessons learned from the case studies in the annex to these Guidelines.

The Importance of Training and Development

It is clear from the case studies and from other case study examples of best practice in restructuring that training and skills development is key. Ideally, training should be offered on a lifelong basis, enabling workers to keep their skills up to date and to acquire new skills to keep pace with technological change. Targeted employability and skills development measures when an organisation is faced with restructuring are an important element of packages aimed at cushioning the impact of change.

In many cases, as illustrated by the case study of the Czech steel sector, working directly with training institutions can be extremely valuable in helping workers to gain the skills they need to maintain and enhance their employability. In the case of the Czech steel industry, the focus has been not only on technical skills, but also on ‘soft’ skills, such as creativity, communication, customer orientation, cooperation, diligence and loyalty. A programme on the development of soft skills has been developed in the Moravian and Silesian region, co-financed by the EU’s EQUAL programme.²³

Key Role for the State and the EU

It is also clear that the role of the state – and in many cases also of the EU – is crucial in helping specific sectors to restructure. In particular, former state-owned organisations need help in transforming into entities that can function on a commercial basis in a market economy. This help comes mainly in the form of financial aid, but can also take the form of help with setting up structures to lessen the impact of redundancies, such as outplacement measures. From an individual worker’s perspective, this can mean the secure transition from one type of employment to another. EU financial support in particular is crucial for organisations and sectors moving from state-owned to private and commercial status.

The Importance of a Coordinated Response

It is vital that all parties involved in restructuring are coordinated and work together. Employer and employee representatives must be able to work together in a climate of mutual trust, and good relations and involvement need to be established with state institutions, local and regional government, and external bodies, such as training providers.

Slovenia is a particularly good example of this. In response to the threat of major redundancies, all the relevant actors formed a coalition to deal with it. These actors include employers, the state employment service and local or regional office, work funds, trade unions, local authorities, development agencies, and central government departments and agencies.

Implementing Redundancy Management

Where workers are facing redundancy, there should be an awareness of what needs to be done and actions to implement this as early as possible. Ideally, plans and implementation procedures should be in place before the redundancies occur.

An organisation’s most precious assets are its human resources – in particular, good managers and skilled workers – and it is therefore imperative that they are not lost when restructuring takes place. This was one of the key lessons learned from restructuring at the Tehnomont Shipyard in Croatia. In order to achieve this, it is important to promote and safeguard the interests of both employees and management during the restructuring process. At this organisation, senior managers were given shares in the subsidiary companies created by the restructuring process, more junior managers were offered promotion and job security, and skilled workers benefitted from the work won by the new subsidiary companies.

In particular, it is important to engage the organisation’s managers in the change. It is indisputable that restructuring can be incredibly difficult, particularly if it involves transforming the way an organisation operates, as it has done in many of the case studies presented here. Getting
managers on board is a crucial factor in helping to ensure that the process goes smoothly. This means convincing them that the path of embracing change rather than clinging to former ways of organising work is the right one. This was a particular lesson learned from restructuring in Serbia.

For the employees affected by restructuring, the process of social dialogue can be as important as the outcome. If employees understand that restructuring is necessary, they will be more likely to buy in to the process. This entails effective communication on the part of the organisation. Furthermore, if employees feel that the process is fair, their voices have been heard and they have had an opportunity to provide real input, they will be more satisfied. If redundancies are involved, the selection process must be seen as fair and appropriate. Most organisations have set criteria for redundancy selection, based on elements such as length of service, whether workers have dependants, disability and general health.

**Working with External Organisations**

External expertise can work well. One of the lessons learned from restructuring at the Tehnomont Shipyard in Croatia was that it is extremely valuable to involve an external consulting company, which was able to provide good advice and solutions to problems as they arose. Although the external consulting firms used were small, their help was judged to be of ‘significant importance’.

**Tailoring the Interventions**

It is important to recognise that different sectors and organisations require different approaches and often tailored solutions. In Slovenia, for example, public bodies focus more on redundancies in sectors in which redundant workers have a lower level of employability than in other sectors. Therefore, attention is focused on sectors such as textiles, leather, shoemaking, timber and paper.

In some cases, it is important to act quickly to secure the future of an organisation. In Slovakia, for example, privatisation of organisations in the mechanical engineering industry was sometimes effected by management and employee buyouts. The World Bank noted that ‘the main objective of privatisation programmes should be the speedy transformation of ownership, not the selection of perfect owners’.

**Passive vs Active Measures**

Severance payments undoubtedly play an important role in mitigating the impact of redundancy. However, as we have seen, these are passive measures and do not actively help individuals to
find alternative employment. Severance payments can also encourage employees to think on a short-term basis rather than to engage in longer-term career planning. It is therefore vital that restructuring is accompanied as much as possible by active employment measures, such as retraining, upskilling and a range of measures to support job search. Nevertheless, engaging in more ‘active’ measures to cushion redundancy can be difficult, often because employees focus on severance payments. The evidence from Serbia shows that redundant workers were often insufficiently informed about active labour market measures and therefore showed little interest in them. Furthermore, although encouraging entrepreneurship is seen as positive, in reality it was often difficult for workers to obtain the initial capital to start their own business.

