

# Restructuring for corporate success

A socially sensitive approach



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## EXECUTIVE SUMMARY

How can an enterprise restructure in the spirit of social partnership with maximum economic benefits and minimum costs to workers, the community and society at large?

Growing competition and globalization along with tightened fiscal policies are causing both private and public sector organizations to strive for greater efficiency and higher cost-effectiveness. In many cases the desired results cannot be achieved without subjecting the corporate strategy and structure to some transformation. In this context, restructuring is no longer just an option; it is a necessity for survival and growth. However, it is in the interest of all the stakeholders that restructuring be carried out in such a way as not to jeopardize the high value of the human capital of the enterprise.

This book explores the issue of socially sensitive enterprise restructuring (SSER). By providing a number of examples from different countries, it describes how good management practices, social partnership, communication and healthy industrial relations can be beneficial throughout the change process.

The major findings are as follows:

- It is often believed that downsizing has a positive impact on the performance of the company and the so-called “survivors”. However, this is not always true in practice.
- In order to achieve desirable economic and social results in the process of downsizing, management should always have a plan of action if restructuring becomes inevitable, starting with the company’s human resources. The creation of a system of functional flexibility could be an important component of this approach.
- Restructuring goes smoothly if it is based on a joint agreement between employers and workers and, in some cases, the government.

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- Alternative options to downsizing should be considered, with priority given to those options least painful to workers.
- Restructuring is a process and should not be commenced without due consideration. Steps should include:
  - examining the different options involved in restructuring before starting the process;
  - preparing the company and employees for restructuring through consultations and communication, and carrying out restructuring only after this has been done, as well as during the actual restructuring process;
  - evaluating how effective restructuring has been after it has been carried out.
- If downsizing is necessary, it should be carried out in a socially sensitive way, using tools proved to have global success. Various tools are discussed at length in this book, including, among others:
  - counselling
  - skills assessment
  - training
  - internal job search
  - external job search
  - small and medium-sized enterprise (SME) creation
  - mobility assistance
  - early retirement
  - alternative work schedules (part-time, subcontracting, flexible leave)
  - severance packages
- It is critical to evaluate not only the costs of restructuring, but also the benefits of SSER. In other words, a company should not only be able to say how much it has cost to carry out restructuring in a socially sensitive way, but also to estimate what it has gained by being a responsible restructurer.
- Labour-management relations can be an extremely powerful factor contributing to both economic and social success in restructuring.

At the same time, enterprises should not be left alone to carry out restructuring; governments too often feel the impact of the restructuring of enterprises, especially in situations where whole sectors or regions are affected. What can enterprises and other policy makers do to tackle the restructuring challenge? The following policy measures can support SSER:

- *Defining the legal and macroeconomic environment.* Governments, in consultation with employers' and workers' organizations, have a very important role in defining the legal and regulatory environment within which managers decide whether and how to restructure.
- *Creation of labour market institutions.* This book describes some of the tools available to enterprises so as to minimize the negative impact of restructuring on people. However, a negative employment impact cannot be avoided without an active labour market policy of the government. The government should create or further improve systems of vocational training, registration and advice services for the unemployed, and so on.
- *Communication.* There is no such thing as over-communication when it comes to restructuring. Workers should know their rights, their options, their choices. They should know how to get another job or acquire new skills, or how to start a business. Communication and education of this sort should be one of the most important components of the government's active labour market policy. The government should also provide those enterprises affected by restructuring with guidelines focusing on what they can do to minimize the social cost of the process.

This book will be of interest to managers, employers, workers and government representatives. It can be also used for educational purposes in undergraduate, graduate and executive education programmes.



## INTRODUCTION

In today's business world enterprises must face the following trends that force them to restructure continually:

- globalization
- technological change
- changes in corporate ownership (the global trend of mergers and acquisitions, management buy-outs, privatization programmes, etc.)
- replacement of the industrial society by the information society
- demographic shifts
- growth of foreign direct investment (FDI)

Perhaps most important, however, is the shift in the demands and expectations of civil society regarding the new role of business.

In general, business plays a much more important role in society today than ever before. Trust in political parties, religious organizations, governments and other institutions is diminishing and business is becoming a more dominant force, further increasing the level of responsibility expected from it by the public. However, the business world has traditionally been exempt from many social obligations, focusing instead on economic fulfilment; it is still growing into its new role.

The International Labour Organization (ILO) is trying to help businesses define and detail this role.

In his report to the 87th Session (1999) of the International Labour Conference (ILO) Director-General Juan Somavia stated:

The focus on the enterprise will be a key element in the ILO approach to job creation, an important aspect of which would concern enterprise restructuring.

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In many countries structural adjustment and changing competitive advantage seem to be driving a continual process of restructuring of larger enterprises, which generally means downsizing. This has affected millions of employees, particularly in North America and Europe, but also in many middle-income countries. However, studies now show that the way this occurs often adversely affects organizational performance and results in repeated downsizing. Senior managers report that downsizing has not just eroded morale and trust, but also reduced productivity. All this suggests that there is both employer and worker interest – and hence prospects for partnership – in developing restructuring strategies that maintain the human resources and energies of the enterprise by giving adequate attention to the human and social side of restructuring (ILO, 1999, p.24).

Today many companies are marketing themselves as socially responsible enterprises. It has become commonplace for a company to state: “For us, employees are not costs, they are assets.” However, whether or not a company is indeed socially responsible (i.e. whether or not it takes into account not only its shareholders and the tax authorities, but also its employees, the local community and other stakeholders) can be determined best during times of economic slowdown when the risk levels escalate. This brings us to the issue of SSER.

What is restructuring? Restructuring is a profound change in the way a company operates, involving changes in its strategy, in its structure, and so on. The term is also used when it comes to downsizing, though restructuring has more far-reaching implications than just a decrease in the workforce.<sup>1</sup> Very often, the purpose of restructuring is not only the financial and economic improvement of the company’s performance, but its very survival.

This is not to say that companies should not go through restructuring. In many cases, restructuring is the only solution. However, numerous workers, governments, and employers share the belief that restructuring is best carried out in a socially sensitive manner. In other words, companies should try to maximize economic benefits while attempting to minimize the social costs associated with restructuring.

This position is grounded in the ILO’s international labour standards (ILS), known as Conventions and Recommendations. In particular, the Termination of Employment Convention (No. 158), and Recommendation (No. 166), 1982, should be mentioned here. Both instruments were adopted by the International Labour Conference in 1982, and are still very relevant.

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<sup>1</sup> Many different terms are used in the literature to describe the restructuring process: downsizing, workforce reduction, rightsizing, rebalancing, reorganization, lay-offs, termination of employment. Very often these terms are used interchangeably. In this book our main focus is on such organizational restructuring as can and/or does affect the workforce.

These documents highlight the ILO's recognition that termination of employment may take place for economic reasons and that such decisions are to be made by the enterprise management. At the same time, the ILO stresses the necessity of a long-term approach to human resource planning, the importance of creating and maintaining a multifunctional workforce, and continuous training and development. It also emphasizes the importance of:<sup>2</sup>

- consultations between workers and employers before, during, and after the period of restructuring;
- creation of the most preferential conditions for the workers affected, so that they are able to continue their professional careers;
- non-discriminatory policies and practices in restructuring, based on such characteristics as age, gender, union membership, and so on.

There are other instruments of international law regulating the restructuring process, such as those of the European Commission.<sup>3</sup> In many countries national law also regulates restructuring and calls for a socially sensitive approach (Alpha Conseil, et al., 2003, p. 494.).

However, a socially sensitive approach to restructuring does not always occur in practice. On the contrary, the following trends have emerged:

- Downsizing is often the first action taken by a company when the economic situation deteriorates.
- Downsizing often occurs during mergers and acquisitions.
- There is usually little social dialogue or consideration of an affected employee's interests during the downsizing process.

Good examples of SSER do exist, and the job of the ILO Management and Corporate Citizenship (MCC) Programme is to promote and advocate these practices. Some examples have been provided by the contributors to this book. However, before going into specifics, it may be useful to consider the following:

- Loss of one's job is more than just a loss of income. It may also bring about loss of self-respect, of the respect of others, of the structure of one's day, or even a loss of *raison d'être*.

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<sup>2</sup> See Chapter 1 for more on the international labour standards on restructuring. Here we should mention that any ILO member State that ratifies an ILO Convention has a binding obligation to incorporate the major provisions into its national legislation. The list of countries that have ratified Convention No. 158 may be found on the ILO web site [www.ilo.org](http://www.ilo.org).

<sup>3</sup> See Chapter 4 for more on the instruments adopted at the European level.

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- It is often believed that downsizing has a positive impact on the performance of the company and the so-called “survivors”. However, in practice this is not always true. Professor Wayne Cascio of the University of Colorado, known for his research on SSER, has shown that:
  - *Downsizing the number of employees does not lead to long-term improvements in the quality of products or services.* In its 1996 survey on corporate downsizing, job elimination and job creation, the American Management Association (AMA) reported that over the long term only 35 per cent of responding organizations increased the quality of their products and services after laying off employees (AMA, 1996).
  - *For the majority of companies, downsizing has had adverse effects on the morale, workload, and commitment of “survivors”.* Seventy per cent of senior managers in the United States who remained in downsized firms reported that morale and trust declined (AMA, loc. cit.). A recent national survey in the United States found the following consequences of downsizing among the “survivors”: 54 per cent felt overworked, 55 per cent felt overwhelmed by their workload, 59 per cent lacked time for reflection, and 56 per cent did not have time to complete tasks (*Business Week*, 2001). After downsizing in a major Australian bank, 49 per cent of “survivors” felt a decreased sense of commitment to the organization, 64 per cent experienced decreased job satisfaction, and 83 per cent reported increased stress (Gittings, 2001).
  - *Profitability does not necessarily follow downsizing.* Data from the S&P 500 Index for 1982-2000 show clearly that profitability, as measured by the return on assets, does not necessarily follow downsizing, even as long as two years later (Cascio and Young, 2003). Survey data provide support for such a conclusion. For example, the “2001 Layoffs and Job Security Survey” conducted by the Society for Human Resource Management in the United States, reported that only 32 per cent of respondents indicated that lay-offs led to higher profits (Cascio, 2002, p.29).
  - *Productivity does not necessarily increase as a result of downsizing.* The AMA surveyed 700 companies that had downsized in the 1990s. Productivity rose in 34 per cent of cases, but fell in 30 per cent (Cravotta and Kleiner, 2001, pp.90–93).

The ILO Project on Socially Sensitive Enterprise Restructuring (SSER) is involved in a number of training, promotional, research and policy-related



activities.<sup>4</sup> All these activities involve cooperation with the ILO partners – governments, employers’ and workers’ organizations – as well as with individual enterprises. Action-oriented research and interactive seminars have always been an extremely important component of ILO activities. We help people learn from each other, and we are constantly learning from their experience. A major question that we ask ourselves and our partners is how an enterprise can go through restructuring in the most efficient way from both the economic and social points of view. Our experience in more than 20 countries has shown that the following steps are advisable:

- If restructuring becomes inevitable, company management should always have a plan of action, starting with the company’s human resources.
- Restructuring goes smoothly if it is based on a joint agreement between employers and workers and, in some cases, the government.<sup>5</sup>
- Alternative options to downsizing should be considered, with priority given to the least “painful” options.
- If downsizing is necessary, it should be carried out in a socially sensitive way, using tools proven to have global success. Various tools are discussed at length in Chapters 2 and 3, including among others:
  - counselling
  - skills assessment
  - training
  - internal job search
  - external job search
  - small and medium-sized enterprise (SME) creation
  - mobility assistance
  - early retirement
  - alternative work schedules (part-time, subcontracting, flexible leave)
  - severance packages

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<sup>4</sup> ILO activities in the area of SSER are carried out along with other ILO projects aimed at the generation of more and better jobs, such as the global projects helping entrepreneurs, including those displaced through restructuring, to start, improve and expand their business.

<sup>5</sup> See Chapter 4 for more on social dialogue and restructuring.

## Restructuring for corporate success

- Restructuring is a process that should not be commenced without significant consideration. Steps should include:
  - examining the different options involved in restructuring before starting the process;
  - preparing the company and employees for restructuring through consultations and communication, and carrying out restructuring only after this has been done, continuing the dialogue during the actual restructuring process;
  - evaluating how effective restructuring has been after it has been carried out.
- It is critical to evaluate not only the costs of restructuring, but also the benefits of SSER. In other words, a company should not only be able to say how much it has cost to carry out restructuring in a socially sensitive way, but also to estimate what it has gained by being a responsible restructurer.<sup>6</sup>

## The European experience

While these lessons are universal, it makes sense to summarize more specifically the lessons that the ILO has learnt by working jointly with the European Commission in Europe, arguably the most advanced part of the world when it comes to SSER.<sup>7</sup> In general, there are at least four generic, Europe-specific lessons learnt, based on the presentations of a number of European companies:

- *Costs are known, benefits are not.* Companies know that SSER costs money, and in most cases this financial cost is possible to measure,<sup>8</sup> but no one really knows how to measure the economic and social benefits of restructuring carried out in a socially sensitive way.
- *Social dialogue is becoming a reality.* In most western European countries this is in compliance with existing legislation.

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<sup>6</sup> Our analysis shows that it is much more difficult to evaluate the benefits than the costs. This is true even in case of the most responsible companies.

<sup>7</sup> In April 2003 the ILO organized, jointly with the European Commission, a High-Level Conference on Socially Responsible Enterprise Restructuring, held in Greece. This Conference brought together – for the first time – over 200 representatives of businesses, governments, employers and trade unions from 28 European Union and accession countries to share experiences in the area of SSER. The event was held literally days before the most recent ten States signed the Treaty of Accession to join the EU. Over 20 case studies on SSER at enterprise, regional and sector levels were presented. Some of them are described in detail in Chapter 2.

<sup>8</sup> At the same time, companies often have difficulty measuring the social and human costs of restructuring.

- *Tools of SSER now present a more or less standard package.* The good news is that companies facing restructuring are aware of their options. The bad news is that some companies are blindly copying what others are doing, without considering whether the tools would be relevant and effective in their company.
- *Links between long-term strategy and restructuring are still rare.* Quite a number of companies are still thinking short term. For them, restructuring is a quick response to economic/sector/market changes.

The lesson related to the links between long-term strategy and restructuring is perhaps the most important one. In order for restructuring to be successful, it should be linked to the long-term strategy of the development of the company, country, or region. At the enterprise level, this means that restructuring should not be viewed as a fire-fighting exercise. According to Peter Cappelli, Director of Wharton's Center for Human Resources:

Frequent reorganizations are like doctors treating patients with antibiotics. The medication might work short-term, but long-term it can be harmful. The constant churning caused by these reorganizations generates costs and develops long-term cynicism about why they are done and what they mean (*Knowledge@Wharton*, 2003).

This view is echoed by John Paul MacDuffie, another Wharton professor:

Deciding on the right strategy for the company is key. Strategy-making processes done hastily and based on the wrong assumptions can mean moving the boxes around on the org chart without thinking through all the consequences. How you get to the right place depends on your perspective. The resource capabilities view of strategy says it ought to grow organically out of a clear-eyed perception of what the company's capabilities are and how readily they can be developed as opposed to strategy-making occurring in a vacuum or from an externally focused competitive analysis that is naïve about how malleable the organization is to change (*ibid.*).

The importance of linking restructuring to the long-term enterprise strategy is becoming a major issue in the context of SSER. One may cite a number of cases where the human costs of restructuring were ignored. Managers, for example, did not take time to explain why a restructuring effort was taking place, what the goal was, and how it would affect the jobs of the people involved, including the survivors.

A huge part of the trauma associated with restructuring stems from a change over the past decade in the relationship between employers and

workers. According to Peter Cappelli, IBM in the 1980s

. . . used to reorganize all the time. But the company also offered employment security, which meant that an employee might be asked to change locations or move to a different part of the organization, but he kept his job and his salary. Consequently employees tended not to resist their changes. Now, however, companies reorganize in ways that threaten people. Employees might not just be assigned to some other job, they might lose that job or be demoted. There are all kinds of negative consequences. It reflects a change in the way companies do business and the fact that they are not particularly inclined to protect employees (ibid.).

Long-term strategic thinking requires careful human resources planning. But, most importantly, it is linked to the management philosophy that calls for treating employees as an asset, rather than a cost. Professor Wayne Cascio came to the following conclusion:

As I investigated the approaches that various companies, large and small, public and private, adopted in their efforts to restructure, what became obvious to me was that companies differed in terms of how they viewed their employees. Indeed, they almost seemed to separate themselves logically into two groups. One group, by far the larger of the two, saw employees as costs to be cut. The other, much smaller group saw employees as assets to be developed. Therein lay a major difference in the approaches they took to restructure their organizations.

- Employees as costs to be cut. These are the downsizers. They constantly ask themselves, “What is the minimum number of employees we need to run this company? What is the irreducible core number of employees the business requires?”
- Employees as assets to be developed. These are the responsible restructurers. They constantly ask themselves, “How can we change the way we do business, so that we can use the people we currently have more effectively?”

The downsizers see employees as commodities – like microchips or lightbulbs, interchangeable, substitutable, and disposable, if necessary. In contrast, responsible restructurers see employees as sources of innovation and renewal (Cascio, 2002, p.5).

Companies that treat employees as assets are most likely to be known for socially sensitive restructuring. These companies do not jump straight into the downsizing option, but carefully consider other options that do not involve cutting labour costs. An extreme version of this approach is a no-lay-off policy

used by some companies, such as Southwest Airlines (Rogovsky and Sims, 2002, pp. 68–70). While a no-lay-off policy is clearly a solution that allows a company to minimize the social costs of restructuring, it is not always possible from an economic point of view. However, if lay-offs and downsizing seem to be inevitable, companies may use a number of tools that aid in combining two important enterprise functions: the maximization of economic output and the minimization of social costs. These tools are defined in Chapter 2 and illustrated with a number of examples in Chapter 3.<sup>9</sup> These two chapters follow an overall discussion of the ideas and principles of SSER contained in Chapter 1.

One of the major lessons learnt throughout the work on SSER is that its success is largely determined by the quality of labour-management relations, which can provide a beneficial environment for restructuring. The issue of social dialogue and restructuring, particularly in the European context, is covered in Chapter 4 written by Andrea Broughton.

In the Conclusion the major points brought forth in this publication are summarized and the implications for policy makers – governments, employers’ and workers’ organizations – are examined.

We hope that this book will be of interest to policy makers all over the world, as well as to academics and students of business and industrial relations.

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<sup>9</sup> We would like to emphasize that these examples are taken from all over the world, not only from western Europe and North America.



# IDEAS AND PRINCIPLES BEHIND SOCIALLY SENSITIVE ENTERPRISE RESTRUCTURING (SSER)

# 1

As the Swiss writer Max Frisch said, “We asked for workers, and we got people.”<sup>1</sup> This statement carries clear implications for management. Indeed, since most management tasks are related to the human capital of the enterprise, managing the process of workforce reduction in a socially sensitive manner is probably the most demanding challenge managers have. Losing a job has a profound impact on career prospects and on the individual and family planning of those affected; it also has substantial negative effects on self-esteem, life structure and perceived employability.

In addition, the impact reaches beyond the dismissed workers themselves; “survivors” are affected as well. The community suffers from increased unemployment rates, lower income and purchasing power, and decreasing morale; the enterprise may then be confronted with criticism and a waning reputation.

Therefore, even though the decision to downsize should be based on a sound qualitative and quantitative analysis, the actual process of reducing the workforce should not be numbers-driven only. It is wise to put people at the centre of the action. Intense dialogue with workers, community and other stakeholders, resulting in a shared strategy, careful preparation, sound communication and respect for all those concerned, is possibly a crucial factor in a successful plan.<sup>2</sup> Furthermore, several tools are available to minimize social costs. Internal and external job research units, facilitation of the creation of SMEs, promotion of mobility, early retirement programmes and other options are discussed in Chapter 2.

The main objective of the present chapter is to give readers an idea of the four main elements involved in the setting up of a strategy of worker

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<sup>1</sup> While Frisch was commenting on the labour immigration challenge in the 1970s, his aphorism is applicable in the wider context of industrial relations and management.

<sup>2</sup> Of course, the evidence suggests that such dialogue does not always take place.

retention and worker displacement that is socially compatible with the international labour standards (ILS) adopted by the International Labour Conference representing governments, employers and workers from all over the world:

### 1. *Reflection (thinking before acting)*

This allows the economic and decision-making partners to think about the current opportunity to downsize, and to suggest alternative ways of dealing with the problem. The questions to answer include: Is this the best way to do it? Is there any other way of achieving the goal? What will be the real social impact?

### 2. *Decision-making*

The chapter suggests that the decision, to be made in full knowledge of the facts, needs to take into account all the economic aspects. These are identified through a complete survey, including an overview of actual and hidden costs (examples are provided), as well as of the impact on the social environment outside the enterprise, the duration of the process and its cost, and costs of the social impact.

### 3. *Establishing the process*

Practical advice is provided on setting up means and procedures to minimize negative social impact and to fully respect ILS. These may be implemented through social dialogue between the different stakeholders, individual and personalized follow-up by a specially dedicated structure, and taking into account the environment in which the enterprise operates.

### 4. *Reconciliation*

Finally, this chapter will also outline ways of reconciling an enterprise's economic performance with the minimum social impact on workers, the community and their environment, and in respect to ILS.

The real question is *how* downsizing is done, rather than whether to downsize. Companies that downsize through buy-outs and attrition, that help their workers get new jobs, and that provide outplacement services, end up much better positioned than companies which simply wield the axe. They have a better chance in retaining the loyalty of the surviving workers. This [loyalty] is one of the most valuable yet brittle assets in any enterprise. So over the long term, it's far better for companies to downsize in a humane way (Reich, 1996).

In a globalized and increasingly competitive economic environment, enterprises throughout the world have to respond ever more rapidly to new



technologies, new competitors and turbulent markets. They must constantly adjust and restructure to survive and grow, while their capacity to sustain productive and quality jobs depends on their ability to meet competitive challenges and to take advantage of emerging opportunities.

At the same time, however, restructuring involves dislocations and human costs. It affects not just the owners and workers of the enterprise but other stakeholders as well. The challenge is to remain competitive and viable while minimizing the social costs of enterprise restructuring. When radical restructuring is required, as in the case of countries in transition from command to market economies, in countries undergoing economic downturns, and even in developed economies where turnaround of distressed enterprises, mergers and acquisitions are a constant occurrence, there is an even greater need to adopt approaches that will minimize the social costs (ILO, 2002; Boillot, 2002; Simon, 2002).

Restructuring that helps achieve both long-term competitiveness and minimizes social costs at all levels (enterprise, industry, and nation) is an issue whose importance is emphasized by all constituents of the ILO: governments, employers and workers. In *Decent work*, the ILO Director-General Juan Somavia states:

There is both employer and worker interest – and hence prospects for partnership – in developing restructuring strategies that maintain the human resources and energies of the enterprise by giving adequate attention to the human and social side of restructuring . . . The ILO has a comparative advantage in developing and promoting approaches that build consensus on restructuring and maintaining employee commitment and participation. The Organization must be ready with information and advice, showing how jobs can be saved without prejudice to economic goals and how new jobs can be created. (ILO, 1999, p. 1).

In the broader scope of enterprise restructuring, workforce reduction is certainly one of the most drastic actions. But when the economic framework pressures a company to react, reducing the corporate workforce may be the only viable answer. Downsizing, dislocation, rightsizing and displacement include the same challenge (Starcher, 1999).

All action, however, must begin with checking existing mindsets. What are the expectations of the stakeholders involved? How does the restructuring exercise fit into the company's overall strategy? Is a clear focus on people issues possible? What support do employees need? In the context of these questions, this chapter is geared towards providing suggestions and recommendations for every manager who is interested and willing to contribute to a smooth running of this extremely difficult endeavour.

## Workforce reduction as a management task

### *Clarification of the term*

Workforce reduction may be understood as a downsizing strategy that has a direct effect on the number of workers and employees of an enterprise by cutting down a substantial percentage or number of employees. Traditionally, it occurred due to a slump in demand, but today job cuts may also be part of an effort to improve operating efficiency. Workforce reduction is only one way to do this, however, and should always be accompanied by general restructuring efforts. A workforce decreases from 0.5 to 5 per cent per year in natural attrition. Workers leave because of retirement or voluntary resignation, while other causes such as death also reduce the numbers. Any plan to downsize should therefore take this into account.