Looking after the Survivors

In an organisation that has recently undergone restructuring involving significant redundancies, the remaining workforce is likely to be in something like a state of shock. The ‘survivors’ may also feel guilty that they are still in employment while many of their friends and colleagues have been made redundant. It is important for organisations to recognise and deal with this. When the UK oil and petrochemical group BP announced significant restructuring involving redundancies at a site in the north of the UK in 2001, it recognised that the situation would be stressful for those staying with the organisation. It therefore organised training courses about the restructuring and helped to prepare line managers for one-to-one meetings with their staff, and for managing teams through transition. Issues covered included working with the tensions associated with an uncertain future, understanding low morale and motivation and how to increase focus and motivation. Managers were also shown how to recognise stress in their staff and how to try to reduce it. It is also best to implement restructuring as quickly as possible so as to reduce uncertainty for the remaining staff and to allow them to move on and adapt to a new situation as quickly as possible.

Looking to the Longer Term

It is vital for an employer to manage restructuring well, as the organisation will want to recruit again at some point in the future. If workers have had an untraumatic experience of restructuring, and may have even kept in contact with the organisation in some way despite being made redundant, they will be more willing to put themselves forward for recruitment in the future. Furthermore, the organisation will want to retain a good reputation in the community in which it operates, thus encouraging the children and acquaintances of former workers to consider applying for jobs in the organisation in future. Therefore, a well-managed restructuring process, accompanied by good community relations, is essential. This has been found to be the case particularly in the restructuring of the Czech steel sector, where organisations that just a few years ago made thousands of workers redundant are now recruiting hundreds of new workers.
In many cases, companies agree with trade unions on a social plan which guarantees the jobs of workers in the restructured organisation in the medium term. For example, in the restructuring of the equipment and machinery company Goša in Serbia, management and trade unions agreed on a plan that guaranteed no redundancies within three years of privatisation, in addition to pay increases, a range of social benefits, assistance with housing, adherence to collective agreements and recognition of trade union rights.

Linked to the idea of looking to the future, it is important to remember that for many organisations undergoing significant transformation – as many of these case study companies have – downsizing cannot be relied upon as an exclusive long-term strategy to increase competitiveness. Investment in skills is necessary and thought needs to be given to the working of the organisation as a whole, including modern production processes, if it is to survive in the long term in a competitive market.
Influence of Social Dialogue on Outcomes

Enterprise restructuring is a difficult and often traumatic process, although it can be argued – and this view is supported by the trade unions – that some element of restructuring is a necessary part of business life if an organisation is to remain competitive in a fast-changing global market. While no one would doubt that employers generally have the right to manage their business in the way they see fit, restructuring has an undeniable effect on the workforce and therefore it is advisable to involve employee representatives as much as possible if it is to go smoothly.

In a number of cases the social dialogue process has worked well in the context of restructuring and has had a real influence on the outcome. One example is Danone in Hungary, where consultation resulted in the reversal of a decision to close an entire plant. Other examples include trade unions in Germany preserving employment by negotiating working time cuts, with a proportionate loss of pay. It should be noted, however, that it is relatively easy to do this in Germany and to make up the wage loss in some other way, for example by dividing annual bonus payments into 12 instalments. In this way, workers do not suffer any loss of pay on a monthly basis.

Key elements that can ensure the influence of social dialogue are set out below:

- First, the structures for social dialogue must be in place, at whatever level the dialogue is to be carried out – national, regional, sectoral or company. Ideally, the structures will have enabled the parties to the social dialogue to have worked together already, on other issues. A restructuring situation constitutes a crisis: it is almost impossible to build structures and forge relationships during such a crisis; if restructuring is to be managed well, these structures should already be in place.

- A relationship of trust must be built up between the partners in order for the dialogue to take place in an atmosphere of good faith. Employers need to feel that they can engage meaningfully with employee representatives who will go some way towards understanding the needs of the business, and employee representatives need to feel that employers are conducting the dialogue in good faith and have not already decided the outcome.

- Social dialogue should take place at the appropriate level. If the dialogue is taking place in an organisation, it will usually take place at the highest level. It may be appropriate to involve
a European Works Council, if one exists, particularly if the restructuring is a transnational issue. While EWC representation is not the same as trade union representation in individual countries, EWCs can provide useful insights into developments around an organisation and allow the voices of a greater number of employees to be heard.

- Employees must believe that their representatives are acting fairly and in their best interests. Therefore, it is important that trade unions or employee representatives operate independently of the employer, but on a constructive basis. This is a difficult task, but it is vital to achieve this balance if the dialogue is to be effective.

- The process of social dialogue should be planned logically and fairly. Time should be given to allow employee representatives to digest and respond to information, and meetings should be planned in a logical way so as to ensure that the process takes place as smoothly as possible. Furthermore, adequate time off needs to be given to employee representatives to carry out their duties relating to the social dialogue on restructuring.

- The process of selecting for redundancies should be undertaken fairly and according to known criteria, in order to reassure the workforce – both those who are leaving the organisation and those who are staying – that procedural justice is being adhered to. In some cases, prior agreed or statutory procedures on redundancy selection will need to be followed.
Annex: The Case Studies

CROATIA: Restructuring in the Shipbuilding Sector

The Croatian shipbuilding sector operates in the global market and is entirely export-oriented. In terms of foreign trade, it is one of the most important sectors of Croatian industry, accounting for around 12 per cent of total exports. It concentrates on the manufacture of high-quality products. In 2007 the sector comprised seven large organisations, 14 medium-sized organisations and 352 small organisations. The bulk of the sector is state-owned.

Croatia is preparing for EU accession and it is acknowledged that many of the country’s industrial sectors, such as shipbuilding, ironworking and transport will have to undergo restructuring. State aid is an important factor in running the shipbuilding sector – it is estimated that aid to shipbuilding and to shipyards together accounts for around 22 per cent of state aid. This needs to be overhauled before EU entry in order to comply with EU rules governing state aid to industrial sectors.

Significant restructuring and job reductions in the sector have taken place over the past two decades. The number of workers in the shipbuilding industry decreased from 21,900 in 1990 to 15,440 in 2002 and further restructuring is expected under the national programme for the restructuring of the Croatian shipbuilding industry launched in 2005.

At the Tehnomont Shipyard in Pula, a restructuring plan was implemented between 1999 and 2003, following privatisation. Restructuring of the Tehnomont Group was considered necessary following a slump in the international freight carrier industry in 1997, which led to a crisis in the shipbuilding sector as a whole. The restructuring plan consisted of two main strands: (i) renting out infrastructure space and providing services to EU companies, particularly in Germany and Italy; and (ii) expanding its shipyard activities and setting up new business entities in Croatia. It was envisaged that this would involve a management buy-out and support for new business start-ups to skilled workers and managers.

The management of the shipyard held a series of meetings with the main stakeholders – the shipyard’s supervisory board, individual employees, trade unions, suppliers, subcontractors, financial institutions and representatives of local and county councils – in order to achieve
buy-in to the restructuring. Information sessions with employees were held, alongside contact through line management and face-to-face meetings.

In 2002, a number of subsidiary companies were set up and production activities transferred to them. Workers were also transferred to the new companies. Two new companies were established in Bosnia and Vojvodina. Support was provided to workers and managers for new business creation. Other services offered to employees wishing to start up their own businesses included provisions for leasing intellectual and material resources, and offering administrative services, initially free of charge. Tehnomont also opened a new education centre to provide education and training to workers in a range of skills needed in the shipbuilding sector, such as welding.

The shipyard is a major employer in the local area, and currently employs around 800 workers. It is made up of three companies: Tehnomont Shipyard ‘Pula’ Ltd, Tehnomont BMN Ltd and Marina Veruda Ltd. The core workforce comprises highly skilled male workers. A further 300 workers are employed by the companies created by the restructuring of the Tehnomont Group.

This case is viewed as a good example of restructuring in the context of significant economic transformation and high unemployment. It aimed not only to achieve economic aims in the short term, but also to create sustainable new business and retain the organisation’s experienced workers and managers.

Lessons learned from this case of restructuring include the fact that a crucial role was played by the organisation’s internal planning and management. Aware that the organisation’s most precious assets are its managers and skilled workers, steps were taken to ensure that these were not lost in the course of restructuring. This included making sure that the interests of employees and management were safeguarded by, for example, offering senior managers shares in the newly created subsidiary companies, giving junior managers promotion opportunities and job security, and allowing skilled workers to benefit from lucrative foreign contracts.

The role of external consulting companies was also key in this restructuring process. Although the shipyard used only small advisory firms, their help and expertise was judged to be vital.

Finally, achieving buy-in from stakeholders is a crucial element in ensuring a smooth restructuring process: at the outset, efforts were made to get all stakeholders to buy into it, and in particular individual workers. This was achieved through a series of meetings of all stakeholders and meetings with individual workers.
Annex: The Case Studies

CZECH REPUBLIC: Restructuring in the Steel Industry

Metallurgy and the iron and steel industries are among the traditional industries of the Czech economy. Steel production is regionally concentrated: more than three quarters of production capacity is situated in the Ostrava region (Moravia and Silesia). The first foreign investors entered the steel industry in the first half of the 1990s. At the outset, the Czech steel industry was characterised by lower levels of technology than in other European countries, a lower share of high-quality brands and lower labour productivity.