According to Peter Cappelli, downsizing can be understood as part of a “generalized corporate response to heightened competition, changing markets, [ . . . ] and gaps in employment legislations. Firms reacted to these changes by increasingly relying on subcontracting, contingent work, and introducing more autonomous and individualized decision-making for managers and work groups.” A general shift towards market mechanisms inside the firm can be observed. “[T]hese changes (due to downsizing) tend toward the absence of a system of formal rules for managing employees and a heavy reliance instead on markets and individual contracting” (Cappelli, 1995, p. 564). Although written a decade ago, this statement is still very much valid.

While downsizing leads to a need to restructure, it can also be a result of restructuring (e.g. discontinuing activities and tasks, post-merger rationalization, elimination of hierarchical levels, re-engineering process). When facing a crisis, enterprises should be aware that cost-cutting will most probably not be a miracle solution, as the time lag between the cost-cutting exercise and effectiveness may be longer than the crisis itself, and the risk is high that the company may not become as competitive as necessary due to a delay in market reactions.

### *Reasons for workforce reduction*

Concrete reasons for workforce reduction are numerous. Heightening competitive pressure can force enterprises to fight for their position in the market, or even in extreme cases for survival. Immediate cash-flow improvement may be necessary to ensure liquidity. Shareholder expectations may also put pressure on management, which can lead to a redefinition of strategy in

favour of short-term gains in profit and market value. Overcapacity or even poor management can force an enterprise into a situation in which lay-offs are unavoidable. Last but not least, privatization and other macro-level-induced changes may call for substantial reductions (Cappelli, 1995).

### *Impact of workforce reduction*

In addition to the aforementioned impact on dismissed individuals, the effects on survivors are similarly negative. The AMA reports that according to a study conducted in the mid-1990s, one year after the displacement of some parts of the overall workforce 69 per cent of all participating companies reported a decline in employee morale, 42 per cent experienced an increase in resignations and voluntary departures, 36 per cent reported an increase in employee turnover, and 13 per cent were dealing with an increase in disability claims (AMA, 1997).

Furthermore, displacement changes both conditions and social relations at work. It creates competition among both individuals and teams, and contributes to the structural transformation of labour markets. It results in jobs with substantially different task assignments, hours and pay, and may lead to a deterioration of job quality and a loss of social cohesion at work and in the community. In countries with no safety net for displaced workers, mass lay-offs may even lead to social unrest. Additionally, displacement changes expectations about relationships among workers and between workers and employers, about the security and stability of employment, about the relationship between jobs and family, jobs and community, and education and jobs. Even when job loss does not result in material hardship, it does in fact change the way people think about work and their careers (Koeber, 2002, pp. 219–20).

### *Hidden costs and the vicious circle*

Workforce reduction is usually undertaken to improve productivity and reduce costs. Yet surveys show that the expected benefits are not realized in over half the cases studied (for example, see AMA, 1995). The source of hidden costs that frequently escapes management's attention is the poor morale of survivors, caused by increased stress and its effect on work behaviour and attitudes.<sup>3</sup> Misplaced energy and erosion of trust can have a staggering effect on overall profitability. Reduced productivity, decline in quality, higher staff turnover, increased absenteeism and sick leave, loss of key

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<sup>3</sup> See also Grunberg, et al., 1999; Elmuti and Kathawala, 1993; Brockner, 1992.

## Restructuring for corporate success

talent, decreased creativity, decreased entrepreneurship and risk taking, poor external image, and increased legal and administrative costs are some factors that need to be mentioned.

**Reduced productivity.** More than half of 1,468 downsized companies surveyed by the Society for Human Resource Management in the United States reported that employee productivity either stayed the same or deteriorated after the lay-offs. In another poll, 74 per cent of senior managers at recently downsized companies said their workers had lower morale, feared future cutbacks and distrusted management (Starcher, 1999, p.35).

**Decline in quality.** When lay-offs take place without reorganization of the work and proper training, quality suffers. As survivors try to learn the jobs of the displaced employees while still doing their own jobs, they become increasingly stressed and overworked. One case involved an automobile company worker in charge of ordering steel who accepted a generous early retirement package. After he left, an order was placed for the wrong kind of steel. This resulted in a US\$2-million loss for the company in down time, rework and repair. Furthermore, organizational memory and expertise were lost when the purchasing agent left because no one had been trained to replace him.

**Loss of key talent, higher staff turnover, increased absenteeism and sick leave.** These are all direct consequences of a drop in morale, lower commitment, and a lack of trust and loyalty. One study estimated that the cost attributable to staff turnover was 1.5 to 2.5 times the annual salary and benefits cost for each employee leaving. Companies often find that key employees and top performers leave during displacement, stripping it of valuable human capital, critical skills and institutional memory. For example, *The Economist* (27 Apr. 1996) reported on an insurance company whose cost of claim settlements rose sharply (and whose profits fell) following staff cuts in the claims department. An investigation found that long-serving employees who had been made redundant had created an informal but effective way to screen claims, but this was forgotten during the displacement effort (Starcher, 1999, p. 6).

**Decreased creativity, entrepreneurship and risk taking.** A 1995 study by McGill University and the Wharton School found that downsizing interfered with the networks of informal relationships that innovators use to win support and resources for new products.

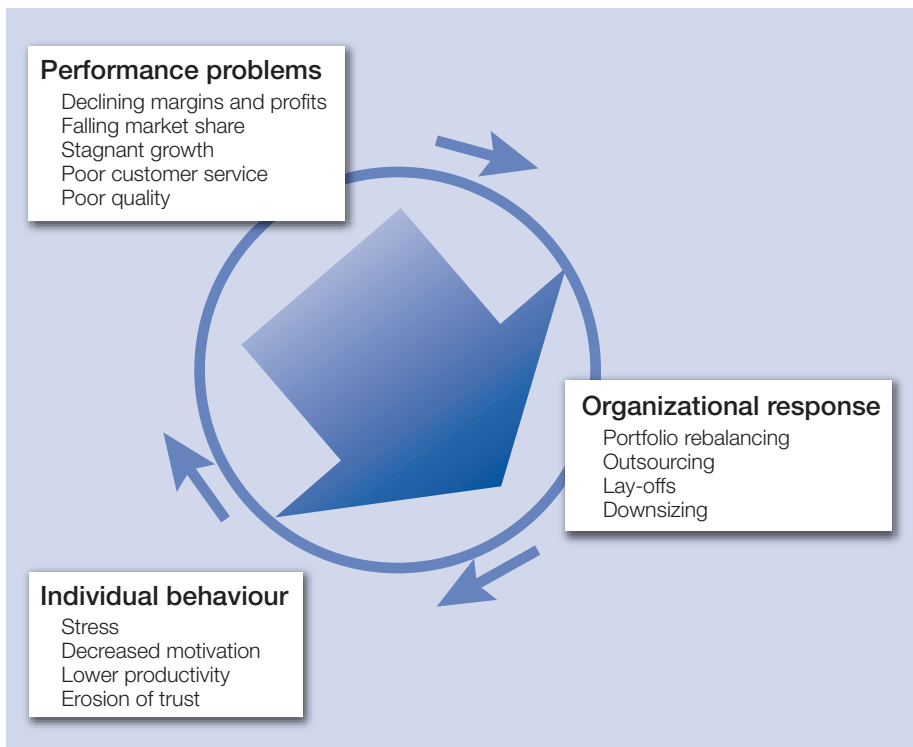
**Poor external image.** Many companies show little concern for the impact of displacement on potential consumers and potential recruits. Experience has shown that it takes a lot of time and money to rebuild a public reputation and brand image. Poorly planned displacement can hit minority groups, reducing the diversity that companies may have built over time. The media may also

play a role in dramatizing the news broadcast about displacement, which can severely affect company image.

**Increased legal and administrative costs.** Workers whose jobs have been made redundant may try to sue their former employer or may even commit sabotage to express their discontent.

Moreover, displacement may lead to a vicious circle known as the “downward spiral of displacement” (see figure 1). This occurs when the abilities needed for cost reduction are easier to acquire than those required for growth and renewal. Performance problems due to declining margins and profits, falling market share, stagnant growth, poor customer service and poor quality lead to an organizational response of portfolio rebalancing, outsourcing, lay-offs and downsizing. In the worst case top management turns repeatedly to displacement to fill performance gaps. As a result the company continues to shrink, with performance deteriorating still further (Starcher, 1999, p. 6; Pfeffer, 1998).

Figure 1 The downward spiral of displacement



## How not to do it<sup>4</sup>

Some real-world approaches to displacement are actually quite shocking. Here are two worst-case scenarios:

### *A media company*

In light of the recent recession, the CEO of a Berlin-based media company offered the following option to his employees: Everyone *asked* to annul their employment contract in return for a self-defined redundancy payment. The CEO then decided whose offer he would accept and let go, and whom he would retain (*ManagerMagazin*, 2001, pp. 251–2).

### *An internet company*

The employees of a German internet company were asked to meet with all colleagues in a conference room. There, a flipchart provided the names of those who had been dismissed, a total of 12 out of 32. Returning to their desks, employees found their files blocked, their e-mail accounts cancelled, and their phones disconnected (*ibid.*).

## Management options

There are often alternative options to laying off workers; lay-offs should be regarded as the last resort. It is not philanthropy that drives this notion, but the enormous costs (time, resources, social) and frictions related to workforce reduction. As Fred Langhammer, CEO of Estée Lauder cosmetics, puts it: “So far, I haven’t seen a single company which produces great ideas while people fear for their future or their job.” (*ManagerMagazin*, 2002, p.75).

According to S. Watson (Starcher, 1999) there are four downsizing strategies:

- arbitrary, across-the-board percentage reductions in personnel in order to eliminate jobs quickly (with heavy hidden costs and social damage);
- plant or site closings, which can be conducted in conjunction with more responsible practices supported by top management and presence, including site rehabilitation;
- a systematic strategy of “continuous downsizing” with a no-lay-off policy and a lean management philosophy and culture; there is usually a higher pay-off in the long run than periodic downsizing exercises with massive lay-offs;

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<sup>4</sup> See also Downs, 1995.

### Box 1 Workforce reduction – popping the balloon?

When the economy is shrinking and market pressure is getting tough, managers often find themselves in a dilemma. Heightened competition calls for cost reductions, but how do you let air out of a vacuum? After decades of streamlining, rightsizing and restructuring, not much is left for corporate executives to trim. With efficiency now being the landmark for most performance assessments, the corporate belt is already pulled tight. Of course, no one would doubt the importance of efficiency to an organization, but what if high efficiency has already been achieved and further cost reductions strike directly at the firm's backbone, harming its prospects for future success?

Facing a crisis, managers should keep in mind that cost-cutting through workforce reduction alone will most probably not be the miracle cure, as the time lag until effectiveness may actually be longer than the crisis itself. However, with labour costs eating up most of corporate earnings, the temptation is to let people go. But, as Boston Consulting Group restructuring expert Uwe Reinert explains, "In many cases, a year is needed until workforce reduction, including a social plan, has any positive financial effects."

Even under economic pressure, other CEOs add a flavour of corporate social responsibility, such as Akio Morito, founder and long-time chairman of Sony: "If we face a recession, we should not lay off employees; the company should sacrifice a profit. It's management's risk and management's responsibility. Employees are not guilty – why should they suffer?" Last but not least, cutting expenses now may paradoxically lead to higher costs in the long run. Laid-off employees can become ambassadors of ill will; insensitive restructuring may result in bridge burning, and restoring a company's functionality and reputation is a costly endeavour. It is in management's interest to avoid these scenarios – but what options are out there?

When it comes to labour cost reduction, there is no such thing as a "stay-or-leave" paradigm. The toolbox that management can use provides a multitude of solutions. But why does it pay to avoid lay-offs? The answer is simple. Perception of work security will undoubtedly rise among the workforce. This will most probably lead to a higher level of commitment towards the company's goals. Higher commitment will, in turn, foster a willingness to demand more responsibility and involvement, thereby triggering performance improvement and an increased level of innovation and invention.

Innovation and invention of products, strategies, and markets may not provide short-term relief, but as possible solutions they are undoubtedly more creative than popping the balloon. Quality improvement, reconfiguration of supply chains and distribution channels, and increased subcontracting and contingent work are other levers to pull. As a result, the company will see its competitiveness improved and its position in the market strengthened. Approaches, therefore, need not be limited to dismissals.

The message is clear. Particularly in times of economic crisis, prudent management decisions can lay the foundation for a soaring business. Apart from social costs, workforce reduction is an option that may prevent the company from ascending to new heights in the future – and therefore the one to consider most carefully. Vacuums don't fly.

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- a process that focuses on streamlining and eliminating work as a basis for reducing the number of jobs (investment in labour-saving technology, reengineering business processes, restructuring of logistics systems, or outsourcing).

In order to avoid such measures and increase competitiveness, certain short-term measures can be taken:

- voluntary decreases in salary, with payback conditionality for better times. This option is still better than no salary at all. This system consists of negotiating a new and lower salary for a limited period, with a possible bonus in the future if the company's economic situation allows it. Here, national legislation should be considered carefully because in some countries, such as France, decreasing the salary is generally not allowed without modification of the employment contract;
- part-time work for a fixed or flexible period. For non-essential jobs, or jobs planned to be eliminated, a fixed period (or flexible period linked to economic indicators) of part-time jobs can be designated, allowing workers to partially maintain their jobs (and related income) and the company to decrease the workforce cost;
- cancellation of future fringe benefits after negotiation, with consideration given to national legislation;
- transformation of monetary benefits into non-monetary benefits (*ManagerMagazin*, 2001, pp.256–9).

An additional option for times of economic turndown relates back to economic theory. A declining economy normally triggers increasing price elasticity for some products. Therefore, it might pay to lower certain prices when the economy is slowing down – instead of considering it as a defensive reaction only. In such a macro-level environment, price reductions may increase sales volume significantly more than in boom times (*ibid.*).

Another main issue when it comes to management options is that of flexibility. Companies sometimes lay off people in a recession and hire them (or others) back during boom times (*numerical flexibility*). In this case, the workforce is considered a numerical factor that can be altered. It would be useful to consider other kinds of flexibility.

In today's world enterprises need to be constantly ready for challenges. Instead of a traditional, reactive approach to restructuring, i.e. reacting when the situation gets worse and then restructuring, today's corporate champions are adjusting their management systems in such a way as to be always prepared



## Box 2 Mature labour-management relations help to find solutions

In industrial undertakings (restructuring included) it is important to reflect upon the thinking and the position of the important actors in the system. Management is not always right, nor is the union. They will be more right if they work together on issues and concerns of common interest – such as the issue of restructuring, since such exercises will in most instances inevitably involve enterprise rights and responsibilities as well as worker rights and interests.

In the case of a major port in south-east Asia the port management decided to modernize the entire port facility by implementing full containerization capabilities in response to increasing demand. This management decision ultimately meant eliminating almost 80 per cent of the stevedore jobs. The union realized that rejecting the imminent restructuring would have meant that ships would avoid using the port because of inadequate facilities. As a representative institution of the port workers, the union viewed this restructuring as literally a matter of life and death. The issues involved were not covered by the collective bargaining contract negotiated by the union and management because restructuring had not been anticipated during the negotiation process. When the restructuring issue was brought to the attention of the union, the members decided to engage the services of a reputed consulting firm to help formulate and design its response to the serious problem at hand. Because of the mature labour-management relations in the port, a mutually-agreed-upon approach and a viable solution were reached.

for an economic slowdown or any other external challenge. In other words, they create a model of *functional flexibility*, in contrast to numerical flexibility. Functional flexibility is a proactive model, based on a long-term approach. It implies continual improvements in the skills and knowledge of the workforce, carried out through on-the-job training aimed at multi-skilling (through job rotation, job enrichment, job enlargement, introduction of semi-autonomous work teams, quality circles and so on), or more traditional vocational training.

Functional flexibility thus allows people to respond to change and move quickly between tasks (multi-skilling). It also includes internal labour markets, the facilitation of innovation, and flexible promotion. Functional flexibility should both be pushed by the management *and* pulled by the workforce, for both groups have an interest in implementing this concept. It helps management increase the adaptability of the workforce and helps employees increase their skills and employability.

## Good practice in the workforce reduction process

Managing necessary workforce reductions in a socially sensitive manner does pay off. Apart from minimizing social costs at all levels, there is strong statistical evidence that employee satisfaction and corporate reputation have a

positive impact on productivity and financial performance (Chauvin and Guthrie, 1994; Koys, 2001; Khatri, 2000; O'Reilly and Pfeffer, 2000). Now, in an effort to identify and implement good labour practice, how can managers benchmark their business practices to ensure that they are in line with stakeholders' expectations?

### *International labour standards (ILS)<sup>5</sup>*

International labour standards can be used as an important source of guidance. Adopted by governments, and workers' and employers' representatives of the member States of the International Labour Organization (ILO), they represent international consensus on good labour practice in society. Ratifying the ILS and adjusting national legislation (which is the responsibility of governments) is not the only way of putting ILS into effect: many other constituents among the employers and workers observe the ILS in their labour relations. In many countries ILS have already been incorporated into national legislation, which is why managers should turn to national law and practice first.

However, the knowledge of some particular ILS may further increase managers' understanding of broadly accepted international labour standards. Indeed, non-governmental organizations (NGOs) and other interested parties often use ILS as their benchmark in assessing business performance. This makes ILS a useful tool for business people around the globe. With their clear provisions, ILS can be used voluntarily as benchmarks for good labour practice, helping to achieve important improvements in both working conditions and business performance.

We refer here to the Termination of Employment Convention, 1982 (No.158), as described in the next section, and also the Equal Remuneration Convention, 1951 (No. 100), the Discrimination (Employment and Occupation) Convention, 1958 (No. 111) and their related Recommendations, Nos. 90 (1952) and 111 (1958).

### *The Termination of Employment Convention, 1982 (No. 158)<sup>6</sup>*

Historically, termination of employment was characterized by symmetry of rights between the employer and worker. Either could end the employment relationship simply by giving notice, without any requirement to give a reason, any restrictions, or any procedural requirements. Although treating both parties equally may seem fair at first glance, the impact of termination of

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<sup>5</sup> Sources: Esser, 2002; Rogovsky and Sims, 2002.

<sup>6</sup> This section is mainly written by Emily Sims, ILO Geneva.

employment is not the same for both parties. Workers generally suffer more due to loss of employment than employers do through the departure of an employee. Furthermore, employers often have more bargaining strength and can negotiate provisions to protect their interests, such as a minimum period of notice. Workers are less well placed to negotiate similar protection. The Convention seeks to redress this imbalance of impact and bargaining power. ILS are not by themselves binding; they are internationally agreed-upon norms to be observed by ILO constituents. Individually, the workers are not as strong as when they act in concert through their freely chosen representatives. Like the employers, their actions and their considered positions on issues are guided by agreed upon international norms.

According to the Convention, termination of employment at will is no longer acceptable; however, employers must be able to respond to change. Therefore, a worker may be fired, but only when there is a valid reason.<sup>7</sup> Valid reasons for termination of employment are limited to cases where:

- the worker can no longer carry out the work needed or behaves in a manner that is incompatible with the workplace; or
- conditions (economic, technological, etc.) have changed which necessitate eliminating the worker's post.

In the case of dismissal related to the capacity or conduct of the worker, he or she has the right to defend him/herself against allegations that he/she is either incapable of doing the job, or has behaved in a manner which justifies dismissal. It is important that this occur before dismissal, to minimize both the damage done to the relationship and the negative consequences suffered by the individual in cases where the accusations prove unfounded. However, there may be exceptional circumstances where the employer cannot provide the opportunity for the worker to be heard prior to dismissal. For example, allegations of assault or theft may involve the arrest of the worker, in which case it would be reasonable to let the employer rely on the outcome of a public trial without a separate internal hearing.

The Convention contains a list of the prohibited grounds for termination of employment, in cases of individual or collective dismissal. These include:

- union membership or participation in union activities outside of working hours or, with the consent of the employer, within working hours;
- seeking office as, or acting or having acted in the capacity of, a workers' representative;

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<sup>7</sup> It must be clarified here that an ILO Convention is translated into national legislation only if it is ratified by a member State of the ILO.

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- the filing of a complaint or the participation in proceedings against an employer involving alleged violation of laws or regulations or recourse to competent administrative authorities;
- race, colour, sex, marital status, family responsibilities, pregnancy, religion, political opinion, national extraction or social origin;
- absence from work during maternity leave.

Temporary absence from work because of illness or injury also must not constitute a valid reason for termination. The government may determine what constitutes temporary absence, preferably in consultation with workers' and employers' organizations. In countries with accident and illness insurance schemes, the definition of temporary absence is often linked to the period for which an insured person would be entitled to sickness benefit (typically 26 weeks). The idea is that it is better for the sick or injured worker to be able to recuperate without the anxiety of job loss, which may drive him/her back to work before a full recovery. Limits may be set due to the cost to employers of keeping a post open for an indefinite period.

The Convention also establishes a constructive approach to restructuring or closure of an operation. In a country where the Convention has been ratified and translated into law, the employer is required to consult in a genuine fashion with the workers before taking action. Although the employer may feel strongly about what measures must be taken in light of the current situation, he or she must also give serious consideration to any alternative measures proposed by the workers. If none of the workers' proposals appear feasible, the employer and workers should attempt to work out some other alternative together. However, the ultimate decision on what course of action should be taken remains with the employer.

The employer is expected to provide workers with all the information they need to understand the current financial or other conditions motivating the firm to downsize, and to be able to protect their interests while bearing in mind the issues facing the firm. The information should be provided well enough in advance so that the workers' representatives have time to formulate an alternative strategy, or to propose ways of minimizing the negative impact of the restructuring on workers.

In the case of mergers or acquisitions, new management is under the same obligation to cooperate with the workers' representatives to the fullest extent possible. Although this is a legal obligation which stems from acquiring all the outstanding liabilities of the enterprise, it is also an important business strategy. Empirical evidence clearly demonstrates the vital importance of working with existing staff during a merger or acquisition to ensure that shareholder value is added rather than destroyed.

The government may establish in advance, and preferably in consultation with workers' and employers' organizations, a minimum anticipated number or percentage of workers to be affected before the consultation procedures must be adhered to. Government intervention should be resorted to only when both labour and management decide to use government mediation or arbitration when negotiations become deadlocked. Although the Convention certainly allows for consultation when even one person is made redundant, it also takes into account that consultations, which hinder the employer's ability to react quickly to a situation, can be very costly to the enterprise, and may aggravate an already serious financial situation. Therefore, requiring the employer to go through a potentially lengthy consultation process each time a worker is made redundant would ultimately be in no one's best interest. However, the employer may wish to consider setting up a less formal consultation mechanism in cases where smaller numbers of workers are affected, which would require less time but would still protect the interests of the worker(s).

The Convention establishes a mechanism to ensure that the competent authorities are notified of a potential restructuring so that they may take one or more of the following steps.

- Mediate the discussions between workers and the employer.
- Take possible preventive measures (e.g. a temporary cash injection for an otherwise healthy company which has been hit by a bad external shock).
- Prepare for the possibility of a substantial increase in unemployment and take appropriate mitigating measures (e.g. temporarily increase investment in infrastructure to create jobs, set up training or retraining programmes, or establish revolving loan funds to support micro-enterprises).

Although employers should try to be impartial during the pre-dismissal right to be heard, the situation can be emotionally charged. Therefore, principles of natural justice require that the worker be allowed to bring his or her case before an independent body if the dispute cannot be resolved internally to everyone's satisfaction. However, the appeals procedure is costly to the enterprise when it delays filling a vacant post. Therefore, the worker's right is subject to a time limit (a statute of limitations), which the government should determine in consultation with workers' and employers' organizations when possible.

In cases of collective dismissal, workers should be allowed to challenge the decision when there is substantial prima facie evidence to support the view that no such necessity exists (e.g. the hiring of a substantial number of new workers shortly after the redundancies have been carried out), or to contest the manner in which the dismissals have been carried out.

In collective dismissals, the impartial body should be empowered to overturn a decision to downsize, particularly in egregious cases. However, there are risks inherent in second-guessing the business strategies of firms and of requiring the firm to disclose financial, technological and other sensitive information. Therefore, the government may determine the limits of the adjudicating body's authority to review the decision of the firm and the conditions under which information is disclosed.