Restructuring in the steel industry was undertaken somewhat later than many industrial restructuring programmes, in 2000. A significant amount of state aid was allocated. One notable characteristic of this restructuring was that, due to the high regional concentration of the industry, the social effects of restructuring were recognised as a region-wide problem. As the Moravia-Silesia region hosted the steel industry, it was vulnerable to job losses in this sector. The unemployment rate has been as high as 16.4 per cent in this region, in 2004, compared with a national average of 9.9 per cent (the latest figures, relating to 31 October 2008, show a rate of 7.7 per cent in the region, compared with a national average of 5.2 per cent).

In order to implement restructuring, a consultative team was set up in 2000, consisting of representatives from relevant ministries, trade unions, employment services and the human resource departments of large companies. This team meets regularly to discuss problems linked to restructuring in the Czech steel industry – there have been over 50 meetings since 2000. The consultancy group devised an employment agencies programme to help workers facing redundancy. The programme was sponsored by the Ministry for Regional Development and run by a private consultancy and educational company (RPIC-ViP). It provided the following services between 2001 and 2006:

- individual company consultations with the relevant public bodies on how to prepare and implement measures to support the employability of both workers made redundant due to the restructuring, and other workers without a job;
- coordination of activities with employment offices and other institutions, including EU bodies, with a view to improving the employment rate in the region;
- regular meetings with employers in order to look for new job opportunities for redundant workers;
- consultancy and educational services for personnel staff in the companies undergoing restructuring;
- consultancy and support in areas such as entrepreneurship and finding a new job, offered to workers being made redundant and other unemployed people recommended by labour offices; and
- the financing of retraining and other training courses for redundant workers.
Furthermore, individual workers in the steel sector and other people in the Moravia-Silesia region were offered a range of outplacement services, as follows:

- individual consultations in order to build up a profile of occupational experience and to register in an employment database;
- help and advice concerning future career;
- help to individuals to cope with contact with new employers and to prepare for job interviews;
- provision of information about job offers and help with developing job search skills; and
- provision of a dedicated room with Internet access in order to undertake online job searches.

Between 2003 and 2005, 4,000 individuals had access to these services. Out of these, 1,161 embarked upon training courses, 1,439 found new jobs, 747 found new employment outside the steel industry and 373 found a job with their former employer. A total of 3,720 out of the 4,000 had therefore either found alternative employment or were engaged in training.

In addition, a programme on the development of ‘soft skills’, such as creativity, communication, customer orientation, cooperation, diligence and loyalty was developed in the Moravia-Silesia region, co-financed by the EU’s EQUAL programme.

The restructuring involved a significant reduction in the sector’s workforce, from 38,549 in 2001 to 23,780 by 2006. At present, three large producers – ArcelorMittal Ostrava, Třinecké Železárny and Vítkovice Steel – account for around 85 per cent of total production.

The lessons learned from this case study include the fact that, when restructuring takes place in an industry or organisation that is the main employer in a region, it is vital that care is taken to minimise the effects of redundancy and to support job creation across the whole region. Support and outplacement programmes in this case were offered not only to the workers made redundant by steel sector restructuring, but also more widely to unemployed people in the region.

Furthermore, it is crucial to remember that once restructuring has been carried out, an organisation will, at some point in the future, want to begin hiring again and will probably be looking at the same labour pool as before. It is therefore vital that the restructuring is handled well so that workers who have in the past been made redundant will want to work for the organisation once more, or will want to recommend the organisation as an employer to family and friends. The steel industry in the Czech Republic is now hiring new workers once more.
MONTENEGRO: Restructuring in the Oil Sector

Many sectors have undergone transformation in Montenegro over the past two decades. As a result of the social and economic upheaval that the country has experienced, many organisations have faced bankruptcy and the need to restructure in order to adjust to the new economic climate. Privatisation was deemed to be essential in many cases, and this has been realised with varying degrees of success. It is estimated that 85 per cent of organisations in Montenegro are now privatised and organisations in infrastructure, transportation, utilities and telecommunications are awaiting privatisation. The scale of the restructuring has meant that many workers have faced redundancy and so the issue of how to restructure in a socially responsible way has been prominent in the debate. It is viewed as imperative by the Confederation of Trade Unions of Montenegro.

The Montenegran oil refining company Jugopetrol AD Kotor was privatised in the early part of this decade. At the outset, Jugopetrol had around 700 workers. A collective agreement was concluded between employer and trade union representatives before the privatisation process began, and was viewed as one of the best in the region. It contained the following provisions:

- a commitment not to implement redundancies over a period of five years;
- the setting up of a voluntary severance scheme;
- severance payments of up to 60 months’ pay.