Although the preferred remedy is reinstatement, there will be cases in which reinstatement would serve the interests of neither the employer nor the worker(s). Therefore, other remedies are possible, such as payment of compensation. The remedy should seek to restore the loss to the worker, including reputation damage if appropriate; but it should not be punitive in nature, except perhaps in patently abusive cases.

Workers should be given adequate notice to prepare their job search. It is often easier to find employment when employed rather than unemployed, and advance notice may help to reduce the period of unemployment. The worker should be given time off work during the period of notice to conduct a job search. If notice is not possible, the employer should pay compensation (usually equal to the wages the worker would have received during the period of notice). However, in cases of serious misconduct it would be unfair to the employer to require that a period of notice, or payment in lieu of notice, be given because it would in essence penalize the employer for the grave fault of the worker. Serious misconduct should be narrowly defined to ensure that it applies only in cases where the requirement of notice would be truly unjust to the employer.

A worker facing the reality of losing his or her source of income should be entitled to either a severance benefit or a social security benefit. If severance benefits are paid, they should take into account how long the worker has been with the firm. Workers who have been with a firm for a long period of time generally are older and have much more firm-specific skills. This may make them less competitive in the labour market, potentially lengthening the unemployment period, and as a result they may be more in need of income replacement. Severance payments should also take into account the previous wage of the worker, to ensure continuity of income.

Firms may pay severance benefits in addition to any social security benefits the worker may be entitled to, particularly given that the level of social security benefit provided may be quite low. The justification for severance benefits is income replacement, and therefore to the extent that a worker is entitled to income from social security, additional income replacement becomes more discretionary.

The Convention does not require (but certainly would permit) firms to pay severance benefits in cases where a worker does not qualify for social

security benefits (e.g. the employee has not worked for long enough, has failed to pay contributions, or is not conducting an active job search). The idea is that the employer should not be held financially liable for the fact that the worker does not qualify, if he or she would qualify under normal circumstances. Of course, if the fault disqualifying the worker lies with the employer (e.g. failing to pay contributions and stealing the worker's contribution) then the employer should be required to pay severance benefits.

To the extent that it is feasible in a country, unemployment insurance is highly desirable for both employers and workers. For employers, unemployment insurance smoothens the cost of terminations; for workers it provides guaranteed income for a longer period of time (albeit at a lower level) and is often more generous than severance payments for people facing longer periods of unemployment.

It should be noted that payment in lieu of notice is a separate entitlement from severance allowances. A payment made in lieu of notice should not be deducted from the amount owed to the worker as a severance allowance.

The Convention permits, but does not require, the exclusion of workers on fixed-term contracts, probation, casual workers, and workers on other types of non-permanent contracts. However, it is important to note that the government must take steps to ensure that these exceptions do not constitute a giant loophole undermining the purpose of safeguards against arbitrary dismissal.

Some categories of workers may not be in need of general protection, given the nature of their work and their level of compensation (e.g. senior management). Some categories of workers may need protection, but the nature of the enterprise or industry makes such action difficult (e.g. a micro-enterprise where the worker also lives with the employer). However, the government must consult with the social partners concerned before excluding these categories, and must attempt to gradually overcome the difficulties in protecting any excluded category, to the extent possible.

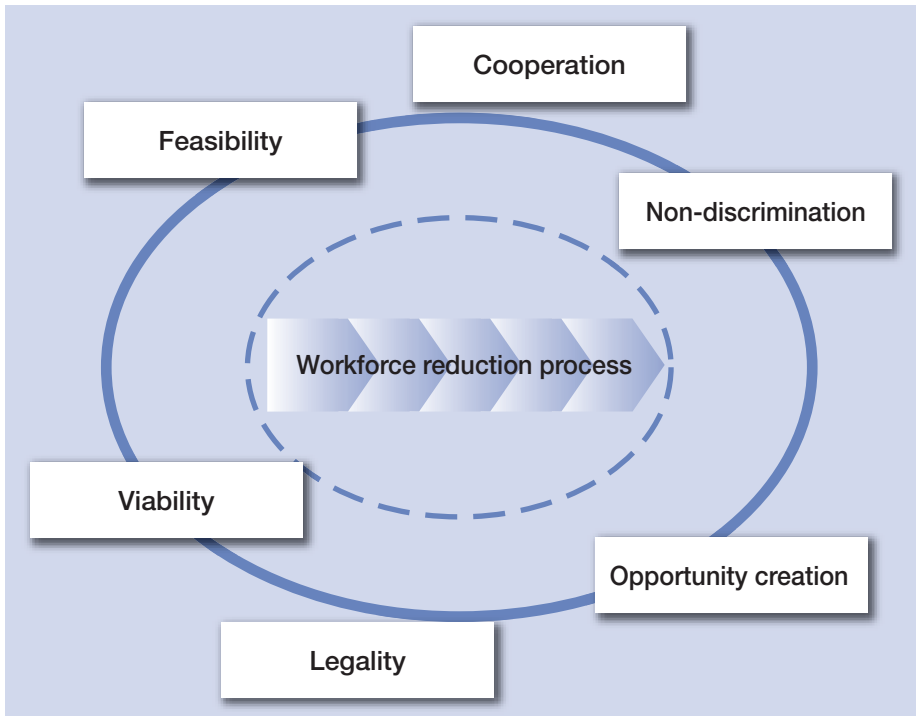
We should also add that grievance procedures should be considered in the collective agreement, and that mediation or arbitration (voluntary or otherwise) should also be promoted and encouraged as often as possible.

This said, it is now up to management and corporate stakeholders to incorporate the aforementioned provisions into the workforce reduction process.

## Business framework for the process of restructuring

Companies and their internal processes do not exist in a vacuum. There are numerous linkages to outsiders such as suppliers, customers, shareholders and other financial stakeholders, the labour market and the community, including the government and other (legal) authorities. Furthermore, the values and expectations held and respected by an enterprise's environment will inevitably

Figure 2 The general business framework for the workforce reduction process



influence the way the enterprise conducts business. Figure 2 illustrates the general business framework for the workforce reduction process.

### *Viability*

Every corporate restructuring exercise must be aimed at improving efficiency and overall business prospects. Therefore, ensuring the viability of the downsizing strategy is paramount.

### *Feasibility*

Goals that cannot be achieved are not plausible and will unavoidably lead to frustration and failure. Keeping in mind the limited resources and options of the enterprise, it is vital to ensure that all objectives are attainable and that the overall strategy is feasible.

### *Cooperation*

Cooperation with internal and external partners (workers, unions, employers' representatives, government) is another key method of ensuring the success of restructuring and minimizing the social costs of a workforce



reduction. Cooperation helps create an understanding of the different concerns of those involved and affected.

### *Non-discrimination*

Any distinction, exclusion or preference made on the basis of race, colour, sex, religion, age, political opinion, national extraction or social origin which has the effect of nullifying or impairing equality of opportunity or treatment in employment and occupation (in our case displacement) is discriminatory. Therefore, displacement decisions should *not* be made on the basis of these criteria, but through business analysis only. Additional discriminatory practices may exist at national level (e.g. HIV/AIDS). Here again, guidance can be drawn from ILS.

### *Opportunity creation*

In parallel with the reduction itself, a focus should be set on creating opportunities for those who have to bear the social costs. Laid-off employees might wish to start their own company, survivors will have a certain interest in assuming additional responsibility, and the community could probably be interested in assisting with the development of job cells or similar employment centres. Opportunity creation does not automatically lead to additional expense; rather, it is a mindset that aims at maximizing the yield for everyone involved in this difficult situation, while taking into account all given necessities and limitations.

### *Legality*

Workforce reduction is a very complex issue in labour legislation, and companies should make sure they start from a secure legal basis. Furthermore, legal provisions differ substantially among countries, with important implications for multinational enterprises. For example, countries such as the United States and some of the Asian economies have greater flexibility for workforce reduction than most of the western European countries. Even within a region, different national laws allow and require different actions, and domestic shifts in legislation can take place as well.

## Determining factors for the development of an individual strategy

Before entering the actual workforce reduction process, managers should note some other factors that are crucial to identifying a suitable strategy. Company size, the industry in which it operates, its location, and the value systems of both the company and the business environment all deserve further attention.

Table 1 Workforce reduction strategy and size of enterprise

	Small and medium-sized enterprises (SMEs)	Multinational enterprises (MNEs)	Large enterprises
Resources available	Minimal	Limited	Limited
Flexibility needed	Maximum	Medium	Medium
Managerial and legal complexity	High	Maximum	High
Formal process necessary	Low	High	High
Internal communication required	High	High	High
External communication required	Limited	Maximum	High
Impact on enterprise as a whole	Maximum	Medium-high	Medium-high

Source: ILO.

### Size

Table 1 provides an overview of the implications that the size of the firm has for the formulation of a suitable strategy for the workforce reduction process.

In SMEs, where resources are extremely limited, a highly formalized process will undoubtedly be at the expense of flexibility. However, flexibility is not only an issue in terms of SMEs' long-term survival despite constantly changing markets. It is also vital for the management of a specific situation such as downsizing. SMEs cannot just draw resources from other business units or subsidiaries in other countries (cross-financing), nor do they have any direct influence on prices, as industry leaders do. Therefore, they often find themselves in a dilemma between the need to change quickly and the need to devote substantial resources (time, finances and capacity) to the process.

In large enterprises and in particular in multinational enterprises (MNEs), limitation of resources is certainly a crucial point as well. Still, due to the comparably larger size of the enterprise, the management can at least explore some alternative resources within the company. Here the complexity of the task, due to different legislations and management styles and an increased need for thorough communication with both internal and external stakeholders, is probably the most critical issue.

### Industry

The knowledge ratio<sup>8</sup> in the respective industry can function as an important guideline in determining the two extremes of a continuum. At one extreme, an enterprise with mainly unskilled workers will not have to pay

<sup>8</sup> This is the percentage of skilled workers as a total of the workforce (skilled and unskilled).

much attention to issues such as loss of key talent or intrinsic knowledge.<sup>9</sup> At the other extreme, companies with mainly skilled or highly skilled workers should take a very cautious approach if they are not to significantly diminish or even lose their competitive advantage.

### *Location*

The location of the enterprise, subsidiary or site where the workforce reduction takes place plays an important role with regard to the legal framework. Additionally, the ability to absorb those workers who have been laid off and to help minimize the social costs and frictions depends heavily on the particular social system and the respective country or community.

### *Value systems*

Value systems exist both inside and outside the enterprise. The corporate culture is one defining element of the “enterprise social system”.<sup>10</sup> Even small family businesses can have a corporate culture, such as being quality driven, facilitating the inclusion of disabled family members, valuing customer service, and so on. The surrounding culture has important implications for the management of the workforce reduction process, in particular regarding interviews and communication (Hofstede, 1984). Some cultures value clear hierarchies and greater distribution of power among individuals, groups and entities more than others.

## The four phases of the workforce reduction process

The management process must start with a *study phase* which ends with the choice of a target form of organization. This is followed by the *preparation phase* which ends with the setting up of appropriate tools. Next the *action phase* begins, leading to the *evaluation phase*. The following pages and table 2 describe the process in detail.

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<sup>9</sup> Intrinsic knowledge is kept in the minds and experience of employees, as opposed to extrinsic knowledge, which is documented in manuals, books, videos, and so on.

<sup>10</sup> See also Luhmann, 1984; Trompenaars, 1997.

Table 2 The four phases of restructuring

Phase	Processes
1. Study and planning	<p>Clear long-term strategy (&gt; 5 years) or at least clear vision involving social partners</p> <p>Time frame  short  medium  long</p> <p>Legal advice</p> <p>Consultation with social partners about options and costs  economic  environmental  social  hidden</p> <p>Scenarios  plant closure  headquarters repositioning  outsourcing  outcontracting  sale  closure</p> <p>Budgeting for relevant options, including ROI</p> <p>Achieve agreement: choice of new form of organization with budget and time frame</p>
2. Preparation	<p>Appoint displacement committee  advice and ownership</p> <p>Choice of tools  counselling at every stage  skills assessment  training for employability  inplacement  outplacement  SME creation  mobility  early/partial retirement  alternative work schedule  severance package</p>

*/cont'd.*

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Phase	Processes
<hr/>	
Set up schedule agreed by all stakeholders	
3. Action	Creation of tools  Training of internal process team  Announcement  Interviews psychological impact (reactions and advice) listening appointments (with tools)  Follow-up
Prepare for final evaluation	
4. Evaluation	Final evaluation financial organizational strategic social impact compliance with time frame  Future HR management, anticipatory and proactive mobility employability training internal case development for organizational learning salary/wage survey

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### *Phase 1. Study and action planning*

The *study phase* must begin with the statement of a clear long-term strategy, which is followed by the creation of a time frame for the whole operation, and, together with legal advice and consultation of the stakeholders, the clarification of several scenarios. Then, the scenarios must be budgeted, enabling decision-making for the most feasible scenario. The chosen scenario must then be budgeted more precisely, without forgetting or underestimating the hidden costs.

### *Clear long-term strategy*

The first step is to define the objective and how best to achieve it. A clear long-term strategy is the point of reference for every future management decision. It requires reflection and dialogue and should involve the social partners. In addition, a strategy should always be:

- announced in a comprehensive way to every employee of the enterprise, from top to bottom;
- understood by everyone (expressed in simple words, explained to prevent misunderstandings);
- agreed upon and shared by everyone in the company.

Communication about the long-term strategy must be carefully prepared and well organized in order to mobilize the whole company towards the chosen strategy. If a long-term strategy cannot be formulated, at least a clear vision should be defined.

### *Time frame*

The time frame is critical for planning, preparation and budgeting. Depending on the situation, it can be:

- short (e.g., cut 10 per cent of labour costs within the next four weeks)
- medium (e.g., cut 10 per cent of labour costs within the forthcoming year), or
- long term (e.g., reduce the workforce by 25 per cent during the next three years, starting with 5 per cent this year and 10 per cent in the two following years)

The time frame has to be operationalized and circulated to everyone involved in the preparation phase. It has to be feasible and motivating at the same time.

### *Legal framework*

Without legal advice, every downsizing exercise runs the risk of triggering dramatic mistakes. It is therefore indispensable to check, research or seek advice on national laws regarding:

- grievance procedures
- consultation (social dialogue)
- social plan

- delays
- redundancy payments

### *Consultation with social partners*

It is advisable to start consultations with social partners early on in the process. Only then can different views, questions and important concerns can be heard, understood and addressed. Intense dialogue and a shared consensus help achieve a better and quicker solution! Consultations should therefore include a discussion both on options (efficiency improvements, financial effects/impact on future earnings, and effects on market position and business prospects) and on costs (economic, environmental, social, hidden). These consultations should be kept confidential during the early stages and social partners should accept to commit themselves to a confidentiality clause.

### *Scenarios*

Possible scenarios to be budgeted include:

- plant or site closure
- headquarter repositioning
- outcontracting (to create an external independent company including the workers to do a job previously done inside the company, e.g. a call centre or photocopying business)
- outsourcing (to find existing subcontractors to do the job previously done by the company, and then to eliminate the relevant positions inside the company)
- sale of the company
- mergers
- combination of different scenarios
- complete closure

### *Budgeting for relevant options*

Anticipated costs, return on investment (ROI) and accuracies of prediction should be included in the budgeting. If technically feasible, a ranking based on quantitative analysis may be developed.

### *Achieve shared agreement*

The common agreement on how to plan, prepare, manage and measure the displacement process should:

- address all internal stakeholders' concerns
- be understood and agreed upon
- be shared by all partners involved
- contain specific but achievable targets
- be as complete as possible
- be as measurable and controllable as possible

### *The choice*

At this stage, the relevant options have been listed, examined, supported by figures, and compared (a good decision tool is the SWOT analysis).<sup>11</sup> They are the result of team efforts and a dialogue-based agreement in which the social impact and estimated hidden costs have been taken into account. On that basis, the decision should be made about the specific modalities.

## *Phase 2. Preparation*

The *preparation phase* consists of:

- choosing and appointing a committee of experts responsible for the process management, consisting of a team leader, some involved specialists (communication, organization, cost accountant), stakeholder representatives (workers, HR, management), and other involved department representatives (production, M&S, finance, supply chain, R&D);
- choosing the appropriate tools necessary to assist redundant workers. Then, the tools have to be developed by dedicated employees who will work in 'units' created according to identified needs.

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<sup>11</sup> SWOT = analysis which consists of noting strengths, weaknesses, opportunities and threats as a basis for comparison and decision-making.



### *Planned organization*

Next, the decision should be codified. A chart for the new organization must describe as precisely as possible:

- the target form of organization with expected outcomes and objectives (= what)
- the cost and the amount of intended investment (= how much)
- the time allowed to reach this point, with a detailed time frame (= when)

Before going further, it is important to check (now and at every major stage of the process) whether the procedure is in line with the long-term strategy. If not, the disparity should be reviewed – without omitting to recalculate both the economics and the feasibility.

It is important not to overestimate the expected advantages, and to remember that it is about dealing with people. Realistic and achievable targets should be set to enhance commitment and avoid possible frustration. In a complex succession of targets, the objective will never be achieved if the initial targets are too difficult.

### *Displacement committee*

In order to begin with the displacement process, it is advisable to appoint (or elect) an executive downsizing committee that:

- is responsible for keeping the project on course
- helps to avoid deviance from the process
- makes necessary decisions to ensure that all steps of the project are executed at the correct time
- is a team which employees trust and would not hesitate to consult
- centralizes the demands of the project
- coordinates communication
- reports regularly to management
- checks whether expected profits have been reached
- presents final conclusions

The team should ideally be composed of:

- a team leader, reporting to management, providing communication and leadership qualities

## Restructuring for corporate success

- specialists (for communication and external relations, organization, financial control, etc.)
- stakeholder representatives (workers' representatives, human resource department, etc.)
- department representatives, at least for departments involved (e.g., production, marketing and sales, finance, supply chain)

Ideally, members have worked on the feasibility study of the project and have the capacity and authority to make decisions in their respective fields. This helps to prevent conflicts and misunderstandings in the hierarchy.

### *The tools*

The tools are aimed at helping those employees leaving the enterprise to find decent work, at minimizing social costs, motivating survivors, preventing a negative atmosphere and increasing efficiency. Both technical and psychological support should be provided, and logistical support may be required to help set up and run the tools.

Some tools need a permanent structure with people assigned to it (either internally from the human resource department, subcontracted, or jointly with internal and external resources). Financial resources for the tool creation and application should be provided for in the financial plan, and be a part of the operational profitability calculation. Tool creation merely for marketing or PR reasons should be avoided.

The tools outlined in Chapter 2 are:

- counselling
- skills assessment
- training/employability
- internal job search
- external job search
- creation of SMEs
- mobility
- early/partial retirement
- alternative work schedule
- severance package

These tools will be further detailed along with several case studies to provide relevant real-life examples of how each tool can be implemented.

### *Phase 3. Action*

In the *action phase*, affected workers have to be informed. This includes both those who are going to stay and those who will have to leave. In this context, the tools developed to help them should be publicized. Attention must be paid to every individual case, if possible. At the end of a successful action phase, the target form of organization should be operational.

Based on the tools chosen, and to allow reasonable preparation for action, a time schedule has to be set up that is shared by all stakeholders and communicated within the company.

#### *Announcement*

When the units have been created, the displacement team should communicate three key factors:

- when exactly lay-offs will take place
- how many people will be affected, either directly or indirectly
- the tools offered

These measures help prevent negative interpretations or unnecessary stress. It is assumed that reasons for the downsizing decision are known from previous communications, and that internal communication can therefore concentrate on explanations of tools and not reasons. Furthermore, the company's best employees should be reassured as early as possible to avoid loss of key talent.

#### *Interviews<sup>12</sup>*

Ideally, every employee affected by the lay-off will be addressed in person. Until they are, they tend to avoid believing that they are affected. Stress will be at the maximum level on the day when affected employees are asked to attend the interviews. It is, however, an inescapable stage of the process.

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<sup>12</sup> See also Fieldan and Davidson, 1999.

Some recommendations are listed below:

- Ideally, the employee's superior should hold the interview, as this person knows the employee best.
- Only two interviewers should be present so as not to create unnecessary pressure on the employee.
- If the employee asks to be accompanied by another person, the total should be brought to four (to prevent any imbalance of power).
- Remove any potentially dangerous or harmful objects from the desk. Such situations can quickly become unstable.
- Have on hand a phone number for medical assistance in case of fainting, in order to ensure that help arrives quickly.
- Keep a person within earshot who could be of assistance.
- Make sure affected employees understand the importance of the situation.
- Make it clear that the decision is irrevocable in order to prevent any false hopes of negotiating. Give facts.
- Maintain calm regardless of the situation.
- Always remember that being laid off is a trauma. In such a severe situation, affected people are often not able to listen to what is being said. In general, three typical reactions have been observed:
  - a dazed appearance, as if the employee has switched off, characterized by apathy and staring into space;
  - a violent reaction, accompanied by shouting, denying, or trying to bargain;
  - crying, fainting, or even collapse.
- List the tools that have been established to help, explain them, and determine which ones are suitable in that particular case. Provide a list of all suitable tools with accurate explanations and contacts (names of people responsible and phone numbers of the units).
- Make appointments with the units. Insist on the importance of this meeting, as some people reject any help from the enterprise at that stage.
- Try to be as positive and supportive as possible.

The following advice on communication skills may be helpful:

- Listening to affected employees is paramount. They need to express their feelings, and will need someone to listen to them.
- Take your time to be open and receptive, but do not allow the meeting to be too long. Forty-five minutes to one hour should be the maximum duration.
- Demonstrate a willingness to help, and that the enterprise has established tools to do so.

### *Follow-up*

Following up those involved can last for months; furthermore, cases should be followed up individually if possible. Job unit activity leaders must also be encouraged and motivated by the frequent updating of the ratio of the number of cases solved to the total number of cases.<sup>13</sup>

## *Phase 4. Evaluation and implications for future HR management*

The final, *evaluation phase*, aims at a complete evaluation of the process, including the time frame, and lays the foundation for a new HR management strategy. Throughout the process, successful communication is key to success. Communication should be divided into internal (within the company) and external/financial communication (with outside stakeholders).

At the end of the process, it is up to the displacement committee to evaluate what has been done, what has been achieved, and what proportion of the resources have been used for each step. These findings have to be reported to management and require careful evaluation of financial, organizational, strategic, social and time indicators. The results of this analysis should also be shared with all stakeholders involved.

The following questions may provide guidelines:

Financial:

- Has the expected cost reduction been reached?
- Has the company's financial situation improved?
- Has the budget been followed? If not, why?

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<sup>13</sup> At the beginning these ratios normally grow fast, which makes the process seem easy. But since many simple cases are solved rather quickly, growth will most probably slow down as time goes on.

## Restructuring for corporate success

### Organizational:

- Does the new form of organization match the initial target?
- Has operational efficiency increased?

### Strategic:

- Has the business environment changed as expected?
- Does the new organization respond to the new business environment? If not, what measures should be taken?

### Social impact:

- Have the targeted ratios for placing people been reached?
- In terms of tool development and implementation, what can be learned for the future?
- What happened to the unsolved cases?

### Time frame:

- Has the time frame been followed?
- Which bottlenecks had to be dealt with?

Answering these questions is crucial if the company is to capitalize fully on the restructuring experience. In this context, internal case development for organizational learning should be encouraged as well. In addition, a survey of salaries and wages may help to ensure that payment levels are in line with the market, which will in turn facilitate the placement of employees affected by possible future restructuring exercises.

Based on a sound process evaluation, human resource management will be even more anticipatory and proactive.

## Conclusion

The time when companies were announcing lay-offs just to improve the share value is gone. The words “Socially Sensitive (Responsible) Enterprise Restructuring (SSER)” are now part of management literature and practice, but establishing and realizing a well-managed restructuring plan still remains a very difficult exercise. Most downsizing exercises in recent years have failed to produce the improvements expected, mainly because the long-term costs were often higher than the short-term savings.

Workforce reduction can only improve performance in productivity and profits in a sustainable manner if it is well planned and implemented, and if it goes hand in hand with general restructuring exercises. Only if anticipated profits outweigh the global costs of reducing the workforce is it economically viable.<sup>14</sup> However, within the challenging framework of limited resources, legal requirements, time pressure and a clear need for viability and feasibility, reducing the workforce is about managing human beings – probably more than any other management decision or function. Therefore, putting people first in all phases of the process must be regarded as *the* key success factor. Many tools that can achieve improved efficiency *and* minimize social costs are already in the hands of managers. Even though their implementation requires substantial efforts, these tools can make an important contribution to reacting to competitive pressure in a socially sensitive manner.

Downsizing should be implemented only after all other alternatives to lay-offs have been considered and ruled out, and should be carried out in accordance with the following principles:

- Carry out dialogue with the stakeholders.
- Achieve an agreement.
- Carefully prepare the process.
- Provide the process with the necessary means for success (human and financial).
- Enhance internal and external communication.
- Respect the human beings involved, treating them fairly and helping them to find other jobs.
- Avoid discrimination.

However, the best way to avoid downsizing is to adopt a long-term policy that anticipates crisis, and to develop human resource management in order to contribute to the employability of workers.

By acting according to these recommendations, relations between the enterprise and its environment will become a win-win scenario focused on long-term success. This will generate a better social climate, favourable to economic growth and peaceful labour relations, to the advantage of both the enterprise and its environment.

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<sup>14</sup>See also Hermalin, 1996.





# MINIMIZING SOCIAL AND PERSONAL COSTS: THE TOOLS THAT CAN HELP

# 2

Less than two decades ago employees expected to join a large company, do their job, and be provided for by the company on a long-term basis. Technological shifts as well as the movement towards a global economy have changed all this. Employment is no longer guaranteed, doing just enough is no longer good enough; at the same time though, employees are becoming more demanding of the company in terms of opportunities for development, advancement, work–life balance and so on.

Table 3 presents some of the shifts in expectations currently being experienced in the workplace.

In keeping with this shift in philosophy, lifelong job security is becoming a thing of the past. Companies are under more pressure to adapt to the changing environment quickly and efficiently, making sure the bottom line satisfies the shareholders. As a result, downsizing is no longer just a means to reduce costs in times of dire need, but a way of keeping a company lean and profitable.

Although the benefits of this type of strategy are arguable, once the decision has been made that downsizing is a necessary part of the restructuring effort the company has several tools at its disposal to minimize

Table 3 Old and new expectations

Old expectations	New expectations
Big budget and large staff	New challenges and exciting business
Traditional corporate hierarchy	Flat, fluid, flexible organization
Thirty-year horizon, good salary and retirement package	Five-year horizon, wealth linked to value created
Steadily up the corporate ladder	Jumping from one rock face to another

Source: Michaels et al., 2001.

the social impact on employees (both those affected and the survivors), as well as on the community around it.

In addition to helping the employees, the company also benefits from enhancing its reputation as a socially sensitive enterprise. This can have a long-term impact in terms of brand equity and of making the company a more attractive future employer for top-quality candidates.

As mentioned in Chapter 1, certain tools should have a permanent physical presence with people assigned to them, and the financial injections necessary to ensure a smooth rollout should be discussed during the preparation phase.

The tools outlined in this chapter are as follows:

- counselling
- skills assessment
- training/employability
- internal job search
- external job search
- creation of SMEs
- mobility
- early/partial retirement
- alternative work schedule
- severance package

## Counselling

Being made redundant is a trauma. People's reactions to a broken work relationship are similar to those experienced in breaking up a private relationship. They are characterized by denial, fear of the future, anger and depression. While management's decision must be binding and irrevocable, members of the management team should always be ready to listen to those workers who are affected, to allow them to address and express their concerns, or simply to let them talk. Additionally, management needs to remember that it is not just those employees being let go who are affected; survivors also experience emotional distress during this time, either because friends have been let go or because they fear for the future of their own job. Communicating with both these groups is critical to the success of the restructuring effort, as well as putting in place counselling sessions to help employees get through the ordeal.

The counselling sessions should be a tool to assist employees who have been made redundant with the emotions stemming from the ending of the work relationship, and help them focus on their strengths and regain self-confidence and a positive outlook. For surviving employees, the counselling session should focus on the feelings they have regarding the company, their future, and any other issues that may arise. It is important to reinforce security and comfort for those employees who will continue to be responsible for the functioning of the company. This counselling effort could even be extended to the families of affected workers.

## Skills assessment

A change in job, whether within the company or externally, will often require a shift in skill requirements. A company can help its employees become aware both of their strengths and their areas for improvement by providing a skills assessment before the change takes place. This will not only provide employees with a realistic idea of where synergies may exist, but also, by highlighting the gaps between labour market expectations and their personal skills, help them understand what level of commitment is required for them to advance to a different job.

Gone are the days of the lifelong career with a large company and steady move up the corporate ladder. In the expanding European Union as well as in other parts of the world, people are increasingly realizing that job security is being based more on skills than on time with the company. Companies are no longer guaranteeing lifelong employment in the same job in the same place. Understanding the skills necessary and the skills one has is increasing in importance, for the skill portfolio of an employee is becoming a critical factor in retention. Based on the results of the assessment, decisions can be made by the employee and the company as to what training or education would prove beneficial.

## Training/employability

In today's uncertain job market employees have realized that, ultimately, the more skills they have the more valuable they are to the company. As a result, many people are seeking potential employers who will encourage training and skill development. Some workers, especially young ones, may want to improve their education or to change or expand their specialization. In many countries educational programmes for younger, highly skilled employees, linked with financial aid schemes, are responding to this demand. It is important to provide an overview of what is available and appropriate. The enterprise might additionally consider creating further incentives – for example, by adding a certain amount of money to the public financial assistance available.

Some companies engage in a practice of continuous improvement and training, increasing the employability of their employees so that if the time comes, moving to a new job may not prove as traumatic or difficult. This type of lifelong learning gives employees greater flexibility and independence and can improve their self-reliance and confidence when it comes to confronting new challenges and opportunities. This can benefit the company too, in having a multi-skilled employee base that can shift with the demands of the company, providing a continuous flow of qualified internal candidates to handle the demands of any current market situation.

Training should not be limited to job-skill training alone, however, but should also include job-search skill training. This includes how to create a CV, how to interview effectively, how to answer questions, how to dress for an interview, how to present one's strengths, and how to react in stressful situations. Both the company and the employee can only gain from this: the employee will find new employment faster, and the company will not only benefit from a positive image resulting from the aid it has offered, but will also find solutions for redundant employees in a more timely manner.

### Internal job search

Internal jobs (whether within the company itself, in another plant or service, or in a subsidiary) are the first areas to consider for redeployment. The HR department can provide guidance on availability and skill requirements. Depending on the size of the company, there may already be tools in place to aid this process, such as a company intranet site that lists vacancies, or bulletin boards that post upcoming openings. This overview should then be compared with a list of suitable candidates according to mobility, skills and individual wishes.

The HR department should encourage internal hiring among departments, even if this involves some retraining. Even if retraining is needed, the financial benefits of not having to search externally, orient a new person to the company, risk the person not adjusting, and deal with the administrative paperwork, may be more attractive than the costs and time associated with the development of a new employee.

### External job search

If employees have to leave the enterprise, they should be prepared both psychologically and technically through counselling and skills assessment and training, and be able to choose a job according to their skills, either locally or in another region. In preparing the employee, there are a number of important points to be considered at the outset:

- Provide outplacement counselling, skills assessment and training.
- Compile and classify job advertisements (newspapers, magazines, journals, internet, intranet, etc.) every day; prepare an overview in an easy-to-use format.
- Contact other companies to learn about their vacancies. This is usually common practice between large enterprises dealing in different domains. Do not limit it to large companies. Hundreds of contacts are generally necessary.
- Contact professional organizations to identify industry needs.
- Keep in permanent contact with employment organizations (both public and private).
- Contact recruitment agencies and propose candidates to them.

Particularly effective in this area are outplacement consultancy firms, which specialize in helping redundant managers find employment. They deal with every customer individually and use their network to identify suitable employment opportunities, often achieving higher efficiency than a single job cell. They are usually expensive but render excellent results, and can reduce the overall cost of the job unit by taking care of a certain category (generally high level) of employees.

Another practice used to encourage employees to be proactive in their job search is the “speed bonus”. This is a monetary sum awarded in addition to the severance package to employees who find a job within four months, with or without the help of the job-search unit.

Another trend is to offer a higher severance package to employees who accept the help of the job-search unit. This prevents employees from taking their severance money and waiting until the last moment to look for a new job without any help or advice – and facing financial difficulties as a result. Some companies offer only the legal amount of severance pay if an employee refuses help, but much more in the case that he or she accepts.

Lastly, some companies maintain the previous work contract until the end of the new job trial period. This helps employees to feel safe and secure, allowing them to test a new job with little risk.

## Creation of small and medium-sized enterprises (SMEs)

Within any group of workers made redundant there may be some people who have entrepreneurial aspirations and who, given the opportunity and support, would like to try to launch their own company. This could be anything from a

photocopying service to bicycle repairs. The idea will perhaps not be new to them, but the current situation now creates the need to be more independent. Examples are numerous and depend to some extent on the local economic environment. However, bringing such a project to fruition presents many difficulties, mainly concerning the financing of the activity, but also the management of it, compliance with regulations (starting with becoming aware of them), and so forth. Given these factors, it could be useful to establish a task force to promote SME creation that would:

- help the employee identify opportunities and prepare a feasible project plan – for example, moving from an idea to a business overview, time line, financial framework, and so on;
- assist with the development of the skills and culture necessary to achieve success;
- provide financial resources and advice on issues such as bank loans or capital raising;
- provide legal and administrative support and advice (how to create an enterprise, best practices, what to avoid, accounting standards, regulations, etc.);
- help by outsourcing certain non-core activities to provide employees with new ideas or opportunities.

In the context of SME creation, outsourcing provides an interesting option. Some activities traditionally carried out within the enterprise can be outsourced to the former workforce. Examples include travel services, transport, and administrative support. In this case, either the activity is being subcontracted to an existing company, or former employees create a new company (with or without temporary capital sharing, and possibly with a decreasing subcontractor agreement to encourage the new company to look for other customers).

Similar to SME creation, MBO (management buy-out) and MBI (management buy-in) are other options that may be considered. In an MBO, employees buy the plant or subsidiary that was about to be closed. In the case of an MBI, employees buy another plant or subsidiary outside the company (in the same field or a completely different domain), while the former employer may provide financial and technical support.

## Mobility

Workforce mobility undoubtedly increases opportunities to minimize social costs for a community, as dismissed workers are willing and able to

move to another location in order to find employment. Mobility therefore means both:

- accepting a change in job (job mobility); and
- accepting a change in the place of work, and even of residence (geographic mobility).

Job mobility can be handled mostly through skills assessment and training. Geographic mobility is more complex, for it often requires uprooting the entire family and thus making the emotional and financial impact even more significant.

Geographic mobility can be encouraged by offering attractive relocation packages which would include:

- financial resources to cover removal expenses;
- paid days off to conduct the move;
- home-search assistance and perhaps a housing allowance;
- a salary increase to bridge potential gaps in the cost of living in a more expensive area;
- an orientation course on the new area including information on local schools, facilities and other areas of interest to the family. In the case of relocation to an area where the language is different, financial allowances for language training for the entire family could be provided;
- administrative support in registrations, service installations, understanding local regulations, and so forth.

## Early/partial retirement

In accordance with local legislation, a system of early/partial retirement may be a solution. It also offers the advantage of readjusting the company's age pyramid. However, losing the most skilled and experienced employees can pose a serious threat to the company's human resources in terms of skills and historical knowledge, and should therefore be examined in detail before any major action is taken.

Early retirement can take several forms (depending on the company and local regulations) but often includes the extension of full benefits until the actual retirement age and a monetary sum awarded for each year of employment, in addition to a certain percentage of salary. The age at which early retirement becomes an option, as well as the level of financial incentives,

are usually up to the company; however, it makes sense for a company that considers this a viable solution to ensure that the financial benefits will be considered attractive enough for people to take advantage of the offer.

Part-time retirement (or partial retirement) might also provide a solution, allowing employees to work less (for instance 50 per cent) while being paid relatively more (for instance, net 70 per cent). This strategy can help to avoid any potential negative psychological impacts while at the same time assist in organizing a knowledge transfer.

## Alternative work schedule

“Alternative work schedule” is a general term encompassing any type of schedule that deviates from the traditional norms of the area. It includes, for example, part-time employment, flexible leave and subcontracting. One of the most significant benefits of an alternative work schedule is that it often allows a company to retain its employees while better managing the workflow shifts – thus achieving greater efficiency.

### *Part-time employment*

Part-time workers can do many jobs effectively, even though it must be noted that two part-timers will probably cost an employer more than one full-time worker because of administrative costs, office space needed and so forth. However, if the goal is to reduce production capacity, part-time work may provide an alternative to lay-offs. Again, transitional financial solutions may be employed. In addition, in those countries where agriculture comprises a large sector, it may be easy for workers to obtain part-time work and thereby facilitate a complementary activity in this field. In some cases, parents may choose this system in order to be with their children one day a week.

### *Subcontracted workers*

Detaching workers to other companies for a limited time period (subcontracting) is another possible solution to temporary overcapacity. The workers still belong to the enterprise – they are paid by it and will have the same employment conditions as before – but they work for another company that can be invoiced at a level previously agreed. The difference between labour cost (i.e. the actual cost of the worker) and the amount invoiced will be the cost of this operation. At the end of the contract workers return to their enterprise, unless they receive offers from the company where they have been working and their original employer agrees to let them go. However, this measure is quite difficult to set up due to legal constraints, and generally workers are rather reluctant.



The advantages of subcontracting are numerous:

- for the worker: experiencing a new work environment without risk;
- for the company that is hiring workers: a quickly operational workforce with useful knowledge, bringing in a new way of thinking, as well as a temporary solution to their needs;
- for the lending enterprise: decrease of labour costs while retaining talents; no social impact.

### *Flexible leave*

Another temporary solution focuses on allowing a limited leave, agreed upon between the employee and the company. Cornerstones of this type of solution include:

- partial salary during the leave;
- maintaining the office telephone number, car, email, and so on, as fringe benefits;
- security in finding a similar job in the company when returning from leave.

## Severance package

The financial implications of redundancy are understandably a major concern for employees. Losing one's job often means losing one's ability to provide for oneself and one's family: this is almost bound to create an exponential level of stress and anxiety. Though severance regulations vary by country, a company can help offset the stress by offering above and beyond the amounts required by law. Some companies choose to offer a partial salary for an extended period of time, or financial packages that reward those who have been with the company for a long time. Others even allow employees to keep certain fringe benefits, or to use the company's facilities for a period of time after severance takes place.<sup>1</sup>

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<sup>1</sup> A recent study of the effects of downsizing practices on the performance of hospitals in the United States (Chadwick et al., 2004) showed that consideration for employees' welfare during downsizing related positively both to the perceived success of the downsizing exercise and to financial performance following lay-offs.



This chapter provides real-life examples of businesses that during a process of restructuring have employed the practices outlined in Chapters 1 and 2, with varying levels of success and completion. From the comprehensive programme put in place by Deutsche Bank that addresses essentially every restructuring tool, to the smaller, more targeted efforts made by companies like Floreal, each case has experience that other companies can draw on and perhaps use as a basis for creating a turnkey restructuring plan for themselves.

Although the majority of the cases that follow are focused on the European market, restructuring has arrived on a global scale and can be expected to span the globe as the face of business becomes less country-specific and more universal. As organizational structures continue to move into this global view, new market factors are likely to further entrench restructuring; the changing needs of the business world will demand these tools as a basis for the modification of anticipatory planning for restructuring in the business model of most companies.

## Case 1. Deutsche Bank, Germany<sup>1</sup>

Key tools utilized					
Counselling	✓	Skills assessment	✓	Training/employability	✓
Internal job search	✓	External job search	✓	SME creation	✓
Mobility	✓	Early/partial retirement	✓	Alternative work schedules	✓
		Severance package	✓		

<sup>1</sup> Source: Fischer, 2003.

## Restructuring for corporate success

The statute of Deutsche Bank was adopted on 22 January 1870. The objective of the company was to “transact banking business of all kinds, in particular to promote and facilitate trade relations between Germany, other European countries and overseas markets”. From the outset, international business was built up steadily, and between 1871 and 1873 Deutsche Bank opened branches in Yokogawa, Shanghai and London.

In the very year of its foundation, Deutsche Bank accepted deposits in cash which helped its deposit-taking business become firmly established in Germany. It also played a major part in the development of electrical engineering and iron/steel industries.

Very early on, Deutsche Bank formed alliances with large regional banks. It merged in 1920 with its largest competitor, Disconto-Gesellschaft, to become Germany’s largest bank. But in 1945 Deutsche Bank stood on the brink of ruin. The postwar period proved to be the toughest in its history. The occupying forces either nationalized banks or allowed them, on a very modest scale, to remain operational at the regional level. Deutsche Bank was broken up into ten banks, which in 1957 were reunited under the original name.

In 1959 Deutsche Bank entered retail banking and over the next 40 years moved into internationalization with the acquisition of Morgan Grenfell and Bankers Trust.

Today, Deutsche Bank is one of the leading international financial service providers. It serves more than 12 million customers in 75 countries and is organized around eight core businesses:

- global markets
- global equities
- global corporate finance
- global transaction banking
- private and business clients
- private wealth management
- asset management
- corporate investments

The values and corporate objectives of Deutsche Bank are stated in Box 3.

## *Deutsche Bank in the 21st century*

In June 2001 Deutsche Bank ranked third in terms of revenues behind CitiGroup and JPMChase. By 2002, the economic downturn had caused a

### Box 3 Deutsche Bank values and corporate objectives

The goal of Deutsche Bank is to be among the three leading providers in its chosen core businesses and to generate an appropriate return on capital employed.

Deutsche Bank aspires to be a leading global provider of integrated financial solutions for demanding clients and the pre-eminent bank in Germany generating exceptional value for its shareholders and people.

Several key values are an integral part of the corporate structure:

**Innovation.** We are constantly challenging conventional wisdom and developing new solutions to meet customer requirements.

**Performance.** We are committed to a results-oriented culture.

**Trust.** We behave reliably, honestly and fairly.

**Customer focus.** We place customers at the centre of our activities as the driving force in all we do.

**Teamwork.** We benefit from the diversity of our business and our people by working together to achieve success.

Customer satisfaction is the basis of our business success. This is how we fulfil our shareholders' demands for a consistent increase in the value of their holdings in our bank. What we need to achieve both of these goals are motivated employees. Achieving this allows us to make a fair contribution to society in all those countries where we do business.

Our actions are dedicated to customers. Our customers are the focus of everything we do. To help promote the success of our customers' business, we approach them with competence, openness and courtesy. Their satisfaction is the measure of our performance.

Motivation is demonstrated by using drive and creativity to achieve innovative results. Our management teams promote employee motivation through leadership and the delegation of challenging tasks, and by taking responsibility and recognizing performance. We want to create conditions in which staff can sustain their personal and professional development, acquire knowledge and align their personal values with our corporate values. Personal dedication is stimulated by equitable performance-oriented remuneration.

Our shareholders' right to obtain a consistent long-term increase in the value of their investment is the principle on which our decisions are based. That return is the most important measure of our business decisions and activities.

Within the framework of our corporate goals, we share in responsibility for the economy and society as a whole. We want to be a responsible member of the community and contribute to the economy and society not only in a purely monetary way. Whenever and wherever appropriate, we want to contribute towards a better understanding between nations.

Source: Fischer, 2003.

reduction in assets, with a major negative impact on its results. Deutsche Bank announced a restructuring, cutting 14,500 jobs – 4,500 of them in Germany – by 2003.

### *The HR response to restructuring*

The Human Resources Department anticipated the risk of restructuring as early as 1997. It has implemented an impressive range of solutions in Germany, not only to cope with the situation but to mitigate the impact of downsizing. The overall package is referred to as the Mosaic for Employment (see figure 3). It represents an impressive suite of products developed in partnership with the works council. The objectives are to:

- promote employability
- make the internal job market more flexible

Figure 3 The Mosaic for Employment



Note: The products are colour-coded. The blue products represent internal options; the grey, external options.

Source: Deutsche Bank.

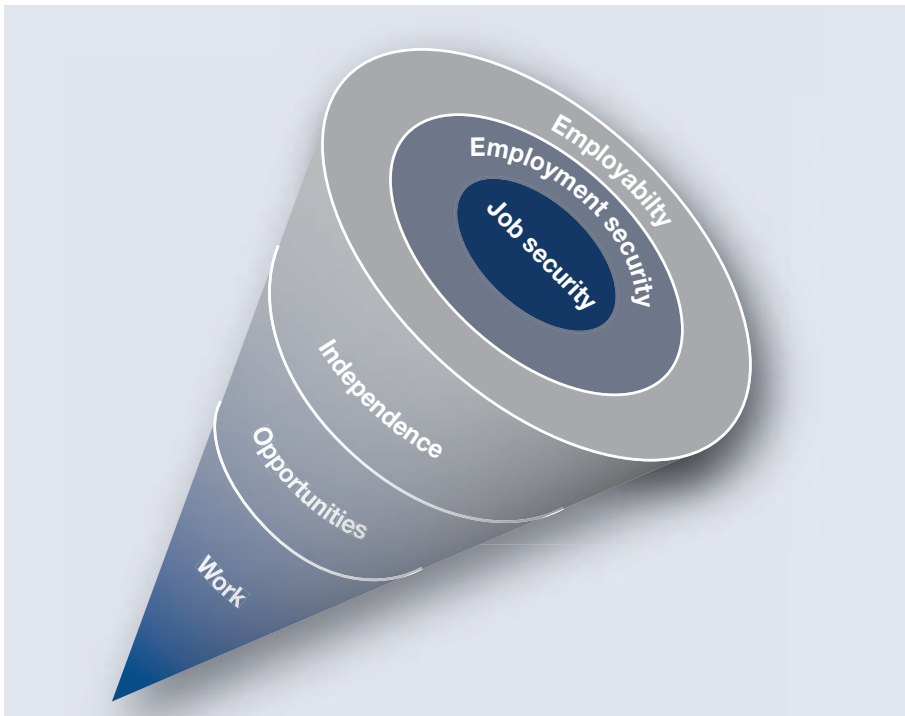
- provide individual professional perspectives (especially for employees who are directly affected by restructuring)

### *Employability*

Deutsche Bank considers that it is a responsibility of employees to be employable at all times. At the same time, it also aspires to support its employees in their endeavours to stay at the height of their capabilities. Furthermore, it realizes that it has a social obligation to create a working environment with interesting development opportunities. Such opportunities increase the possibility for employees whose jobs have been made redundant to find new positions either within or outside the company. Remaining employable during one's active life implies breaking away from old habits and committing oneself to lifelong learning flexibility and openness to change.

The magic cone (figure 4) links job security to the guarantee of a particular job or "work". However much this may have been the case in the past, it is no longer offered in private companies.

Figure 4 The magic cone



Source: Deutsche Bank.

The second level of the cone represents employment security, which leads to the concept of creating and helping employees find opportunities within their company. This possibility only exists when employment is increasing, or at best, stable.

The outside circle relates to employability, which means independence for the employee. This independence is not without its limits. Deutsche Bank recognizes its responsibility at two levels:

- First-line managers guide and develop their people and explain their strengths and weaknesses.
- Human Resources develops processes, products, tools and consults on development matters.

### *Internal options*

**Intrajobs.** Intrajobs organizes the internal job market for Deutsche Bank worldwide. With the exception of executive positions, all openings are posted in a programme accessible to all employees. A subscription to this programme gives automatic information on new job listings.

Applications and enquiries are submitted by email on an anonymous basis. If the manager shows interest in the application, then the employee's identity is disclosed.

Intrajobs has several positive aspects including:

- more self-responsibility for career development
- greater visibility of the internal job market
- better utilization of internal personnel resources
- optimization of the internal recruiting process.

**Bankforce.** Bankforce is an in-house temporary agency created in 1997, under which employee volunteers carry out projects, support work or substitution duties throughout the entire group in Germany. In order to qualify for Bankforce, employees need to meet at least the minimum qualifications of a bank clerk, be geographically mobile, have a good appraisal record, and receive the green light from the immediate supervisor.

Acceptance depends on the fundamental demand for the specific qualifications. Candidates are typically young people who wish to discover new horizons, are looking for challenges, and want to enhance their qualifications through job rotations, or who want to reorient themselves because of change to or loss of job.