The organisation was able to restructure and reduce its workforce and now has 450 full-time workers. It has been bought by the Greek oil refining company Hellenic Petroleum, which has acquired a 54 per cent stake. The five-year collective agreement expired and a new accord was negotiated between employer and trade union representatives and signed in March 2008. The provisions of this new agreement are not as advantageous as the 2002 agreement, although the agreement does contain a number of important guarantees:

- if the employer is considering making technological, economic or restructuring changes that involve workforce reduction, this must be announced to the trade union and the employment agency at least three months beforehand;
- workers made redundant are entitled to severance pay equivalent to 24 months’ pay;
- workers made redundant are entitled to reimbursement from the employer of €500 in lieu of holiday pay and a winter allowance;
- if employees take retirement, they are entitled to a payment equivalent to 10 months’ gross pay, calculated on the basis of earnings immediately prior to retirement, or equivalent to six months’ average gross pay across the economy, whichever is the greater;
- bonuses of between €550 and €2,000 will be paid to employees, depending on length of service;
employees are entitled to assistance from the employer in case of illness – this also applies to family members;

employees are also entitled to help from the employer in relation to housing-related issues.

This collective agreement is valid until the end of 2009.

SERBIA: Restructuring at the RTB Bor Group

The Serbian economy has undergone a series of intensive transitional reforms since the beginning of this decade. Between 2002 and 2008, a significant number of formerly state-owned enterprises were privatised. The country’s copper manufacturing and processing sector has been restructured, involving significant job losses. At the copper manufacturing group RTB Bor, 10 enterprises were separated out from the group as part of preparation for privatisation in 2002. A social plan was put into place, under which 3,293 workers took voluntary severance, with a payment of DM 200 per year of service.

Restructuring of the remaining parts of the group was initiated in 2004, and during 2005 preparations were made for the redundancy of a further 8,500 employees. A Centre for Transition of Employees RTB Bor was set up in 2005 in advance of any redundancies in order to support those likely to be made redundant and their families. The Centre was created by the managing director of RTB Bor, in collaboration with the Serbian Ministry of Labour, Employment and Social Policy. The aim was to support the 8,500 workers threatened with redundancy and to help workers who had been made redundant during the previous downsizing in 2002. The group put into place a team made up of a range of experts and trade union representatives, which provided support in the form of training programmes and training on how to set up a new business, in collaboration with Serbia’s National Employment Service.

The redundancy plan was launched in 2006, beginning with calls for voluntary redundancies.

Although economic conditions were not favourable during 2007 and 2008, there was good support from RTB Bor management and trade unions, and good collaboration with the National Employment Service branch in Bor. There was also cooperation with education and training bodies.

The Centre created a database on the employees who had left RTB Bor. It has data on 940 individuals who took redundancy before the end of 2006, and has also collected data on those who subsequently found alternative employment or who were given funds to set up their own businesses. Around 100 individuals have set up as entrepreneurs.

In total, it is estimated that 3,500 individuals benefitted from the work of the Centre, the majority of whom were interested in training programmes.
Overall, over the 12-month period from mid-2006 to mid-2007, 446 individuals participated in 21 different kinds of training, such as information technology, a range of craft skills and accountancy.

Subsequent surveys found that the knowledge gained by individuals as a result of these training programmes has been actively used by two thirds of attendees, one third found a job in the field for which they had been training and one third in another field; three quarters of attendees were interested in continuing to attend training. The Centre was deemed to be a success, especially as RTB Bor is the main employer in the region.

The Centre keeps in contact with redundant employees and has been collecting their views on new training programmes. It has 420 requests for training, mostly in the fields of ecology, accounting, a range of service functions and construction.

The Centre also offered training to the workers who remained at RTB Bor, in order to update their skills. For example, several hundred workers did not have adequate qualifications for the jobs they were performing, or the knowledge required to work with new technologies and equipment that has been or is being introduced for copper production and manufacturing. Here, the organisation financed measures to develop skills in areas such as safety at work, environmental protection, drilling and mine supervision.

The lessons learned from the Serbian case study data include the fact that severance payments are always a popular option for employees and in some cases for management as well. However, severance payments are a short-term solution and are quickly spent, leaving individuals in an uncertain situation. Therefore, there should be a rethink of reliance on such ‘passive’ labour market measures.

It is, however, difficult to implement more active labour market measures in practice. In particular, individuals are reluctant to become self-employed, due to a lack of capital, expensive bank loans and a broad unwillingness to take risks. Furthermore, many redundant employees appear to be insufficiently informed about active labour market measures, which would explain the lack of interest in them.

Nevertheless, the Centre for Transition of Employees created at RTB Bor contributed significantly to the implementation of active labour market measures such as training and help with job search. More involvement of the National Employment Service would help in the promotion and implementation of active labour market measures, which would enable employees to acquire additional knowledge and skills in order to find alternative employment.
SLOVAKIA: Restructuring in the Mechanical Engineering Sector

The process of restructuring and privatisation in Slovakia began in 1990. At the beginning of that decade, few measures were available to help organisations with restructuring, and privatisation was mainly effected through a voucher system from 1991 to 1993, which gave preference to domestic owners.

The formal social dialogue process began in Slovakia in 1990, and a tripartite body was established in 1991. A review of the basic legislation on social dialogue was carried out between 1990 and 1992. There are two levels of collective bargaining in Slovakia – the sectoral level and the company level. It is estimated that there are 38 collective agreements at sectoral level and some 3,500 at company level. However, overall, coverage by collective agreement is estimated to be lower than 30 per cent.