Tasks generally last between two weeks and six months, but employees may perform a succession of mandates and remain within Bankforce much longer. Bankforce employees receive free housing when assigned outside their home location, and regular home leave.

The logistics of this programme are managed by two people in the HR department, who identify openings, interview candidates and organize customer billings.

**Job bits.** Job bits establishes a market place for experienced workers such as:

- mothers on maternity leave
- students who have finished their apprenticeship with Deutsche Bank
- former employees
- spouses of transferred employees
- who have time available to work short assignments, typically special projects rather than regular work. Work can usually be conducted from home.

**Competency development.** A set of competencies has been developed for each job in the businesses. Every second year, employees are able to assess their competencies through an online tool (CDO) and with their immediate manager establish their development plan.

**Life crisis counselling.** In cases of exceptional stress occurring in the area of family, work or health, including addiction and financial problems, Deutsche Bank provides information on psychosocial topics and how to deal with conflict. Complete networks of consultants are available both internally and externally.

**Old age part-time.** Increased compensation for individuals close to retirement age, who elect to work part time.

**Telework.** Whenever possible, jobs are moved to the employee's home.

**Individual flex time.** Every conceivable form of part-time work in all areas and functions and at all levels. Flexible hours can be organized on an annual basis, with the possibility of returning to full-time status.

**Collective part-time.** Collective reduction of working hours with a view to providing job security for all team members, based upon solidarity.

**Trainee transfers.** Trainees who have completed their apprenticeship may apply to work in a different group or a different region.

**Re-education.** Further training in marketable professions where qualifications are insufficient, especially in IT-related fields.

**Placement.** Internal and external advisers are available to provide assistance in the area of professional reorientation.

### *External options*

**Job coaching.** Job coaching is designed for those employees who will lose their job because of reorganization or downsizing. The three-day workshop attracted 300 participants in 2002 and the attendance of 700 more participants in 2003.

The first day consists of a self-assessment by individuals of their personal situation, personal/professional skills and goals; the individual then meets with an internal Human Resource consultant. The second day takes place three weeks later and deals with job markets and job application strategy. During the third day, the application is completed, participants practise interviews and HR gives individual advice.

Job coaching has been greatly appreciated by participants. Experience shows that it is highly effective: 90 per cent of participants have been able to find jobs after termination of their contracts.

**Bankpower.** Bankpower GmbH Personnel Services, a joint venture between Deutsche Bank and Manpower Deutschland, is a legally independent temporary work agency designed especially for financial service providers.

Employees who decide to join Bankpower receive severance pay from Deutsche Bank reduced by two-thirds in accordance with the Social Plan. They have an unlimited contract with Bankpower with no probation period, and a guaranteed no dismissal for operational reasons for 24 months. Their previous gross salary is guaranteed by Deutsche Bank for a period between 12 to 30 months. They are assigned, according to their skills, to temporary missions in companies within the financial sector.

Experience shows that in less than a year, the great majority of volunteers have found a permanent position.

**The Berlin model.** The Berlin model consists of retraining employees whose jobs are in danger. Training may be organized internally or externally in coordination with chambers of commerce. It leads to diplomas or qualifications recognized by the profession in areas such as information technology, insurance and foreign trading. Such programmes may last as long as two years, during which time Deutsche Bank increases the training remuneration up to the individual's previous net income.

**Support of new business creation.** Employees who wish to start an independent business receive professional assistance from the bank's business start-up experts. A start-up kit has been developed, and financing may be provided at preferential conditions.

A network of external consultants and specialists may be recommended and volunteers may attend seminars on a cost- and time-sharing basis.

To the extent possible, Deutsche Bank may become a customer during the start-up phase.

The severance payment may be tax optimized.

**Management Support.** DB Management Support has been created as a subsidiary of Deutsche Bank. It is an employment alternative for specialists and executives who leave the company after the age of 55. Employees become partners in a consulting company that provides services both to Deutsche Bank and the outside world.

This ensures a smooth transition from professional life to full retirement. Partners receive a basic salary plus fees related to their projects. They are called on internally for representative assignments, project management, task force leadership and coaching of junior executives. Externally, they are involved in consulting for small to medium or start-up firms in the following areas:

- liquidity
- income
- balance sheet analysis
- human resource management
- advisory councils
- support with international projects aimed at modernizing banking and financial management systems in eastern Europe or other emerging countries.

## Case 2. Agile Technologies, Germany<sup>2</sup>

### Key tools utilized

Counselling	Skills assessment	Training/employability
Internal job search	External job search	SME creation
Mobility	Early/partial retirement ✓	Alternative work schedules ✓
	Severance package ✓	

<sup>2</sup> Source: Danthony, 2003.

## Who are Agilent Technologies?

When Hewlett Packard (HP) decided to spin off its electronics, telecommunications and life sciences activities in 1999, Agilent Technologies became an independent company.

The company is organized around three business groups:

**Test and measurement.** This group provides products and solutions used in the design, development, manufacturing, installation, deployment and operation of electronic equipment/systems and communication network/services. Solutions include test and measurement instruments; automated test systems and equipment; communications network monitoring; management optimization tools and software design tools with associate services.

**Semiconductor products.** This sector includes semiconductor components, modules and assemblies for high-performance communications systems, and products for the networking of personal systems.

**Life sciences and chemical analysis.** This group includes instruments, software, consumables and services. These identify, quantify, and analyse physical and biological properties of product substances.

Upon becoming independent in 1999, the new company reached US\$8.3 billion in revenues with a headcount of 40,000 people serving customers in more than 110 countries. More than 50 per cent of these revenues were generated outside the United States.

## Innovation in technology

The company which became Agilent Technologies in 1999 began in 1938 with the creation of the Hewlett-Packard Company by William (Bill) Hewlett and David (Dave) Packard following their graduation in electrical engineering from Stanford University, California.

They sold their first product, an audio oscillator, to Walt Disney, for use in the production of the movie *Fantasia*. The company grew steadily during the 1940s and 1950s around electronic test and measurement products. During the 1960s, it entered new fields in medical instrumentation and chemical analysis. It also introduced the first programmable scientific desktop calculator designed as a controller for the test and measurement instrument. This innovation was followed by a series of computers for business applications at the turn of the 1980s. By 2002 HP held 17,000 patents worldwide, the majority of them in the name of their employees. As box 4 shows, Agilent Technologies has continued to work by the same values as its parent company.

## Box 4 Agilent Technologies values and corporate objectives

### Innovation and contribution

- Invent and discover technology that creates new fields of interest, new markets and new businesses.
- Seek great ideas from anywhere and reward sharing, adopting and applying them to solutions everywhere.

### Trust, respect and teamwork

- Believe that people want to do a good job and will if given proper tools and support.
- Create an inclusive work environment that fosters respect for individuals, their ideas and contributions.
- Realize the full power of our diverse and global teams, working without boundaries to fulfil the expectations of our constituents.

### Uncompromising integrity

- Adhere to the highest standards of business ethics and acknowledge anything less as unacceptable.

### Corporate objectives

The human resource philosophy known as the “HP way” was formalized in 1957 when HP’s management formulated the company’s corporate objectives. The new philosophies, radically different from the top-down management style then in vogue, were the first steps towards management by objectives, which has prevailed within the company ever since.

**Profit.** To achieve sufficient profit to finance our company growth and to provide the resources we need to achieve our other corporate objectives.

**Customers.** To provide products and services of the highest quality and the greatest possible value to our customers, thereby gaining and holding their respect.

**Fields of interest.** To participate in those fields of interest that build upon our technologies, competencies and customer interests, that offer opportunities for continued growth, and that enable us to make a needed and profitable contribution.

**Growth.** To let our growth be limited only by our profits and our ability to develop and produce innovative products that satisfy real customer needs.

**Our people.** To help our people share in the company’s success which they make possible; to provide them with employment security based upon performance; to create with them an injury-free, pleasant and inclusive work environment that values

*/cont’d.*

### Box 4 Agilent Technologies values and corporate objectives /cont'd.

their diversity and recognizes individual contributions, and to help them gain a sense of satisfaction and accomplishment from their work.

**Management.** To foster initiative and creativity by allowing the individual great freedom of action in attaining well-defined objectives.

**Citizenship.** To honour our obligations to society by being an economic, intellectual and social asset to each nation and each community in which we operate.

#### **Mission/vision**

The mission or vision of Agilent Technologies is to save lives and help people communicate, and to revolutionize the way people live and work through technology. "We make tools for the people who make dreams real." This mission drives certain behaviours at Agilent Technologies.

#### Focus

- Prioritize and simplify; decide what is really important and say "no" to the rest.
- Set the few high-impact customer-centred objectives and align the organization to reach them.
- Focus with a passion on anticipating and satisfying customers' needs.
- Focus our investments on the right opportunities for maximum growth impact.

#### Speed

- Capitalize on change with an intense sense of urgency.
- Move quickly and adapt as conditions warrant; be agile.
- Act decisively, stamping out bureaucracy and the wasted energy that comes with it.

#### Accountability

- Make straightforward commitments, then do what we say.
- Manage by ambitious but realistic performance objectives; reward those who meet them and prize those who exceed them.
- Address poor performance directly and specifically.

These key principles inspire the business strategy, and the objective setting. Performance is determined both by the level of achievement and by the way those goals have been reached.

Source: Danthony, 2003.

## *Innovation in human resources*

Hewlett Packard was the first company to implement a profit-sharing scheme. It began in the 1940s when the company granted a Christmas bonus, which later became a production bonus and eventually a profit-sharing plan.

Another important management decision was made at the same time. The company adopted a pay-as-you-go method of financing growth, deciding for the sake of employment stability not to take on large contracts that could lead to a “hire and fire” operation.

The following letter from Bill Hewlett to all employees is self-explanatory:

During the early part of this year, it became evident that our ability to produce exceeded our incoming order rate. With the hope that the condition was temporary, we delayed taking any action at that time and allowed a substantial increase in inventory and reduction of backlog to occur. By July it became clear that there were no prospects for an increase in the order rate and that it was obviously necessary to bring production more into line with the current order rate. In general, this gap represented about 10% of production. The alternative courses of action were to either have a 10% lay off or to work out some method whereby the work reduction could be shared on a more equitable basis among all employees. The latter course of action seemed far more in keeping with our company’s tradition and it represented a much more understanding way to resolve what appeared to be a relatively temporary problem. It was for these reasons that the plan of taking every other Friday off without pay was instituted.

This is to express my appreciation to all of you who so willingly shared this work reduction program so that one in ten of your fellow employees might continue to work rather than enter the job market during a period of high unemployment . . . (Bill Hewlett, internal communication).

In 1967 Hewlett-Packard was the first American company to institute flexible working hours. The programme allowed employees to arrive any time within a three-hour window as long as they worked a standard number of hours. This programme was initiated at the Boeblingen manufacturing facility in Germany and spread rapidly across the company.

In the words of Dave Packard:

To my mind, flextime is the essence of respect for and trust in people. It says that we both appreciate that our people have busy personal lives and that we trust them to devise with their supervisors and work groups a schedule that is personally convenient, yet fair to others (Dave Packard, internal communication).

### *Working time models and Time Accounts*

In 1995 further innovation took place in Germany when it became apparent that working times in the metal industry were to be reduced below the weekly standard of 40 hours. There was a clear perception that time was highly valued and that it was necessary to move a step beyond flexible working hours. New legal obligations could be turned from a constraint into a highly appreciated benefit. A breakthrough was needed in employment conditions if HP wished to remain an employer of choice

A design team was put together including human resource specialists, workers' council members and line managers.

The company continued to work 40 hours when working hours were reduced. Employees accrue two hours per week and can then move these hours into a "Time Account" or receive the equivalent in cash. This Time Account can be used to:

- shorten the work-week
- extend vacation
- compensate for loss of income in the case of part-time work
- finance education
- allow for sabbatical leave or a leave of absence
- facilitate early retirement

In cases of overtime, employees have the option of receiving cash or moving the hours worked into their Time Account. Whichever they choose, the overtime premium is still paid in cash. Employees who find themselves in financial difficulties owing to illness, accident, death of a spouse, or other similar problems can choose to have some of the accrued time paid in cash.

The Time Account may be used when the company declares short-term closure on "bridge days" or during the Christmas holiday season. Employees who have used up all their Time Account may receive a "time advance".

Terminated employees receive their unused Time Account in cash upon leaving the company. In case of retirement or involuntary termination, employees remain on the payroll until the Time Account is exhausted.

An employee who has not used any Time Account hours over a ten-year period is deemed to have accrued the equivalent of six months salary.

A new scheme has been added recently which allows people to reduce their salary by 20 per cent while continuing to work full time. The salary



reduction allows them to increase the accrual in their Time Account by eight hours per week. This scheme is highly appreciated by people who wish to accelerate their early retirement or engage in higher education.

### *Pension plans and risk coverage*

A supplementary pension scheme created in 1984 consists of a basic pension plan and a coverage of risk entirely subsidized by the company. This is in addition to state social security. The contributions amount to 1.5 per cent of basic salary up to the social security ceiling and 4.5 per cent of the portion exceeding that ceiling.

In addition, employees may invest the whole or part of their vacation, Christmas bonus (1.2 months' salary) and their profit-sharing scheme. These additional contributions are matched one-third by the company, and are not subject to social contributions or income tax.

Contributions can be used to increase retirement pensions (disability pension as well as survivor benefits); it is entirely the employee's choice.

The pension is payable in full at the age of 62 but employees have the option to retire from the age of 50 with a 6 per cent reduction per year before the age of 62. The payment rate is 88 per cent at 60, 58 per cent at 55 and 28 per cent at 50 years of age.

### *Flexible benefits across Europe*

Although flexible benefits were first developed in Germany, most European countries have adopted a similar approach in terms of Time Accounts, additional pension plans or flexible benefits in general.

### *The need for flexibility*

When the decision was made in 1999 to spin off Agilent Technologies from Hewlett Packard, its revenues amounted to US\$8.3 billion with a headcount of around 40,000 people. Revenues increased by 30 per cent in the year 2000 and reached US\$10.8 billion. Business forecasting was extremely difficult during the years 2000 and 2001. However, people-management practices were inspired and guided by Agilent Technologies values and corporate objectives (see box 4). With the business downturn, revenues declined by 22 per cent in 2001 and 27 per cent the following year to reach US\$6 billion with a headcount of 37,000 employees. The following steps were taken in order to drastically reduce fixed expenses:

- Every unnecessary expense was eliminated, especially travel not directly related to customer visits.
- Overtime was controlled and temporary contracts were not renewed.

## Restructuring for corporate success

- Variable pay based upon overall company results went to zero for all staff.
- External hiring was strictly controlled and limited to those positions essential to the organization and the skill sets that were not available within the company.
- Salary increases were cancelled.
- A 10 per cent voluntary pay reduction was accepted by around 90 per cent of European employees. This lasted for a year.

Employees were encouraged to take vacation during summer and entities were closed during holidays at the end of the year. Some non-core activities were outsourced. The organization of many businesses and central functions was rethought.

Unfortunately, the lack of business recovery forced Agilent to reduce its headcount by 8,000 people. This was accomplished both on a voluntary basis including early retirement and through involuntary termination. Another 2,500 people were asked to leave in 2002.

### *The need for stability*

Downsizing any organization is a most difficult challenge; especially for a company with employment security values and no history of lay-offs.

With the pay reduction programme implementation, employees were hopeful that their sacrifice would save jobs. Unfortunately, the business situation left no alternative; jobs had to be cut.

When the announcement to close activities during the holiday season was made, Time Accounts could be used to preserve the annual vacation allotment. Likewise, Time Accounts could be depleted during the pay reduction period. The programme design prevented any impact on expense levels.

People whose jobs were eliminated were able to extend their notice period by the amount of credit in their Time Account, hence having more time to identify a job while remaining on the payroll. Furthermore, early retirement was made easier for those long-term employees who had accumulated significant time credit and contributed to the supplemental pension plan. A large number of people were able to retire from the age of 55 without significant loss of pension.

### Case 3. Carrefour, France<sup>3</sup>

Key tools utilized					
Counselling	✓	Skills assessment	✓	Training/employability	✓
Internal job search	✓	External job search	✓	SME creation	
Mobility	✓	Early/partial retirement		Alternative work schedules	
		Severance package			

Carrefour, specializing in hypermarkets and supermarkets, was created in 1959 by the Fournier and Defforey families and opened their first store in 1960 in Annecy, Haute-Savoie in France. In 1963 Carrefour launched the *hypermarché* concept with a 2,500m<sup>2</sup> store with 12 checkouts and 400 parking places.

Carrefour has over 140,000 employees in France alone and close to 400,000 worldwide. The company is also involved in financial services, insurance, vacation packages, ticket sales and so on. Though most business comes from France, Carrefour also has a strong presence throughout Europe, Asia and the Americas. The company has over 86 billion euros in consolidated sales (including VAT) and over 31 billion euros in market capitalization.

The principles of the company, which are today called the Carrefour Commitments, are presented in box 5.

In 1999, Carrefour announced that it would be merging with Promodes, making it the largest distributor in Europe and the second largest globally. The strategic platforms that Carrefour focused on were a single brand for a single format, one offer for one brand, the merging of the buying function and synergies from the common back office operations.

During this restructuring, Carrefour's goal was to not lose one cent, one client or one employee. A key element of this was the creation of a task force with the participation of employees' representatives. Carrefour worked intensively with this task force to agree upon a method to facilitate the functional and geographical mobility of affected employees, as well as the communication platform and the means for communicating. It developed the field of negotiation and a time line for all this to take effect.

The restructuring programme included the formation of a Liaison Group that was charged with evaluating the specific and temporary conditions; a plan to help the mobility of employees including first priority given to internal

<sup>3</sup>Source: Delenne, 2003.

### Box 5 The Carrefour Commitments

#### Respecting the environment

Carrefour is continuously developing more environmentally sensitive products by focusing on the reduction of packaging weight, recyclability and the elimination of potentially environmentally-harmful elements in their brands. Additionally, the company tries to buy locally in an effort to decrease the length of the supply chain, minimizing environmental impact.

The company is committed to reducing the impact of its stores' activities by operating a waste management programme. A water and energy consumption reduction policy was enacted in 1994.

#### Guaranteeing food safety

Carrefour ensures the highest level of food safety by ensuring product traceability and product bacteriological quality and offering an alternative to GMOs (genetically modified organisms).

#### Playing an active ethical and social role

Carrefour guarantees satisfactory working conditions for teams and encourages internal promotion. The company strives to develop durable and equitable relationships with SME suppliers and guarantees appropriate working conditions for the supplier's workforce.

#### Fostering solidarity around the world

Carrefour considers itself a socially responsible partner to the community and encourages education, healthcare, the fight against exclusion, human rights and emergency disaster relief through various company programmes and partnerships with charitable organizations.

Source: Delenne, 2003.

candidates; a personalized plan for all affected; a work-exchange programme (*bourse de l'emploi*); an eight-month time period to find a place within the organization; a miniguide on geographic mobility; a skill centre (*espace compétence*); and outplacement measures that involved training, refresher IT courses and the guarantee not to terminate an employee's current work contract until after the trial period of a new job outside the company.

The main objectives of the skill centre were to manage geographic and functional mobility so as to be able to keep within the group talented employees affected by the restructuring measures; to allow employees to take stock of their skills and aspirations, become aware of and evaluate their personal potential and define their career path; and to give employees the best possible visibility in terms of internal opportunities.

The tools used to accomplish these goals included a personal interview and plan of action, access to the work exchange (*bourse de l'emploi*), seminars on how to succeed in the internal job search (interviewing, defining skills, career highlights and so forth) as well as career charting advice. This information was communicated via a newsletter.

The *bourse de l'emploi* was originally created by Promodes in 1994, but integrated into the Carrefour group in 2000 via the company intranet. This exchange posted national- and regional-level jobs in real time and each week a paper copy of postings was sent out. Offers were listed by post, level, professional group and location. If an employee took advantage of one of these jobs, the company guaranteed their work contract would not be terminated for professional reasons and that the employee would keep all social benefits even if the position did not work out in the adaptation period.

Through this restructuring programme Carrefour posted over 800 jobs in 2001 and 2002. Forty per cent of employees affected stayed within the group, while about 60 per cent found employment externally. The programme, though not perfect, was considered a success, with employees approving of the measures taken and no battle with the unions.

## Case 4. Volkswagen, Germany<sup>4</sup>

### Key tools utilized

Counselling	✓	Skills assessment	Training/employability	✓	
Internal job search	✓	External job search	SME creation	✓	
Mobility		Early/partial retirement	✓	Alternative work schedules	✓
		Severance package			

In 1993 Volkswagen (VW) faced a dilemma: either fire 30 per cent of its workforce – that is, 30,000 out of 103,000 employees – or lose competitiveness and market share. Through concerted efforts and cooperation between employees, management and unions, VW adopted a downsizing approach that protected employment in exchange for workers' agreement to reduce working time by 20 per cent by working only a four-day week. In fact, 10,000 workers accepted early retirement packages while the remaining 20,000 stayed with the company. VW devised a pay system that permitted workers

<sup>4</sup>Source: Starcher, 1999.

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to have the same monthly salary as before while forgoing bonuses. This solution was implemented at the beginning of 1994. It was made possible by a number of systemic changes that ensured mutual benefits for the company and the workers. A change in vision, mission and strategy underlying work processes was implemented as part of VW's downsizing effort. Six ways of continuously developing employment were found for manufacturing locations in Germany:

- insourcing through integration or setting up new manufacturing capacity
- growth by extending the product range into niche markets
- increasing sales of components and units that are in high demand and reinvesting profits to extend existing technological leads
- using every opportunity to expand business volume by developing VW into a “company that breathes”
- enhancing the competitiveness of in-company expertise and services and developing new strategic businesses
- creating VW works councils

The following elements summarize the major paradigm shift represented by the experience of VW.

1. Create partnerships: a common determination to act for the good of the employees and the company (collective bargaining with unions and workers).
2. Trade performance for security: employees need to perform in order to have job security.
3. Train for employability: workers are allowed to take time off (up to six months at a time) for training on full salary, to improve skills, health and managerial levels; coaching is also available.
4. Encourage entrepreneurship in all employees in “everything they do”.
5. Consider the workforce as a competitive advantage: four dimensions define the new VW typology: multi-skilled, flexible, creative and people-oriented.
6. Introduce teamwork: employees and moderators held 14,000 workshops between 1993 and 1998. Since the programme was launched, some 86,000 measures to improve performance and quality in products and working conditions have been defined by teams, and about 64,000 have been implemented.

7. Promote women workers: since the 1980s VW's policy has been to increase women's participation in its technical workforce (now over 15 per cent), in its international training programmes (now 30 per cent) and in senior management positions (up from the current 3 per cent level).
8. Offer flexible time, including leave of absence and other variable forms of employment.
9. Encourage participation in international training and transfers within the global organization.
10. Create a centre to help current and retired employees take part in social projects.
11. Promote new values and new relationships within the company, and changing patterns of commitment (including pride, trust, scope for involvement and joint decision making).
12. Draw up a new corporate manifesto for everyone in the company.

The strategy employed by VW clearly illustrates a socially responsible approach to downsizing to avoid retrenchment – with an optimal outcome. The company has succeeded in minimizing the social impact while improving its competitiveness for the global market – an experience to learn from.

## Case 5. ZEIM Group, Russian Federation<sup>5</sup>

Key tools utilized			
Counselling	Skills assessment	Training/employability	✓
Internal job search	External job search	✓ SME creation	✓
Mobility	Early/partial retirement	Alternative work schedules	
	Severance package	✓	

ZEIM Group is one of a few survivors of the Russian instrument-building industry. With the economic transformation and the break-up of the Soviet Union, together with the general economic slowdown in the region, the limited product specialization of the company at that time resulted in loss of

<sup>5</sup>Source: Louzine, 2001.

its traditional clients and markets. To survive, the company had to radically restructure, choosing to pursue two strategic objectives: diversification of the product lines and improvement of productivity. To this end, at the beginning of the 1990s the company was one of the first in the Russian Federation to start dismantling its old vertically integrated production structure. Through judicious spin-offs and business development, the company is now converted into a flexible semi-horizontal business system including 37 semi- and fully independent successful business units.

A distinctive feature of ZEIM restructuring was the fact that it was conducted in a socially responsible manner. Some of the features of the restructuring process were:

1. Early in the restructuring process, the minimization of negative impact to the employees and their families was made a major concern. The diversification strategy and the building of networks of autonomous/independent businesses through spin-offs reflected this concern.
2. The employees were consulted and involved in the restructuring process with management working closely with the enterprise's trade union.
3. As with the traditional Soviet enterprises, the company was providing social services to its employees, their families and the community. The company was very careful with respect to the cutting down of these social services (e.g. health and medical care, education, housing, heating) during the restructuring process.
4. The restructuring from a fully vertically integrated production structure into a network of independent business units was done gradually, allowing the units to be spun off with sufficient time to develop competencies and decide how the spin-off would be done. (For example, after consultation and deliberation, the employees of the welding unit decided to buy out the unit themselves and spin it off as an independent company. This business is now one of the most successful welding equipment manufacturers in the Russian Federation.) Even after the spin-off, the mother company maintained constant dialogue and provided business support to the "offspring" companies.
5. The company invested heavily in training and reskilling managers and workers. Based on the philosophy that each production centre must be a business unit, the managers and workers were trained in business management, entrepreneurship and business development.
6. For employees who would be displaced and separated from the company, ZEIM, with the methodological support of the ILO, set up a so-called



“Personnel Service Centre”. The main task of the Centre was to assist individuals or groups of displaced workers to find new employment or to start private businesses, making use of the facilities and credits provided by the mother company.

The main visible result was that the company managed to completely avoid major lay-offs. As a result, the total number of employees remained the same and has recently started to grow. The ZEIM experience of socially responsible restructuring has become familiar to many enterprises within the former Soviet Union and beyond due to the successful elements of its strategy, which included a video film, benchmark packages, publications, and seminars prepared and conducted by the company management with ILO support.

## Case 6. Michelin United Kingdom<sup>6</sup>

### Key tools utilized

Counselling	✓	Skills assessment	✓	Training/employability	✓
Internal job search		External job search	✓	SME creation	✓
Mobility		Early/partial retirement	✓	Alternative work schedules	
		Severance package	✓		

During the year 2000 the tyre market became severely depressed because of a decreasing trend in original equipment (i.e. sales to the car and truck manufacturers for new vehicles), replacement market (i.e. sales to the dealers’ network), and export. This decreasing tyre market trend was expected to continue, not only in the United Kingdom but in the world market as well. Michelin therefore faced a real prospect of excess production capacity in its global operations starting in 2002.

To adapt industrial capacity to market demand, the decision to close two industrial plants (Burnley and Stoke-on-Trent) was taken early in 2001. These closures would involve 1,716 employees. To assist these employees, Michelin United Kingdom (UK) created a “Jobshop” whose main functions were to assist affected employees in their job search, in acquiring new vocational skills, and by providing advice on various options such as transfers, early retirement, self-employment and management of personal finances.

<sup>6</sup>Source: Ozoux, 2003.

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The Jobshop conducted individual interviews of all affected employees. Individual training was provided in effective job search, for instance in writing an appropriate résumé (CV), filling job application documents, answering job advertisements, and practising job research techniques (telephone, interviews and so on.). The Jobshop maintained permanent contact with the national employment agencies. Two representatives of the agencies were on the factory site five days a week, directly connected to their database. The Jobshop also contacted other companies for possible placements.

In addition to this assistance, Michelin UK provided redundancy premiums which were five times the basic national norms, and help in SME creation with special loans at attractive rates and without coverage. The results, measured in April 2003, were encouraging. Out of the 1,716 affected, employees:

- found employment (66%)
- retired (12%)
- accepted an internal transfer (11%)
- chose self-employment (6%)
- took full-time education or training (2%)
- claimed state assistance (0.4%)
- were still unemployed (2%)

## Case 7. Floreal Knitwear, Mauritius<sup>7</sup>

### Key tools utilized

Counselling	Skills assessment	✓	Training/employability	✓
Internal job search	External job search		SME creation	✓
Mobility	Early/partial retirement		Alternative work schedules	
	Severance package			

Floreal Knitwear Ltd, operating in Mauritius since 1971, is a company of the CIEL Group specialized in knitwear. CIEL Group is a vertically integrated group with specialized business units for weaving, dyeing, spinning, knitting, clothing production and retail. The group has a production capacity of 35 million units

<sup>7</sup>Source: ILO research.

per year, 30 production plants in Mauritius and Madagascar, and employs 20,000 workers of which 15,000 are in Mauritius and 5,000 are in Madagascar. The consolidated turnover is about US\$150 million and the group has permanent marketing offices in Paris, London, New York and Hong Kong, China.

Floreal Knitwear is the premier knitwear manufacturer in the African sub-Saharan region and the second largest Woolmark knitwear supplier in the world after Benetton. Floreal offers men's, women's and children's wear in different styles over various knitting gauges and has acquired a worldwide reputation for producing machine-washable and dryable garments.

Floreal's in-house design team develops seasonal collections for customers and has a tailor-made design service working directly with clients' designers. The company's main customers include La Redoute, Marks and Spencer, Célio and Next and it also ships merchandise to Argentina, Australia, Canada, Chile and Japan. Floreal Knitwear operates 12 production units in Mauritius and one in Madagascar with a turnover of US\$61 million.

The Asian crisis in 1997 had a significant impact on Floreal. In April 2000 several factors continued to impact on the industry, and specifically Floreal. Among these were the decrease in the price of sweaters in the United States and Europe (10 per cent in three years); the appreciation of the Mauritian rupee vis-à-vis the euro by 20 per cent in five months, the increase in labour costs by 27 per cent in the garment sector, and the increase in production overhead by 31 per cent per piece between June 1997 and April 2000. The cumulative effect of all these factors was to drive the profit of Rs. 43 million (€1.4 million) in June 1997 down to a loss of Rs. 175 million (€5.8 million) in July 2000.

Under such circumstances, Floreal was forced to completely re-engineer its activities in order to drastically improve productivity. This re-engineering effort implied :

- reviewing structures and systems in all departments
- looking carefully at all non-value-added jobs
- outsourcing certain tasks
- identifying poor performers

When all other restructuring options had been exhausted, Floreal Knitwear was forced to reduce the workforce from 6,150 to 5,500. The company established a redundancy plan that affected approximately 11 per cent of the labour force.

In the preparation stage of the plan, all heads of departments and managers were apprised of the situation and came up with a weighted rating method to evaluate the employees. The criteria were weighted according to the nature of the job; all employees were evaluated on the basis of performance, years of service,

disciplinary records and attitude at work. The rating for each employee was conducted by a panel of at least three managers in an effort to reduce bias as much as possible. The final rating of each employee, as well as the list of all redundant employees, was computed and validated by the head of department/managers.

In April 2000 union representatives were informed about the need for a downsizing effort. In the same month the Ministry of Labour and Industrial Relations was officially informed in writing. The Industrial and Vocational Training Board (IVTB) and the Mauritius Employers Federation (MEF) were contacted for a reskilling and reorientation programme. The Union was officially informed about the exact number and names of workers affected during meetings on 30 May and 1 June. A briefing was set up for managers and assistants to guide them on how to proceed, what to say, how to react and how to explain the details of the severance package and the training programme.

In an effort to not lose employees with good potential, the company found other areas of redeployment within the company. Additionally, early retirement options were also given to those who were eligible.

On 2 June, 376 employees in 20 different units were laid off.

Floreale and the IVTB jointly financed the training programme at a cost of €22,000 and all employees were invited to benefit from further training. Human Resources also created a direct hot-line service in order to be able to answer any questions. Over 130 people expressed interest in improving their skills in the areas of hotel business and management, entrepreneurship, IT and maintenance. To date, over 90 people have completed the courses and, interestingly, some employees asked to transfer their opportunity to one of their children, to which the company agreed.

The company's motto in the process of restructuring was: "COMMUNICATE, COMMUNICATE and COMMUNICATE." Communication activities included the following:

- On 2 June, early in the morning, all the employees received a letter to explain the situation and what was going to take place that day.
- Those laid off were told orally and in writing why they had been chosen.
- All managers and assistant managers had been briefed several times.
- The company hired an expert in communication to deal with the media.
- Those laid off had the opportunity of meeting representatives from HR afterwards.
- A hot-line service was available to answer queries after the redundancy.
- A meeting with all employees who were retained was organized after the event. All these employees were reassured by management.

The restructuring process received positive feedback, especially on issues such as children of employees being able to take advantage of the training programme (which was much appreciated), the usefulness of the hotline, the spirit of organizational commitment and understanding, the strong team spirit that developed among managers, the smooth unfolding of the process due to planning and organization and, finally, the absence of violence.

At the same time, some room for improvement still exists. For example, after the event it was recognized that the process had been carried out in such a way that the employees affected were taken by surprise, and that this had increased the level of stress for all those involved.

Floreal had to go through further restructuring in 2004, and has learned from its experiences. It feels that the lessons learned may be useful to other companies going through similar situations:

- Remember: downsizing is an extremely painful experience! Do your best to avoid it.
- Continually review your organization.
- Focus on being lean.
- Plan human resources properly.
- Encourage voluntary retirement against compensation.
- Regularly remove inefficient employees.
- Put emphasis on continuous improvement in all spheres.

## Case 8. Dunaferri, Hungary<sup>8</sup>

Key tools utilized				
Counselling	Skills assessment	✓	Training/employability	✓
Internal job search	✓	External job search	SME creation	✓
Mobility	Early/partial retirement		Alternative work schedules	
	Severance package			

<sup>8</sup>Source: Keszi, 2003.

The building of Dunai Vasmu, the legal predecessor of the Hungarian company group, began in 1950, and in 1983 the company name was changed to Dunaferr. Today Dunaferr has consolidated sales revenues of over HUF152 billion and its headquarters in Dunaújváros is a major player in the Hungarian steel industry. Metallurgy, steel processing and steel commerce are the company's main focus; however, they are supplemented by additional branches of business (energy supply, maintenance, logistics, mechanical engineering, production of structural elements, industrial contracting and others). In 2001 domestic sales of its main products was 649 kilotons, with export sales of 884 kilotons.

Dunaferr thus has a significant export market as well as a major domestic role in the distribution of its main products. Over 70 per cent of the company's export turnover is realized in the EU member countries, especially Germany and Italy. The company is an associated member of the European Iron and Steel Industrial Association (EUROFER) and has a wide range of professional relations such as with the European Iron and Steel Institute (IISI).

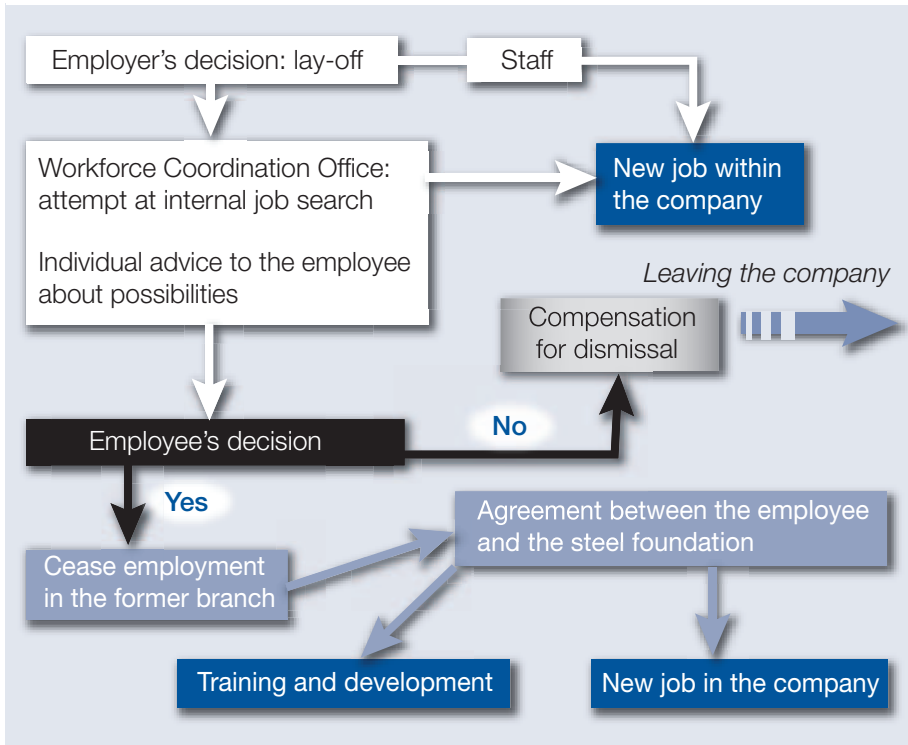
Current issues facing Dunaferr include the admission of Hungary into the EU, which requires an adaptation of the Hungarian economy and steel industry in addition to integration into European commercial practice. Dunaferr had already become an active participant in European steel commerce in previous years. However, unfavourable changes in market processes, the significant decrease in market prices, the steel industrial overproduction emerging in the world, the dumping procedure of EUROFER and the inadequate technical condition of the coking plant all contributed to the company closing its accounts with a loss in 2001.

Dunaújváros and the region around the city are highly influenced by the economic activity, productivity and employment policy of the company and its role in public life in every respect as one of the area's main employers. One of the company's main strategic goals is to regard labour as capital and effectively manage human resources. The overall health, mental and physical state of the company's employees are critical to the company. Lifelong employability is an important aspect of its employment policy and can prove instrumental during restructuring efforts.

In 1994 Dunaferr created the Dunaferr Steel Foundation "for Employment", the main goal of which is to support employees who have been made redundant for economic or industrial structural reasons. Key reasons why Dunaferr needed to reduce the headcount included a dramatic decrease in the role of state paternalism, the transformation of a formerly "socialist" company, technological advancements and rapid fluctuations in the steel and iron industry.

The main objective of the programme is to reduce the time between jobs. The programme accomplishes this through an analysis of the employee's

Figure 5 The system of lay-offs at Dunaferri



skills; advice to the employee about possible opportunities; educational and training programmes to help improve the employee's employability; and advice on starting an entrepreneurial effort. The service will attempt an internal job search and pending the employee's decision will then place him or her within the company with training services, or provide compensation for dismissal. Figure 5 presents the finer points of the system.

The results of this programme are for the most part positive, with 66 per cent of employees finding a new job, 4 per cent starting an SME and 6 per cent having another job offered.

## Case 9. Svenska Posten, Sweden<sup>9</sup>

### Key tools utilized

Counselling	✓	Skills assessment	✓	Training/employability	✓
Internal job search		External job search	✓	SME creation	✓
Mobility		Early/partial retirement		Alternative work schedules	
		Severance package	✓		

Svenska Posten has been delivering letters, parcels and packages to the people of Sweden for over 367 years, and serves over four million homes and 500,000 businesses every day.

Over 40,000 employees and 2.5 billion euros in sales make Svenska Posten one of the largest companies in Sweden. Svenska Posten's service record of 95 per cent of deliveries on time puts it in the top tier of postal companies worldwide. The company is well thought of by the public, as the expression "safe as a letter at Posten" clearly exemplifies.

Owned by the Swedish State, Svenska Posten has a clearly defined vision: "To be the natural choice for customers wanting to distribute messages and merchandise to, from and within the Nordic and Baltic regions" ([www.posten.se](http://www.posten.se)).

Several industry trends have impacted Svenska Posten since the breakdown of the postal monopoly in 1993, including increased competition and technology. These factors have forced the company to evaluate critical elements to success such as the cost-efficiency of its operations. Shifts in information technology as well as customer behaviour made Posten realize that to stay a leader in the industry, especially since joining the EU, changes needed to be made. Though the traffic of parcels and freight would continue, the company realized that for many communications the standard letter service was being replaced by electronic methods.

In light of these changing circumstances, Svenska Posten was given a mission by the Swedish State:

- to guarantee the provision of letter, parcel and cashier services throughout Sweden, and
- to grow the value of the owner's shareholding.

<sup>9</sup> Source: von Schedvin, 2003.



By concentrating on its core business, Svenska Posten planned to become an up-to-date messaging and logistics company. It would enhance the value of its services by integrating the relevance of hard-copy mail with the ease of electronic services for customers. It would serve as a means of connecting people promptly, reliably and cost-effectively.

One means of bringing this idea to fruition was the development of postal services in non-traditional venues such as convenience stores, gas stations and supermarkets, increasing the number of points of service and the business hours, and thus making it easier for customers to use the services. This was accompanied by a marketing campaign in which Posten's image was upgraded via signs, collection boxes, mail trucks and other visual images.

The evolution intended was a shift of the established brand. No longer would Posten be thought of as a company that provides postal services but instead, a company offering a wide range of communication services, both physical and electronically. The exploration of international alliances would help increase Posten's visibility as an international player.

Through these changes, and most specifically the decision to abandon the financial business of the post offices, Svenska Posten found itself in a position where the headcount was significantly higher than what was needed to do the job cost-effectively. A difficult decision to reduce the headcount was taken in 2000, and through negotiations with the trade unions a programme to aid redundant workers was created. The trade unions had been pushing for just such a programme and therefore considered it "their baby too", resulting in their full support.

### *Svenska Posten Futurum – an opportunity for new development*

The key objective of the Futurum programme was to provide an outplacement solution that would guard the socially sensitive reputation that Posten had earned, while allowing the company to focus on core business with the ability to adapt quickly.

The goals set for the programme were aggressive, including an 18-month time frame in which 100 per cent of participants would have found a new job. Within 10 months 70 per cent would have a new job and all participants should have a positive picture of Svenska Posten as a responsible employer that provides professional support.

Futurum became the tool provided by Posten to redundant employees that would act as an advocate locally to facilitate their job search and allow them to secure different employment. The programme offered redundant employees security through a guarantee to retain their pay and conditions as before, for up to 18 months, while being fully released from the workplace to

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search for another job. The company provided an additional financial incentive to motivate employees to search actively by offering a bonus of SEK50,000 to anyone who found an external job within four months.

In a series of consultations employees who were at risk of becoming redundant were given information as to what their options were. For employees whose contracts were terminated, a contract with Futurum was offered.

During an employee's time with Futurum, he or she was given several tools to aid in the job search. Each employee had an individual action plan, and received a survey of personal competences, advice, individual coaching and skills training where needed. For those who were interested, Futurum also provided support for entrepreneurial efforts via a consultant who helped to evaluate their business plan.

To date, there have been over 2,600 participants in the programme, 1,750 of whom have found new jobs or started their own business. Ninety per cent found solutions within the 18-month proposed time period and 98 per cent have responded that they were satisfied with the support from Futurum.

Key learning regarding the success factors of the Futurum programme includes the following points:

- realizing the need for active engagement from participants from the start;
- full engagement by the coaches;
- focusing on tailor-made plans, not a one-size-fits-all solution;
- the voluntary nature of the programme;
- being honest with and respectful towards all the participants.

## Case 10. Vauxhall Motors Ltd, United Kingdom<sup>10</sup>

### Key tools utilized

Counselling	✓	Skills assessment	✓	Training/employability	✓
Internal job search	✓	External job search		SME creation	
Mobility	✓	Early/partial retirement		Alternative work schedules	
		Severance package			

<sup>10</sup> BSI Management Systems, United Kingdom.

Vauxhall Motors Limited, founded in 1857 by Scottish engineer Alexander Wilson under the name Alexander Wilson and Co, was first known for the manufacturing of machinery from pumps to steam-powered marine engines. Soon after his departure in 1894, the company changed its name to The Vauxhall Ironworks Company and turned its attention to developing a petrol engine used to propel a small river launch called the Jabberwock, today considered the precursor and inspiration for the company's first car in 1903.

As production grew, additional space was needed and this, tied with problems with the lease in London, made the move to Luton a reality. In 1907 Vauxhall Motors Ltd was created to focus energy on the further development of cars. In the years that followed Vauxhall experienced great success, eventually building up their product range to include racing and family cars. In 1925 General Motors (GM) bought Vauxhall, further cementing the company's future.

In the 1960s and 1970s, Vauxhall continued to be an industry leader, introducing several new models such as the Viscount which was voted "British Car of the Year" by *The Sunday Times* in 1966. Despite this growing success, competition was on the rise and economic factors were pointing towards a decline. General Motors began an investment plan that would take the better part of a decade to realize and involved a £100 million production facility improvement programme, specifically targeting the plants in Luton and Ellesmere Port. The following decade saw further investment in the Luton plant with a £136-million modernization plan that included the installation of several robotic production systems.

In 1996 Vauxhall and General Motors formed a partnership with Renault and IBC Vehicles. IBC Vehicles is a GM subsidiary located near the Luton plant. A new, medium-range van was the result of this partnership, creating over 900 new jobs.

Change is a major factor in the motor industry as models are introduced and finally withdrawn, and in 2000, in response to GM's European-wide restructuring, the decision was taken to stop car production in the Luton plant by 2002 and transfer some production to the Ellesmere Port plant.

Vauxhall's employees obviously are of great importance, but even more so when the future of a plant is suddenly in the balance. There were therefore keen concerns for some 3,000 jobs at the plant and the impact that would have on the local community.

As a result, a multi-agency partnership was formed – the Luton Vauxhall Partnership – to mitigate the effects and to support those employees who were currently employed at the plant. A wide range of organizations was involved in this project, representing local, regional and national government, learning bodies, trade unions and others. Key players were the East of England

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Development Agency (EEDA), the Employment Service and Vauxhall. Although Vauxhall had an ongoing relationship with most if not all of these organizations, many of them had not worked together before.

Work began immediately on reducing impacts and enhancing the positive:

**Motivation.** It was vital that during the run-out period those at the plant remained focused and motivated to produce the Vectra at volumes and quality levels necessary to meet customer demand across Europe. Measurements were made using existing balanced scorecard techniques and reported back to employees, particularly by means of a weekly update newsletter.

**Skills audit.** A comprehensive skills audit took place at an early stage, coordinated by the Employment Service which established an office within the plant. Stress management and decision-making sessions were arranged. Amongst other things, these helped identify those wishing to transfer to other GM operations in the United Kingdom.

**Skills accreditation.** At the suggestion of the trade union, a programme of accreditation of existing skills was coordinated by the EEDA and Luton University. Over 850 registered for assessment.

**Training.** To enable employees to obtain other secure and quality jobs, a range of reskilling and training courses were identified and operated through a number of local colleges and the university. Over 500 participated in reskilling. Nearly £1.5 million was obtained from a range of sources including the EU. Fridays were devoted to training, not production.

**Job fair.** For those remaining at the plant until the end of production, a job fair was organized in January where some 26 employers were present. Over 1,000 Vauxhall workers attended and smaller specific events were held subsequently.

**Internal communications.** Internal communications at the plant contributed generally to improvements within Vauxhall. A plant information news-sheet was published by the plant Director – initially daily and subsequently weekly.

**Environmental management.** The Luton plant had achieved ISO 14001 and EMAS in 1996 and took care to maintain both through to plant decommissioning and after. An environmental impact study was carried out prior to asset disposal.

**Internal job search.** Developments at the neighbouring GM plant enabled 1,000 Vauxhall employees to be transferred to IBC Vehicles. A number of others transferred to Vauxhall's Ellesmere Port plant.

The Luton Vauxhall Partnership was a very successful partnership that was quickly formed from a wide range of organizations. It brought together a

wide range of individual skills and a high degree of communication and transparency overall, but respecting confidentiality when individuals were concerned.

Given the rapid change of plans at Luton and the reallocation movement of many workers, the effects on production could have been very adverse. IBC Vehicles now had to plan for the introduction of the new Vivaro van, while not retaining the off-road Frontera. One thousand employees transferred from Vauxhall to IBC. Without such a workforce of experienced car builders transferring, IBC would have had a much bigger challenge in the start-up of the new van. In fact, the successful launch of the Vivaro was crowned with it being awarded the title International Van of the Year in 2002.

The impact of reducing the Vectra production line could have been much greater. The reverse was actually the case, and attendance levels and production quality both remained extremely high until the very end of production.

Four main factors can be identified as contributing to the success of the restructuring:

**Clear objectives.** Obviously very relevant and of high and immediate priority, these focused on close relationships with the desired aim of minimizing the impacts of production restructuring for the numerous groups.

**Attention to stakeholder needs.** The process was very accessible, with the various organizations working directly within the Vauxhall site. There was also a high level of receptivity to the need to achieve a positive outcome. The EEDA was a leading actor in much of the interaction.

**Organizational–stakeholder relationships.** Vauxhall had worked with many of the organizations, although they had not all worked with each other. Interaction and communication had to be free and transparent. A wide range of skills and expertise was involved.