The mechanical engineering industry in Slovakia was characterised at the outset by heavy industry, a low rate of finished goods and a high rate of semi-finished products and weapons. It had around 200,000 employees out of a national workforce of 2.5 million.

The sector underwent significant privatisation and restructuring at the beginning of the 1990s, shedding more than 50 per cent of its workforce. However, the social partners were actively involved in the restructuring process and in the discussion on ways of managing workforce reduction. Until 1993, the main measure used to mitigate the consequences of downsizing was social assistance to the unemployed. However, an employment fund was created by the state in 2003, under which a range of new support measures was made available, including an array of financial aid measures and support programmes for workers:

- state aid for the creation of socially useful jobs;
- support for employment in public works;
- support for the employment of school leavers;
- support to help employers with job creation;
- support for the creation of jobs for workers with disabilities.

At the end of the restructuring, the car industry dominated the sector, accounting for more than 60 per cent of production, and it is now almost exclusively export-oriented (around 90 per cent of production). There is now almost no military production and the sector’s workforce has been halved to 100,000, out of a total workforce of 2.15 million. The sector has benefitted from significant foreign direct investment, particularly in the car industry, from multinationals such as Volkswagen and Peugeot. Although the sector’s workforce has been halved, productivity has increased dramatically. Some examples of workforce downsizing at company level are presented in Table 1.
Table 1

<table>
<thead>
<tr>
<th>Company</th>
<th>Sector</th>
<th>Number of Workers</th>
<th>1991</th>
<th>1996</th>
<th>% change</th>
</tr>
</thead>
<tbody>
<tr>
<td>BAZ Car components</td>
<td>1,547 646 –58.2</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>MEZ Michalovce Electrical engines</td>
<td>770 301 –60.9</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Drôtovňa Steel tyre cords</td>
<td>3,145 1,432 –54.5</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CSM Tisovec Military trucks</td>
<td>1,419 641 –54.8</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ZŤS Krupina Skid steer loaders</td>
<td>529 440 –16.8</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Meopta Overhead projectors</td>
<td>592 382 –35.5</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>PPS Detva Military trucks</td>
<td>4,100 1,754 –57.2</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tatravogónka Poprad Freight wagons</td>
<td>3,461 2,017 –41.7</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ŽŤS Martin Military trucks</td>
<td>6,300 4,213 –33.1</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The restructuring of the mechanical engineering sector in Slovakia is deemed to have been a success. The World Bank has noted that privatisation to insiders through management–employee buy-outs has not hampered restructuring as the new owners (the former managers) have invested heavily in new technology, laid off a substantial part of their workforce, sought foreign partnerships and have been prepared to sell controlling stakes to outsiders in return for fresh financial resources. The World Bank notes further that the evidence also suggests that the mass privatisation programme in the industry did not result in weak corporate governance since it was followed by a rapid consolidation of ownership. It also notes that the main objective of privatisation programmes should be ‘the speedy transformation of ownership, not the selection of perfect owners’.

One of the lessons to be learned from restructuring in Slovakia is that the ground should be prepared thoroughly beforehand. This means that an evaluation of the situation needs to take place, suitable alternative employment must be identified and a restructuring programme must be drawn up and implemented, including how to manage redundant workers and how to reskill and increase the employability of workers. All of this should be undertaken within the context of solid social dialogue and active relationships between the parties involved.

**SLOVENIA: Restructuring in Manufacturing Industry**

The restructuring of Slovenia’s manufacturing sector began in the early 1990s, alongside restructuring of the national economy. Restructuring involved significant redundancies and a contraction of production. By the mid-1990s, technological development and globalisation added pressure to organisations to restructure. By 2006, there were 6,895 companies in the
Slovenian manufacturing sector, accounting for 15.4 per cent of the total number of companies in the country. A total of 343 of these were wholly or partly foreign-owned.

The number of workers in the manufacturing sector in Slovenia has continued to decline, from 240,091 in 1997 to 227,924 by 2006, according to the Statistical Office of the Republic of Slovenia. The most significant decreases have been in oil production, textiles and textile products.

Slovenia has an active employment policy encompassing a number of programmes. Under its policy programme for 2007–2013 a range of measures are offered to individuals who lose their jobs as a result of restructuring. These include the following:

- Advice and guidance on career and training options. Upon registering with the Employment Service, individuals have access to a range of consultations at which advice is given on their future career direction and training needs and wishes.
- Workshops and job clubs on how to prepare for job interviews. These can range from a few days to three months.
- Free or subsidised training and retraining programmes. The content of these programmes will vary according to individuals’ needs and competencies. Training and education providers are selected by public tender.
- Subsidies to promote self-employment, consisting of a payment equivalent to four months’ minimum wages. This payment is usually granted in the form of a lump sum and the individual does not have to repay it. It is intended to give initial help with costs such as wages, social security contributions and payroll tax.
- Financial support for relocation in order to take up a new job. Individuals have a statutory right to compensation for transport and removal expenses as long as they meet certain criteria. In practice, however, this entitlement is rarely taken up.
- Work funds, which are designed to improve the employability of workers threatened with redundancy. These are private institutions financed by central government. They try to improve employability with the aim of preventing people from falling into unemployment. They cooperate with local and regional bodies and establish and strengthen connections between the social partners. All participants in work fund programmes attend a standardised workshop at which they prepare an individual employment plan.