**Issues of dialogue.** The issue was not a new one to the industry, but its nature was often one of confidentiality. Although a wide range of organizations was directly involved, other important stakeholders such as customers were not part of the partnership.

## Case 11. Cable and Wireless, Barbados<sup>11</sup>

Key tools utilized				
Counselling	✓	Skills assessment	Training/employability	✓
Internal job search		External job search	SME creation	✓
Mobility		Early/partial retirement	Alternative work schedules	
		Severance package		

The merger of Barbados External Telecommunications (BET) and the Barbados Telephone Company (BARTEL) into one single brand (Cable and Wireless) was part of a strategy for dealing with increased competition and with expected changes in the regulatory and operating environment, and involved the integration of the management teams of the different entities.

Part of the challenge was the need to reduce costs in order to ensure the sustainability of the company in an environment where the external communications services effectively subsidized the rates charged for local services. As the United States and other countries had begun insisting that accounting rates for overseas services be equalized, the company was less able to charge local customers premium rates for such services. Conversely, with the removal of the premium on overseas calls, the domestic service could no longer be subsidized by the overseas service. The company therefore had to manage its costs in such a manner that it could operate on the basis of a cost-oriented pricing structure while not placing domestic services out of the reach of the average customer.

One of the fundamental elements of the strategy to achieve this was the reduction of the cost of labour, which was the major cost component. In addition, the company also pursued a total quality management programme as well as a process re-engineering.

### Challenges

The company faced a number of strategic challenges that would significantly affect its operations, including the following:

- the merger, and as a consequence the integration of the cultures and operations;

<sup>11</sup> Source: ILO Programme for the Promotion of Labour–Management Cooperation (PROMALCO).

- the stated intent of the Government to terminate the monopoly enjoyed by BARTEL, thereby intensifying the competition that the company faced in the domestic telephony market;
- the more general consideration of competition in the newer markets, such as mobile telephony and international long-distance services;
- changes in the regulatory environment that included the creation of a new supervisory authority, as well as the de-monopolization and liberalization proposals.

### *Strategic human resource management*

The principal challenge for the company in this regard was the management of the redundancy programme. The cornerstone of this strategy was a voluntary separation plan. This plan was integrated with a change management approach and contained a number of features.

A steering team, comprised of representatives from the management, the Board and the union, and supported by work group teams comprised of staff members and union representatives in each of the departments, formed the nucleus of the approach to the management of the programme. In addition, a number of joint staff meetings were held explaining the rationale for the strategy and for the selection of candidates for retrenchment or voluntary separation.

An outsourcing strategy was developed and adopted by the company in certain operational areas that had previously been performed by some of the same employees who had volunteered for the separation plan. Outsourcing opportunities were developed in areas such as transport, wiring and cable work, messenger services and facility maintenance services.

Volunteers were enrolled in a series of training sessions and seminars in order to prepare them for leaving the employ of the company and for establishing and managing their own businesses to which the company could outsource. Included in the training sessions, some of which were conducted by an industrial psychologist, were sessions on financial management and planning, on the management of funds and on setting up and operating businesses.

Groups of separated employees were provided with critical facilities such as office space and equipment, computer support and, very importantly, service contracts in order to kick-start their independent operations.

The remaining workforce was trained in a number of processes to help deal with the adjustment, and to be able to operate in newly re-engineered processes that were heavily supported by the automation of operations.

## *Company culture*

The company also conducted a number of change management sessions in order to facilitate the creation of a new culture. Some of the cultural issues arose from the partially public-service orientation of one company, BARTEL, with a majority of the company's 1,130 employees, as compared to the older, more conservative and cash-rich BET that had always been part of the Cable and Wireless family.

**Customer focus.** As part of this, the company created a new customer care centre incorporating operations, customer care and a help desk that provided customers access to customer service solutions with a single call to the office.

**Social capital.** In addition to the change management activities, the company encouraged and supported intra-company social activities such as the sports club and family day outings.

## *Results*

The strategy was therefore to reduce employment, restructure operational processes and facilitate the adjustment to a new culture by which the company expected to successfully become market driven, customer centred and service oriented.

The company has acknowledged very satisfactory results from this approach, even though it is still in the early stages of the process. It is possible even at this stage to identify a number of positive indicators:

- Since April 2001, some 250 employees or approximately 23 per cent of the workforce have accepted the voluntary separation plan.
- Several groups have already started service contracts with the company.
- The entire programme was implemented without any industrial action, disturbance or disruption. There was also no public outcry about the significant reduction in the workforce.



## Case 12. South African Breweries<sup>12</sup>

Key tools utilized				
Counselling	✓	Skills assessment	Training/employability	✓
Internal job search		External job search	SME creation	✓
Mobility		Early/partial retirement	Alternative work schedules	
		Severance package		

South African Breweries (SAB) is a conglomerate of interests in beer, beverages, hotels and gaming. The company's shares are listed in the FTSE 100. South African Breweries has subsidiaries in 21 countries and exports to 45 countries. It is one of the top five breweries in the world.

A tight market and increased competitive pressure forced SAB to lay off workers. While looking for employment alternatives for its retrenched workers, SAB found a partner in the Food and Allied Workers' Union (FAWU). Together with FAWU, SAB attended a workshop organized by the ILO in 1996 and, in the aftermath, founded the "Noah project".

The concept of Noah is to develop small, new enterprises for former SAB workers. Essentially, Noah establishes centres in cities or towns in South Africa where dismissed SAB workers receive administrative, business and psychological support. Participation is on a voluntary basis. So far, more than 160 new companies have evolved out of these centres. Moreover, SAB has recently founded a business incubator, which will nurture 20 businesses. Other incubators, together with government and labour organizations, have been established and have already given birth to more than 100 new companies.

<sup>12</sup> Source: O'Reilly and Pfeffer, 2000.

## Case 13. Levi Strauss, United States<sup>13</sup>

### Key tools utilized

Counselling	✓	Skills assessment	Training/employability	✓
Internal job search		External job search	SME creation	
Mobility	✓	Early/partial retirement	Alternative work schedules	
		Severance package		✓

In the late 1920s, the American clothes manufacturer Levi Strauss established a tradition of not laying off any worker if possible. In times of weaker demand workers were, for example, even sent to lay new floors in the plant's neighbourhood. A former Levi Strauss CEO said the company's values and culture were "the glue that unites" the company.

However, despite a very successful year in 1996, Levi Strauss had to close 11 plants and dismiss 6,400 workers in 1997. What was the company's reaction?

- It created a US\$200 million severance package.
- It established even closer cooperation with union representatives to develop the package.
- Laid-off workers received up to three weeks' severance pay for each year of service, eight months' pay from the day of announcement, and career-counselling services, as well as health-care benefits, and up to US\$6,000 for education, job training, and moving expenses.

This positive mutual experience paved the way for the introduction of a more participatory management style and helped the management to steer the company through the crisis in a socially sensitive manner.

<sup>13</sup> Source: O'Reilly and Pfeffer, 2000.

## THE ROLE OF SOCIAL DIALOGUE IN MITIGATING THE NEGATIVE EFFECTS OF RESTRUCTURING

# 4

Managing restructuring in a socially sensitive way has been a key focus for policy-makers and social actors in the European Union (EU) over the past decade. Most recently, this issue has been pushed to the forefront of debate owing to the large number of restructuring exercises witnessed across the EU over the past few years. The constant drive on the part of organizations to remain competitive in an increasingly globalized world is resulting in a continuous stream of mergers, takeovers, plant closures, workforce reduction exercises and transfers of production from EU Member States to countries with cheaper production and labour costs.

Recent figures from the European Monitoring Centre on Change (EMCC, 2004) show that over the first quarter of 2004 (1 January to 31 March), there were 156 cases of companies restructuring in the EU, resulting in the announcement of 81,129 job losses. The actual number of cases of restructuring recorded was only slightly higher than the 151 recorded during the previous quarter. However, the number of jobs threatened increased substantially from the 67,058 recorded in the fourth quarter of 2003. France and the United Kingdom appeared to be bearing the brunt of the threatened job losses: the total number of announced job reductions due to restructuring was 10.14 per 10,000 people employed in France and 9.39 per 10,000 people employed in the United Kingdom. On a sectoral basis, the number of planned job losses and restructuring cases was highest in the transport and telecommunications sector and the manufacturing sector.

While not questioning the right of organizations to manage their business in a way that ensures that it remains competitive, debate in the EU has focused on how to ensure that restructuring has as little negative impact as possible on an organization's key stakeholders and surroundings. These are principally its employees, its subcontractors and suppliers, its shareholders, the region in which it operates, and the environment.

## International guidance

Looking specifically at the impact on an organization's workforce, restructuring is often synonymous with job losses and a lack of employment security. One way in which this insecurity can be relieved is to ensure that an organization's workforce is involved in the restructuring plans. Ideally, if the workforce – usually through the channel of employee representatives – is involved in its organization's restructuring plans from the outset, and preferably before a final decision is taken, the negative impact on employment levels and on the employees themselves can often be at least partially mitigated. This approach is reflected in a range of international instruments, including the Organisation for Economic Co-operation and Development's *Guidelines for multinational enterprises*, most recently updated in June 2000 (OECD, 2000). These guidelines are recommendations addressed to multinationals, providing voluntary principles and standards for responsible business conduct. 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 co-operate 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 co-operation to mitigate the effects of such decisions.

The International Labour Organization (ILO) itself has been active in this area for a considerable length of time. Most recently, in February 2002, it established a World Commission on the Social Dimension of Globalization. The Commission looked at ways of combining the social, economic and environmental objectives of globalization and in February 2004 issued a report containing a range of recommendations. It argued that strong representation of employers and employees at national level is vital if social dialogue is to be fruitful. Looking at the impact of globalization on employment, the report states that there must be a commitment to social dialogue in the formulation of economic and social policies and to “take the ‘high road’ of business–labour collaboration to achieve efficiency gains, and to eschew the ‘low road’ of cost-cutting and downsizing” (World Commission on the Social Dimension of Globalization, 2004, p. 65).

## The EU legislative framework

There is a substantial body of legislation formulated at European Union level, aimed at ensuring that employees are informed and consulted about corporate restructuring plans that are likely to affect them. This legislation usually takes the form of European Directives, which are drafted and adopted at EU level and subsequently transposed into the national legislation of all EU Member States. The body of existing Directives spans three decades, dealing with the rights of workers to be informed and consulted in the case of events such as plans to make collective redundancies, plans to transfer businesses or parts of businesses or any other proposals that may have an effect on the workforce.

### *The Directive on collective redundancies*

The management of collective redundancies is governed by Council Directive 98/59/EC of 20 July 1998 on the approximation of the laws of the Member States relating to collective redundancies (this Directive updates Council Directive 75/129/EEC of 17 February 1975). It defines collective redundancies as follows:

- (i) either, over a period of 30 days:
  - at least 10 in establishments normally employing more than 20 and less than 100 workers,
  - at least 10 % of the number of workers in establishments normally employing at least 100 but less than 300 workers,
  - at least 30 in establishments normally employing 300 workers or more,
- (ii) or, over a period of 90 days, at least 20, whatever the number of workers normally employed in the establishments in question.

The Directive states that, where an employer is contemplating collective redundancies, it should begin consultations with workers' representatives *in good time with a view to reaching an agreement* (author's emphasis). The consultations should cover ways and means of avoiding collective redundancies or reducing the number of workers affected, and of mitigating the consequences by recourse to accompanying social measures aimed, among other things, at aid for redeploying or retraining workers made redundant.

This Directive also permits Member States to include in their transposing legislation a provision allowing workers' representatives to call on the services of experts in accordance with national legislation and/or practice.

In order to enable workers' representatives to make constructive proposals, the Directive states that employers should, in good time during the course of the consultations, supply them with all relevant information and in any event notify them in writing of:

- the reasons for the projected redundancies;
- the number and categories of workers to be made redundant;
- the number and categories of workers normally employed;
- the period over which the projected redundancies are to be effected;
- the criteria proposed for the selection of the workers to be made redundant in so far as national legislation and/or practice confers the power for this upon the employer;
- the method for calculating any redundancy payments other than those arising out of national legislation and/or practice.

The Directive contains a requirement for employers to notify the competent public authority in writing of any projected collective redundancies and a requirement to wait 30 days from notification before making the redundancies.

### *The Directive on transfers of undertakings*

Council Directive 2001/23/EC of 12 March 2001 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 undertakings or businesses, which updates Directive 77/187/EEC, aims to protect employees' employment rights in the event of such transfers. It provides that the transferor's rights and obligations arising from a contract of employment or from an employment relationship existing on the date of a transfer shall, by reason of such transfer, be transferred to the transferee. It also states that, after the date of transfer, the transferor and the transferee shall be jointly and severally liable in respect of obligations which arose before the date of transfer from a contract of employment or an employment relationship existing on the date of the transfer.

The third chapter of the Directive is devoted to the issue of information and consultation. It states that both the transferor and the transferee are required to inform the representatives of their respective employees affected by the transfer of the following:

- the date or proposed date of the transfer;
- the reasons for the transfer;

- the legal, economic and social implications of the transfer for the employees; and
- any measures envisaged in relation to the employees.

If there are no employee representatives, the employees themselves must be given this information.

The transferor must give such information to the representatives of the employees in good time, before the transfer is carried out. The transferee must also give such information to the representatives of their employees in good time, and in any event before employees are directly affected by the transfer as regards their conditions of work and employment.

The Directive also states that where the transferor or the transferee envisages measures in relation to employees, they shall consult the representatives of these employees in good time on such measures with a view to reaching an agreement. The information and consultation shall cover at least the measures envisaged in relation to the employees. It also states explicitly that the information must be provided and consultations take place in good time before the envisaged change in the business is effected.

### *The European Works Councils Directive*

Council Directive 94/45/EC of 22 September 1994 on the establishment of a European Works Council (EWC) or a procedure in Community-scale undertakings and Community-scale groups of undertakings for the purposes of informing and consulting employees applies to companies of 1,000 or more employees with at least 150 employees in each of two Member States. It gives the EWC the right to be informed and consulted about transnational questions that significantly affect workers' interests. More specific guidance about what this could cover is given in the subsidiary requirements annexed to the Directive, which apply if no EWC agreement is concluded. The issues to be discussed in EWC meetings are listed as: "the structure, economic and financial situation, the probable development of the business and of production and sales, the situation and probable trend of employment, investments, and substantial changes concerning organization, introduction of new working methods or production processes, transfers of production, mergers, cut-backs or closures of undertakings, establishments or important parts thereof, and collective redundancies".

The Directive also states that, where there are exceptional circumstances affecting employees' interests to a considerable extent, particularly in the event of relocations, the closure of establishments or undertakings, or collective redundancies, the select committee of an EWC or, where no such committee

exists, the European Works Council, has the right to be informed. It also has the right to meet, at its request, the central management, or any other more appropriate level of management within the Community-scale undertaking or group of undertakings having its own powers of decision, so as to be informed and consulted on measures significantly affecting employees' interests.

This Directive is currently under review. The European Commission issued on 20 April 2004 a first-stage consultation to the EU-level social partners on its possible revision (European Commission, 2004). In this, it asks for their views on how best to ensure that the potential of European works councils to promote constructive and fruitful transnational social dialogue at the level of the undertaking, which will benefit both companies and their employees, is fully realized in the years ahead. It also asks them for their views on the possible direction of Community action and whether this should entail a revision of the Directive, and about the role that the social partners envisage that they should play in this.

### *The Directive on national information and consultation rules*

Directive 2002/14/EC of the European Parliament and of the Council of 11 March 2002 establishing a general framework for informing and consulting employees in the European Community aims to set out minimum requirements for the right to information and consultation of employees in undertakings or establishments within the Community. It states that the practical arrangements for information and consultation shall be defined and implemented in accordance with national law and industrial relations practices in individual Member States. However, when defining or implementing these practical arrangements for information and consultation, the employer and the employee representatives shall work in a spirit of cooperation. It requires undertakings with at least 50 employees, or establishments with at least 20 employees to:

- (a) inform on the recent and probable development of the undertaking's or the establishment's activities and economic situation;
- (b) inform and consult on the situation, structure and probable development of employment within the undertaking or establishment and on any anticipatory measures envisaged, in particular where there is a threat to employment; and
- (c) inform and consult on decisions likely to lead to substantial changes in work organization or in contractual relations, including those covered by the Community provisions relating to transfers of undertakings and collective redundancies.



The Directive also states that information shall be given at such time, in such fashion and with such content as are appropriate to enable employees' representatives to conduct an adequate study and, where necessary, prepare for consultation.

Consultation should take place:

- (a) while ensuring that the timing, method and content are appropriate;
- (b) at the relevant level of management and representation, depending on the subject under discussion;
- (c) on the basis of information supplied by the employer and of the opinion which the employees' representatives are entitled to formulate;
- (d) in such a way as to enable employee representatives to meet the employer and obtain a response, and the reasons for that response, to any opinion they might formulate;
- (e) with a view to reaching an agreement on decisions within the scope of the employer's powers relating to decisions likely to lead to substantial changes in work organization or in contractual relations.

The Directive also allows Member States to entrust management and labour at the appropriate level, including at undertaking or establishment level, with defining through a negotiated agreement the practical arrangements for informing and consulting employees.

This Directive must be transposed by EU Member States by 23 March 2005, although those countries with no general, permanent and statutory system of information and consultation of employees, nor a general, permanent and statutory system of employee representation at the workplace may implement the Directive on a phased basis, according to company size.

## National legal frameworks

As seen above, there is a firm EU-level legislative basis governing timely information and consultation rights of the workforce in a restructuring situation and the duties of the employer to engage in negotiations with employee representatives in good faith. It should be emphasized, however, that this EU legislative framework represents the minimum standards of compliance in these areas.

National legislation in many countries goes beyond the minimum requirements of these Directives, giving employee representatives and trade unions enhanced rights in a restructuring situation. For example, in France,

the general issue of restructuring has been under discussion for a number of years following a range of high-profile company closures, such as the decision of the UK retailer Marks & Spencer in 2001 to close its French stores as part of a restructuring plan involving the closure of its operations in most continental European countries. In this case, the organization was forced to halt its restructuring plans and restart the process, as it had not complied fully with French law governing the information and consultation of employee representative bodies (*Liaisons Sociales*, 2001).

In 2002 new French legislation came into force making redundancy an action of last resort (social modernization law (*loi de modernisation sociale*) of 17 January 2002), improving redundancy payments and increasing employee involvement in the redundancy process. However, this legislation has proved to be controversial, with employers stating that it has resulted in unacceptable delays in the redundancy process. Thus, the Government suspended these provisions from 4 January 2003 for 18 months on the condition that the social partners use this time to negotiate an agreement on the procedures to be followed in a redundancy situation. At the time of writing, negotiations were still ongoing.

In some Scandinavian countries such as Sweden and Finland, employers are obliged to enter into negotiations on redundancies with employee representatives. However, there is no legal obligation to come to an agreement, although the procedure may not be initiated until these negotiations have been concluded.

In Sweden, the Employment Protection Act (*lagen om anställningsskydd*, LAS) gives employees with longer service more protection against redundancy, obliging employers to give priority, in terms of employment protection, to those with longer service. In practice, however, employers and employee representatives tend to negotiate around this, allowing the employer to retain some key staff with relatively little seniority if they agree to reduce the overall number of redundancies (IRS, 2004c).

France also provides a good example of legislative obligations in the area of helping employees find alternative employment. Under French legislation (Labour Code Art. L321-4), employers are legally obliged to draw up a job-saving plan if they employ at least 50 people and are planning to make at least 10 redundancies during a period of 30 days, or if the employer is planning significant changes to the employment contracts of at least 10 employees for economic reasons. This plan must contain all measures offered by the employer to avoid or limit planned redundancies and help those who will be made redundant. This means that before the employer can proceed to making redundancies as part of a restructuring exercise, a clear strategy detailing how the restructuring will be dealt with, in terms of effects on employment, must be established.

Despite the existence of this legislative framework, there have been instances where organizations have flouted minimum provisions. The most notable case in recent years involves the French-owned motor manufacturer Renault, which decided in February 1997 to close its plant at Vilvoorde, Belgium, entailing the loss of a substantial number of jobs, without prior information and consultation of the workforce. What subsequently become known as the “Renault affair” (IRS, 1997) was directly responsible for a substantial overhaul of Belgian legislation on the information and consultation rights of the workforce in a restructuring situation (law of 13 February, 1998).

This event also had major repercussions at EU level, leading the European Commission to consult the EU-level social partners (at cross-sector level, these are the European Trade Union Confederation (ETUC), the Union of Industrial and Employers Confederations of Europe (UNICE), representing private sector employers, the European Association of Craft and Small and Medium-sized Enterprises (UEAPME), representing small and medium-sized enterprises in the private sector, and the European Centre of Enterprises with Public Participation and of Enterprises of General Economic Interest (CEEP), representing enterprises in the public sector) on the formulation of Community legislation on national-level information and consultation rules (see below). This eventually led to the adoption of the above-mentioned Directive 2002/14/EC on national information and consultation rules.

## Social dialogue at EU level

The EU-level cross-sector social partners have been active in recent years in trying to devise ways to mitigate the negative effects of restructuring and ensure that employees are consulted about restructuring plans in good time – meaning that they have time to influence the outcome. The focus has been on avoiding a situation in which workforce representatives are presented with a *fait accompli* and thus have little or no influence on the final decision.

The above-mentioned consultation of the EU-level social partners, initiated by the European Commission and launched in June 1997 only months after the Renault affair, resulted in heated debates. The ETUC and CEEP were willing to enter into negotiations on an EU-level agreement on this issue but UNICE was uncertain (IRS, 1998). Under the terms of the Treaty establishing the European Community (TEC), if the EU-level social partners reach agreement on an issue as a result of a European Commission consultation exercise, this agreement may then be given legal underpinning, at the joint request of the signatory parties, by a Council decision on a proposal from the Commission (TEC, Article 139).

This procedure has been used in respect of the social partners' agreements on parental leave, part-time work and fixed-term working, each of which was given legal force by means of a Directive (Council Directive 96/34/EC of 3 June 1996 on the framework agreement on parental leave concluded by UNICE, CEEP and the ETUC; Council Directive 97/81/EC of 15 December 1997 concerning the framework agreement on part-time work concluded by UNICE, CEEP and the ETUC; and Council Directive 1999/70/EC of 28 June 1999 concerning the framework agreement on fixed-term work concluded by ETUC, UNICE and CEEP).

However, in the case of information and consultation, UNICE finally decided in 1998 that it was not willing to enter into negotiations on this issue. In November of that year, the Commission therefore issued a proposal for a Directive, which was adopted in March 2002 as Directive 2002/14/EC.

In January 2002 the Commission issued another consultation to the EU-level cross-sector social partners (European Commission, 2002). This time, it wished to stimulate dialogue on the broader issue of establishing the principles governing "socially intelligent restructuring". Between October 2002 and July 2003 the social partners organized three joint seminars, at which they discussed the lessons that could be learned from a total of 10 case studies of how restructuring exercises were handled.

These discussions resulted in the conclusion in June 2003 of a joint text entitled *Orientations for reference in managing change and its social consequences* (UNICE/UEAPME et al., 2003). This is not an agreement with binding legal force, but it sets out guidelines to be followed to ensure successful change management, based on the lessons learned from the 10 case studies examined by the social partners in their seminars. Emphasis is placed on issues such as: explaining and giving the reasons for change "in good time" to workers and/or their representatives; holding an open discussion on management's intentions; allowing workers to make their views known; meeting all legal and contractual obligations in the area of information and consultation; maintaining and developing workers' competences and qualifications in order to foster internal and external mobility; fostering coordination between employers, trade unions and territorial public authorities in order to mitigate the effect on an organization's surrounding region or territory; taking into account the specific situation of small and medium-sized enterprises (SMEs); and exploring all possible alternatives to dismissals, such as reassignment, training, reconversion, support for business creation, diversification of forms of work, suspension or adaptation of some benefits on a temporary basis, personalized worker support and natural departures, notably through retirement or, "as a last resort", early retirement.

It also emphasizes that if restructuring is to be managed well, time is an important factor for all concerned: “the difficulty is organising quality information and consultation without creating undue delays and uncertainties”. It also places great emphasis on building “a positive attitude to change, together with the existence of a climate of confidence between management and workers and/or their representatives”.