One of the main distinguishing features of how restructuring involving redundancies is managed in Slovenia is the inclusion of all stakeholders in the process. Thus, coordinated action takes place involving the country’s Employment Service, work funds, trade unions, company management, local authorities, development agencies, and central government departments and agencies. This action takes place at all phases of the restructuring process and also helps to create new employment. In some cases, employers have used private employment agencies, working with the Ministry of Labour, Family and Social Affairs, to employ redundant workers and lease them back to the employer.
Annex: The Case Studies

In the case of Slovenia’s largest paper manufacturer, Videm Krško d.d., the company closed its cellulose pulp unit in 2006 for environmental reasons, following a significant increase in taxes on pollution from production. A total of 366 jobs were lost. Of these, 191 were workers on permanent contracts who were made redundant and a further 34 contracts were terminated. For the remaining 141 employees, 116 were expected to find work elsewhere in the region. The town of Krško therefore faced a net loss of approximately 250 jobs.

A further interesting case in Slovenia is that of the Ormož Sugar Factory (Tovarna sladkorja Ormož d.d.), which was closed following changes in EU regulation of the sugar market. The EU offered a total of €22 million as compensation and this money was partly used to finance redundancy payments. Employee representatives and the factory’s management agreed on severance payments of one month’s pay per year of service, which is higher than the statutory minimum of up to half a month’s pay per year of service, depending on length of service. Furthermore, employer and employee representatives negotiated a 27 per cent increase in existing wages, which was then taken as the calculation basis for the severance payments.

Lessons learned from the Slovenian examples include the fact that it is invaluable to involve all the main stakeholders in a coordinated way at all stages of restructuring. Furthermore, the importance of a statutory framework within which these actions can take place should not be underestimated. In Slovenia, there is a wide range of active labour market policies on which to draw, ranging from help with interview techniques to targeted training measures and measures to help individuals to set up their own business.

Western European Examples

In this section, we examine two examples of restructuring in Western Europe, taken from the European Monitoring Centre on Change.

FRANCE: Restructuring at Renault

Restructuring in the manufacturing sector in Western Europe is an ongoing process. This case study shows how the French car manufacturer Renault is managing significant job cuts at its Sandouville plant in Northern France.

In July 2008 Renault announced plans to cut between 5,000 and 6,000 jobs in its European operations by the end of 2010, with 4,000 of these job losses expected to be in France. Subsequent announcements in September 2008 confirmed that total job losses would be 6,000, or just under 7 per cent of the group’s 87,000 employees in Europe. As justification, the company cited an international trading environment that had deteriorated beyond the most pessimistic previous forecasts and noted increased pressures arising from high oil prices, unfavourable currency movements, the financial crisis and a general decline in demand in the major European car markets.
In relation to restructuring, the group has stated that it will offer a wide range of incentives to encourage workers to opt for voluntary redundancy, including an improved retirement package and financial aid to help employees to be redeployed or to set up a business. Renault management has indicated that it does not intend to impose redundancies.

A total of 1,000 jobs are likely to be lost at the Renault plant at Sandouville, near Le Havre in Northern France, where it was also announced that short-time working would be introduced in the coming months in response to weak sales of its new Renault Laguna model, which is produced there. The Sandouville plant, where the workforce has been reduced from 6,300 to 4,000 workers since 2001, has become the main focus of protests against the job losses. On a visit to the site in early October, French President Sarkozy said that he had been given assurances that Sandouville would remain open and that new production lines were planned there for 2012. The French state retains a 15 per cent shareholding in Renault, without which it is unlikely that the plant would have received these guarantees.

In a statement, the CGT trade union pointed out that ‘dividends to shareholders amounted to 500 million euros in 2005 and are due, with an identical capital structure, to amount to 1,300 million euro in 2009’. It asked Renault management ‘to freeze ... dividends in order to maintain group capital for further investment and jobs’ and to repatriate production of two Renault models which had been offshored to Turkey and South Korea.


GERMANY: Restructuring at Nokia

In Western Europe, Germany is among the countries hardest hit by the relocation of manufacturing facilities, due to the comparatively high cost base. This case study looks at the decision of the Finnish mobile phone producer Nokia to relocate production from Germany to Romania.

On 15 January 2008, Nokia announced the closure of its Bochum site in Germany by mid-2008 in order to move manufacturing to a newly built site in Cluj, Romania. The closure of Nokia Bochum not only raised protests among workers at the Bochum site, local authorities and the German government, but also sparked several debates on restructuring in general, including the feasibility of state subsidies, the effectiveness of existing institutions of employee representation and the lack of international solidarity between trade unions and employee representatives across Europe.

The planned closure of the Bochum site affects approximately 2,300 Nokia employees, some 900 third-party employees working in the plant and around 1,000 workers in local suppliers. Most of the plant’s production is to be outsourced to a newly-built site in Jucu near Cluj, Romania, where 3,500 workers will be employed by the end of 2009 at an average monthly wage of €219.
Citing high personnel costs in Germany and a ‘lack of competitiveness’, Nokia refused to reverse its decision. According to Executive Vice President Veli Sundbaeck, one of the problems is that ‘subcontractors, whose proximity is important for a Nokia factory, have not wanted to come to Germany because of high costs’. Nokia hopes to establish a strong industrial base in Romania, with access to lower-cost suppliers and subcontractors.

The announced closure at Bochum follows major restructuring activity at Nokia in 2007. In the wake of the merger of the network equipment divisions of Nokia and German multinational Siemens to form NSN, NSN management announced its intention to shed 9,000 jobs worldwide by 2010 because of overlaps in the product portfolio of the merged companies; 2,900 of these job losses were to occur in German units of the Finnish multinational.

The closure of Nokia Bochum provoked a debate about state subsidies because Nokia received German state subsidies for its production in Bochum and will be exempted from real estate tax in Romania; in addition, the infrastructure for its new plant in Cluj was subsidised by Romanian and EU funds. German state and federal governments are dissatisfied with Nokia’s decision, and while the federal government does not plan to ask for the reimbursement of subsidies, the state of North Rhine-Westphalia (NRW) is seeking complete reimbursement from Nokia. Between 1998 and 1999, Nokia received approximately €41.3 million in investment subsides from the state of NRW, and an additional €28 million from the federal government. The state of NRW maintains that Nokia did not fulfil the conditions under which the subsidies were granted, citing Nokia’s failure to create a minimum number of permanent jobs between 2002 and 2005, hiring ‘between 200 and 400’ fewer people than the 2,860 it had promised.

According to Nokia, an annual average of 3,200 workers were employed at its plant in Bochum, above the number they were obliged to provide. Nokia said that it was ‘astonished’ by the state’s demand that it return the money, noting that its taxes and social payments to the city of Bochum, as well as to the state and federal governments, were close to the total amount of subsidies received in that time. It has been pointed out, however, that Nokia includes about 900 temporary workers in its count of total Bochum employment.

German politicians have called into question the feasibility of state subsidies. In an interview with German newspaper Die Welt am Sonntag, Industry Commissioner Günter Verheugen said that ‘Nokia’s behaviour is the product of a new religion which idolises shareholder value’ and argued that instead of paying subsidies to attract companies it makes more sense to invest in education and infrastructure.

In January 2008, Nokia announced that it would ‘start consultations with the employee representatives as soon as possible’, implying that employee representatives were not consulted on the closure beforehand. Both the works council of the Bochum plant and the European Works Council (EWC) later complained that they had not been informed prior to this press release. The consultation begun by Nokia on 20 February 2008 did not relate to the decision to close the Bochum site, but only to how the closure could be organised in a socially acceptable manner.
Information and consultation about restructuring processes – particularly when they include the closure of a whole site – are central tasks of European Works Councils. For the European Trade Union Congress (ETUC), the bypassing of the EWC in the Nokia case demonstrates the ‘urgent need to revise the EU Directive on European Works Councils’.

Despite Nokia’s failure to inform the European Works Council prior to the decision to close its Bochum plant, the members of the EWC were not able to agree upon internationally coordinated actions against Nokia’s management.

Although the European Metalworkers Federation (EMF) tried to coordinate its affiliates, the only outcome of these efforts was a joint declaration on 13 February 2008 by trade union leaders from Metalli, TEK, UIL, TU, IG Metall and EMF demanding ‘fair information, consultation and negotiation’, ‘exclusion of any kind of social and tax dumping’, and ‘a future for the Nokia Bochum workers’.

A particular problem was raised by the temporary workers employed in the Bochum plant. As third-party employees they appear not to be covered by the measures negotiated between the works council and the management. Nonetheless they worked in the Nokia plant on a quasi-permanent basis and were included in Nokia’s employee counts used to prove compliance with the terms attached to the subsidies received from local and federal authorities.

The local works council presented several proposals to save the Bochum site, but these were rejected by the Nokia management. The consultations between works council and management focused on how to find alternative employment for Nokia’s Bochum personnel.

On 8 April 2008, management and the local works council announced an agreement on a social plan for the 2,300 Nokia workers, costing the company some €200m, deemed to make it the most expensive plant closure ever.

The agreement includes €185m in compensation for the staff, and €15m for a so-called transfer company designed to find the workers new jobs. Redundant employees will receive €80,000 on average. Nokia also intends to redeploy around 300 Bochum workers in its other German operations.