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.

## Principles of SSER in the European Union

As seen above, the EU is governed by a legislative framework which sets out the basic duties of employers to inform and consult the workforce prior to finalizing restructuring plans, to allow workers to voice their opinions and, in an ideal scenario, to exert some influence on the final outcome. Further, attempts have been made by the EU-level cross-sector social partners to define more closely what is needed to ensure that restructuring is handled in a socially sensitive way. The elements contained in the social partners’ 2003 agreement, outlined above, go beyond the minimum requirements of EU Directives and focus on the building up of trust and a good relationship between management and the workforce and/or their representatives.

Much debate has been held about what should constitute socially sensitive restructuring. In general, the basic elements required include the following non-exhaustive list.

- Inform and consult with workforce representatives on restructuring plans that are likely to have an impact on employment. The information and consultation process should be carried out in good time, before a final decision is made, in order to allow employee representatives to formulate an opinion and receive a response on it from the organization.
- Hold meaningful negotiations with workforce representatives on how to prevent or mitigate negative effects of restructuring on the workforce.
- Establish a commitment to the principle that compulsory redundancies should be the last resort.
- Avoid compulsory redundancies, using a range of means including working time reduction, flexible working patterns, pay freezes and cuts in pay and premiums.

## Restructuring for corporate success

- Where redundancies are inevitable, make efforts to mitigate their effects in a number of ways, such as reducing workforces across plants and countries rather than closing down entire plants, and looking for voluntary redundancies and early retirements.
- Put into place a range of “social cushioning” measures to help those who are losing their jobs. These include redeployment, either within or outside the company; training and other measures aimed at increasing employability; outplacement services tailored to the needs of the individual; guaranteeing priority of rehire for redundant workers; and investment in the local economy in order to encourage new employers to move to the region and create jobs to replace those lost.

## Examples of managing restructuring in a socially sensitive way

There are many examples to be found in western Europe of management and workforce representatives working together in a positive way to ensure that restructuring has as little negative impact as possible on the workforce. The examples set out below come from a range of countries and types of companies, providing a taste of what has been achieved to limit the effects of restructuring, and what is needed to ensure a successful outcome.

### *The experience of the United Kingdom*

The United Kingdom has experienced and continues to experience many large-scale restructuring exercises. Recent research, published by Industrial Relations Services in February 2004 (IRS, 2004a), sheds some light on how restructuring is being managed. It looked at 94 companies, together employing around 165,000 staff, and examined the role of human resources in managing the process of restructuring and the effect of restructuring on employees.

The survey found that more than one in seven organizations had undergone restructuring over the previous year and another one in five had been through the experience at some time in the previous three years. In most cases, the restructuring had been prompted by several reasons, among the most prominent being a need to reduce the workforce and a desire to focus more on the customer. Takeovers and mergers and the need to enter new markets were also important motivators, as was the need to streamline management, increase efficiency and reduce costs.

The objectives of the restructuring often included reducing costs, improving efficiency and increasing effectiveness. There was also a strong emphasis on the reorganization of management structures and performance.

In 43 of the organizations surveyed at least half the staff were affected by restructuring, and in 17 of them all staff were affected. Internal relocation was the most common outcome for staff, cited by 51 companies. This was followed by: redeployment, cited by 48; compulsory redundancy, cited by 45; voluntary redundancy, cited by 40; the introduction of new pay/grading structures, cited by 28; early retirement, cited by 27; significant changes in working practices, cited by 24; and retraining, also cited by 24.

In 56 per cent of cases organizations recognized trade unions and, in just over half the cases studied, the staff affected had some influence over the exercise. However, this means that in principle there were some organizations where trade unions were recognized but did not have an influence over the restructuring exercise.

Six in 10 employers encouraged staff to have an input into new working practices and, of this group, two-thirds (67 per cent) used individual consultation, half (50 per cent) used collective consultation and 30 per cent used negotiations with trade unions.

Of the 87 organizations answering the question examining to what extent the organization had met its original objectives, more than seven in 10 reported a good deal of success.

### *Restructuring in the ceramic tile manufacturing industry*

This case study (IRS, 2004b) looks at the experience of a manufacturing company that has undergone successive waves of restructuring over the past 15 years, resulting in drastic employment reductions and far-reaching changes in working practices.

H & R Johnson Tiles is the UK's largest ceramic tile manufacturer, producing wall tiles which it sells worldwide. Due to changes in the market which took place during the late 1980s, the company found that it needed to alter its products, equipment, technology and working practices. It also needed to address the fact that its production processes were spread around seven sites, described by the company as "ramshackle Victorian sites, with working practices to match".

The company recognizes three unions: the ceramics workers' union CATU (shop-floor and staff sections), Amicus and the Trades and General Workers Union (TGWU).

The first major round of restructuring took place in 1990, followed by another in 1998 (although minor restructuring activity had been taking place between 1990 and 1998). The company moved to a new single site in November

2001, which was such an upheaval that a number of new working practices were temporarily halted. In the summer of 2003 there was a substantial restructuring of the indirect workforce, which included redundancies across the company. The restructuring affected all staff and all functions.

Previous working practices had been based on piecework, which enabled shop-floor workers to complete their week's production target in about three full days and a few hours on Thursday and Friday. They would then perform overtime on Saturdays. The company's manufacturing and technical director noted that, in 1990, these working practices led to a situation where "it was the workforce that managed the plant, not management". The objective of the restructuring was to enable managers to manage, so that the organization could respond to outside pressures.

Management was keen to work alongside the unions rather than in opposition to them, and this led to a partnership approach to change which has stood the company in good stead, as the workforce has cooperated with the various waves of restructuring undergone by the company. The following has been achieved:

- **Working time.** The working week was reduced from 39 to 37 hours, but productivity was increased by maintaining the same output. In 2000, a move to annualized hours was agreed, alongside the introduction of a job evaluation system, the introduction of teamworking and the modification of craft demarcations, allowing trained employees to undertake simple maintenance tasks.
- **Pay.** Following a two-year deal that introduced single-table bargaining, a three-year pay deal agreed in 1992 introduced a simplified pay structure, reducing several hundred shop-floor pay rates to ten. These were further reduced to six by 2003, although the company envisaged creating a new technician grade.
- **Workforce reductions.** Overall, the workforce has been reduced from 2,300 in 1990 to the 2004 level of 469, although over that time few employees were made compulsorily redundant. Many people took voluntary redundancy, although most of those who left were over the age of 50 and had 20 years' service. For these people, the voluntary redundancy package offered by the company was attractive. Many staff also took early retirement. Redeployment was a more contentious issue, however. There were some people who wanted to be made redundant, but whom the company wished to retain, due to the need for particular skills, but also to save on redundancy costs. Discussions over this became heated, but were eventually resolved amicably. Retraining has been extensive, as people have had to learn how to operate new equipment and work in new ways.



The company believes that good communication with employees is a top priority and one that is vital in drawing up restructuring plans. Staff are briefed directly by senior managers on major restructuring plans and invited to contribute ideas. All new initiatives are presented to staff on all shifts, by means of workforce meetings. If necessary, managers run the kilns, which cannot be shut down, to allow production workers to attend.

Formal consultations take place through the company's Joint Review Committee (JRC), which consists of eight union representatives and three senior managers. The JRC meets monthly and has been responsible for several long-term pay and restructuring deals.

### *Restructuring in the oil industry*

This case study (IRS, 2002) is an example of how a company managed the major restructuring of one site in a socially responsible way and how it implemented specific programmes to look after the survivors of the process, for whom the exercise was also stressful.

The UK oil and petrochemical group BP announced significant restructuring at its Grangemouth site in 2001. It wanted to reduce the workforce at the site from 2,400 to 1,700 in order to stem financial losses.

The HR department arranged for managers to hold meetings with their teams over a two-week period. It also wrote to all staff, explaining the changes, and opened a website with information on the restructuring.

Selection for redundancy was made on the basis of a scoring process and selection mechanism (a competency-based matrix) which identified the skills, knowledge and experience needed by the site. This process was drawn up in consultation with the site's staff council, made up of management, union and non-union representatives.

First of all, staff were asked whether they wanted to take voluntary redundancy. This resulted in a number of people being able to leave voluntarily, provided that they did not have skills that were deemed by the company to be essential for the site. In addition, staff aged over 50 were offered early retirement.

A dedicated off-site resource centre was set up to house an outplacement firm to help redundant staff to look for jobs, develop interview techniques and obtain guidance on CVs and application forms. Local firms were also invited to hold recruitment fairs on the BP site.

In addition, BP wanted to establish a link between redundant staff and the survivors as this sends a positive message to survivors. It therefore relayed information about the number of workers who found alternative employment (around 80 per cent almost a year later).

BP recognized that the situation was also stressful for those who were not made redundant. It therefore organized training courses about the

restructuring. It helped prepare line managers for one-to-one conversations with their staff and for managing teams through transition. The courses looked at issues such as understanding and working with the tensions associated with uncertain futures, and understanding low morale and motivation. They also worked on how to increase focus and motivation.

The site's occupational health department also ran a session for line managers, showing them the various ways in which employees might react to the process of change, how to recognize stress in their staff and how to try to reduce it. Courses were also run for individuals.

Finally, the staff felt that they would like the process speeded up in order to reduce uncertainty, so it was brought forward by six months, from December 2002 to June 2002.

The exercise would appear to have been a success. The key objectives of increasing plant availability and cutting costs have been met. It is reported that the site now has a long-term future and the number of site accidents has fallen.

### *Restructuring in Germany: Cutting working time to save jobs in the car industry*

Germany is also undergoing significant levels of corporate restructuring, often resulting in large-scale job losses and adding to the country's unemployment problem. Recent studies show that almost half of German companies are planning to move all or part of their production processes abroad within the next three years in order to save money on labour costs (*Handelsblatt*, 2004, p.10). However, there is a view that this is not necessarily a negative development, with economists arguing that it is better for German companies to do this and so be able to compete in the globalized marketplace rather than go under, which would threaten many more jobs in Germany.

In terms of statutory information and consultation rights, works councils at enterprise level have a right to be informed and consulted on plans that are likely to have an effect on employment. Although they can delay the process, they do not ultimately have a right of veto over management restructuring plans.

#### *Volkswagen: Innovative four-day week accord*

The strength of industrial trade unions such as the metalworking union IG Metall and the tradition of cooperation between management and works councils at establishment level have resulted in a range of innovative agreements designed to safeguard jobs. One of the most well-known of these was the 1993 accord at the motor manufacturer Volkswagen, under which a four-day week of 28.8 hours was introduced (IRS, 1993).

Pay was cut accordingly, although the 14th-month salary and two-thirds of additional holiday pay were divided by 12 and paid out every month in order to compensate for this loss. This meant that around 30,000 jobs could be saved.

### *Opel: Weekly working time cut*

At the beginning of November 2003 the works council and management at the Opel plant in Rüsselsheim agreed to cut the working week for 5,500 production workers from 35 to 30 hours (*IG Metall*, 2003).

The working-time cut was financed jointly by the employer and the employee: the employer paid for 2.6 hours a week while the employee paid for 2.4 hours a week. In practice, this amounted to an average loss of €85 a month for workers. This loss was made as unobtrusive as possible by using holiday pay to supplement monthly pay packets, thus bringing them back up to normal levels.

All other employees at the plant, of which there were more than 15,000, allowed three hours a month (10 minutes a day) of their working time to be placed in the working-time accounts of the production workers. Middle managers contributed two holiday days a year, plus holiday pay, while the 2004 bonus was cancelled for senior management.

The accord secured some 1,200 jobs that were under threat due to difficult economic circumstances. It covered all 21,000 employees at the plant and ran from 10 November 2003 to 31 December 2004.

### *Experiences in Italy: Reducing redundancy levels through negotiation*

Trade unions can have a considerable amount of success in reducing the number of redundancies originally planned by an organization and ensuring that the redundancies that do take place are carried out in a non-traumatic way. This was the case at the Italian operations of the UK-headquartered multinational Marconi in 2003 (Edwards, 2003). The organization employs around 2,310 workers in Italy in total, at its research laboratories at Genoa, Rome, Latina, Milan, Pisa and Ivrea. It also has production facilities at Marcianise (Caserta). The organization had been through a restructuring plan in 2002, when 800 redundancies were made. In addition, management announced a fresh wave of redundancies at the end of 2002, in which it planned to make 1,100 job cuts.

A dispute with the trade unions at the organization followed, after which, in March 2003, management and the trade unions reached an agreement on cutting the number of redundancies from 1,100 to 430. The organization also agreed to manage the redundancies it planned to make in a non-traumatic way.

In order to facilitate this, the parties agreed to make use of the extraordinary wages guarantee fund (*cassa integrazione guadagni*, CIG), a scheme which pays a state benefit to workers whose employment is suspended by organizations undergoing restructuring as a result of severe difficulties. Thus, it was agreed that employees would take it in turns to be suspended from work and receive CIG benefits for a period of 12 months. Vocational training courses were to be organized for those people placed on the CIG scheme in order to help them return to work once their 12 months on the scheme came to an end.

In addition, it was agreed that working time would be reduced and voluntary redundancies would be sought. Incentive payments would be offered to those taking voluntary redundancy: 15 months' pay for those aged at least 40, 18 months for those aged between 41 and 55 and 12 months for those aged 56 or over.

It was also agreed that 110 workers would be placed in a "mobility" scheme, which is a state scheme providing benefits to redundant workers and help in finding alternative employment. Those placed in this scheme would be workers who had paid the necessary contributions to be entitled to a seniority or old-age pension.

Outplacement services would be provided to those workers being made redundant, although if workers took up this option their severance payments would be reduced.

## *Restructuring in France*

The topic of socially sensitive restructuring is a particular focus of debate in France. As mentioned above, in reaction to a continuing wave of restructuring exercises and redundancies in a context of relatively high unemployment, the social partners at national level are currently engaged in discussions on how to avoid, limit and mitigate the effects of redundancies. There are many examples where employee representatives have engaged in negotiations with the management of an organization and achieved agreement on how to manage a specific case of restructuring.

### *EADS: Establishing a framework agreement on dealing with restructuring*

At the European Aeronautic Defence and Space Company (EADS), a framework agreement on how to manage employment reductions was signed on 9 May 2003 between management and the Confédération française démocratique du travail (CFDT), Confédération française des travailleurs chrétiens-CGC (CFE-CGC), CFTC and Force Ouvrière (FO) trade union confederations (*Liaisons Sociales*, 2003). It is aimed at "setting out collective

and individual ways of managing industrial change and limiting its social consequences” and applies to all French operations of the group once they have endorsed it formally and obtained the approval of workplace trade unions. This accord was preceded by an agreement concluded on 2 May 2003, setting out a group-wide framework for dealing with dismissals in the context of a job-saving plan. Any of the companies within the EADS group in France may have recourse to this framework when making redundancies.

The EADS agreement sets out a range of principles to be respected in a restructuring situation. These are: the anticipation and management of employment and competences in the group; the putting into place of training which enables employees to develop and update their competences; the drawing up of an employment policy which has the short- and medium-term interests of the company at heart and which also takes heed of studies relating to the industrial and social effects of sub-contracting; “strong and constructive” concertation between the social partners; as much forward planning as possible when devising social measures accompanying restructuring; solidarity between the various divisions of EADS, in the industrial as well as the social field; and a will to support economic activity and develop employment in a company’s geographical area.

The agreement reinforces the principle of concertation between management and employee representatives and, in particular, sets out to make information and consultation procedures run as smoothly as possible. This concertation comprises two separate periods.

The first is a period of prior concertation, launched when the company is starting to deal with difficulties which may have an impact on employment. It permits employee representatives to gain an insight into the difficulties being experienced by the company and to propose measures aimed at helping safeguard employment. Employee representatives may make use of an external expert of their choice for up to three weeks. Management will respond to any alternatives suggested by employee representatives within a period of 15 to 25 working days if external experts are used, or within a period of five to 10 working days if external experts are not used.

The second is a period of information and consultation, carried out if the phase of prior concertation has not been successful in avoiding redundancies. These procedures will be carried out in accordance with the French Labour Code, adapted slightly so as to take account of the prior concertation phase. The information and consultation procedure takes place over two meetings, whether or not external experts are used by the employee representatives. The second meeting should not take place later than eight working days after the first meeting (or 10 days if it involves 100 or more redundancies).

The agreement makes finding redundant employees a new job within the EADS group a priority. Thus, retraining and reclassification measures are initiated alongside the prior concertation procedure and continue during the information and consultation phase. The accord provides for employer/employee monitoring commissions to be set up at enterprise level so as to ensure that the process of reclassification and redeployment goes smoothly.

### *Wärtsilä: Extending statutory rights*

Most recently, the French operations of the Finnish engineering group Wärtsilä decided to close parts of its engine manufacturing operations. In March 2004, management agreed upon a restructuring plan and an accompanying job-saving plan (required by law) with the company's works council (*Liaisons Sociales*, 2004). This plan involved the loss of 305 jobs, of which 257 were to be cut from one site – the company's operations at Mulhouse. However, by using a range of alternative measures, the number of overall redundancies was cut to around 60. Some 43 employees were offered early retirement, 41 people were redeployed and it was hoped that 157 people could be transferred to a different company.

The most innovative part of the EADS agreement relates to retraining leave. By law, employees being made redundant are entitled to a nine-month period of retraining leave (*congé de reclassement*), during which the employment contract is maintained, but employees are free to devote their time to finding another job. Pay during this leave is 65 per cent of gross former pay, or 75 per cent for low-paid workers. Employers are exempt from social charges on remuneration for these employees during this time.

At Wärtsilä, management and trade unions made a joint application to the labour authorities to extend this period of leave from nine to 18 months. The authorities allowed the company to extend the leave period, but did not allow it to continue to be exempt from paying social charges on pay for the second nine-month term.

### *Managing restructuring through partnership*

The above examples concern joint initiatives between management and workforce representatives to deal with a specific crisis or an impending restructuring exercise. However, there are examples, notably in the United Kingdom, of the conclusion of “partnership agreements” between management and trade unions. In the context of these agreements, the parties make a commitment to work together when dealing with a range of issues and to take a joint approach to problematic situations such as restructuring.

From a management perspective, this helps to secure employee buy-in to the process, calms industrial relations (often replacing an adversarial culture)

and can sometimes create a fresh start, drawing a line under past conflicts and confrontations.

From a trade union point of view, partnership can mean that unions are more involved in the process of change and that they can have influence over a wider range of matters than before, rather than the annual row over pay. They can also benefit from a better relationship with the company.

However, that is not to say that there are not problems with the partnership process, both from a management and a trade union point of view. Some managers may view partnership as the removal of management's right to manage. It can also take longer than making unilateral management decisions.

For unions, there may be a fear that the union has "sold out" and is too involved in management's objectives rather than the union's own goals. Unions often suspect that management wants to undermine union influence by setting up an alternative process. Further, from the union point of view, there is a risk that they may become tainted by getting involved in the decision-making process, even if they argued against certain decisions. Finally, some union officials express the view that the partnership process can run out of steam – after the initial burst of enthusiasm, there may be a danger that the union representatives involved in the process may become too closely associated with management aims and goals.

In general, partnership is also often dependent on particular individuals and can break down if those individuals leave. It can also be severely tested by large-scale restructuring exercises, where the partnership arrangement has to get involved in negotiating and managing job losses.

### *Partnership at BorgWarner*

Despite these reservations, partnership can be successful. The following case study is an example of a partnership agreement at the UK subsidiary of an American multinational (IRS, 2000).

The US BorgWarner Automotive Inc has a UK operation in Margam, South Wales, which supplies four-wheel-drive transmissions and components for vehicles such as the Range Rover. Partnership at this organization dates back to the mid-1980s, when the plant was faced with possible closure and employment relations were very difficult. The unions were very strong and relations were adversarial. Closure of the plant was avoided in 1983, but it was recognized that changes had to be made to the way in which the plant worked and so the company approached the unions (which had 98 per cent membership at the plant) with the idea of setting up a partnership agreement aimed at establishing a joint approach to dealing with future problems.

Recognition arrangements at the plant were changed to a single union presence – the engineering union AEEU (now part of the union Amicus) – which made the partnership process more straightforward.

Union representatives were initially sceptical, but sat down with management to lay the foundations for partnership arrangements based on values such as working together and honesty. Managers said that their style became more open as a result, and they were more willing to listen to other people's ideas. A mixture of small group meetings and mass meetings was held. It was a slow process, but by the early 1990s the groundwork had been laid for cross-functional teams to be established across the company. These teams are made up of between six and 10 employees at all levels and across all company sectors. They research and report on a range of issues, including pay and rewards, apprenticeships and team working. They have in the past looked at issues such as a wave of redundancies in 1993.

There are four distinct areas of focus for the partnership process at BorgWarner:

- **Communication and consultation.** Employee involvement is key to the company and managers seek the views of their employees on issues such as improvements to the production process, HR policies and practices, and recruitment and selection decisions. Trade union representatives often form part of interview panels. In terms of communication, all financial and business information is open to scrutiny by any employee. Union representatives work closely with management on these areas and information on company performance is regularly distributed to the workforce.
- **Teamworking.** Teamworking is viewed as essential as it reduces supervision and empowers teams to improve performance. The organization of the workforce into teams meant that middle management was virtually eliminated. Teams take responsibility for improving a defined part of the manufacturing process.
- **Employee development.** All employees have a development review at least once a year in order to draw up training plans to improve job performance and meet personal and company objectives. Courses should be work-related. There is also a system of job rotation, which enhances employees' skills and also increases flexibility within the organization. Multiskilling is also encouraged.
- **Pay and reward.** A new pay and grading system was developed and implemented by a cross-functional team in 1996. The current reward package includes a general pay increase, bargained between management and employee representatives, a self-financing reward scheme and an attendance bonus.

As a result of this process, turnover increased from £20 million in 1993 to £35 million in 1998, employee turnover is less than 0.5 per cent, employee



attendance is 98 per cent and accidents at the site have been reduced by 60 per cent. A trade union representative says that the plant is “a brighter, cleaner and happier place to work in. The changes have created many benefits at BorgWarner such as increased attendance and increased productivity but most of all people are just happy to come to work.”

One of the interesting aspects of this case study is the fact that the company’s parent in the United States does not recognize trade unions and was at the time reportedly not particularly happy about its UK operation’s agreement with the AEUU, but was reported to be prepared to go with it as long as it brought results.

## Lessons to be learned from the EU experience

Much can be learned from the experience of the social partners in western Europe in trying to manage restructuring in a socially sensitive way. As noted above, there are many examples of how to engage in social dialogue at a range of levels – international, national, sectoral and enterprise level – in order to make a difference to the outcome of restructuring plans. This social dialogue process is underpinned by an EU-level statutory framework guaranteeing a range of employee rights and also by national legislation which, in some countries, goes further than legal regulation at EU level.

### *The legal framework as a safety net*

In general, the existence of a basic framework of regulation, at both EU and national level, providing for the right of employee representatives to be informed and consulted about restructuring exercises that will affect employment, has been a great help to the social partners. It has provided a solid basis of rights and enabled employee representatives to engage in meaningful negotiations with organizations on restructuring plans. This body of law has now been extended to the 10 new EU Member States, which have been obliged to transpose the whole body of EU law into their national legislation before they joined the EU on 1 May 2004.

In countries such as France, the legal obligation to provide redundant employees with a range of measures to help them find alternative work leads to a situation where the management of redundancies and the mitigation of any negative impact upon employees are taken very seriously. This means that discussions on how to mitigate the impact of restructuring on an organization’s workforce are an integral part of the whole restructuring process in this country.

However, this legal framework is not infallible and situations still arise where employee representatives are not involved in any meaningful way in restructuring exercises. Real and meaningful social dialogue can only really

take place if the structures are already in place and there is a will on both sides – supported by the law – to engage. On the employee representative side in particular, it is a great help if there is strong organization and support by trade unions, which can offer their experience and expertise to employee representatives at enterprise level.

### *Going beyond statutory requirements*

As we have seen in this chapter, there are many examples of agreements and provisions that go beyond what is required by the legislative framework. This can have benefits for both the organization and the workforce. For the workforce, the benefits are clear – involvement in and dialogue around the process of restructuring mean that individuals are more likely to retain their jobs or find an alternative job in the organization. If they are to lose their jobs, they will have a greater chance of finding another if they can be supported by the various means contained in many of the agreements set out above.

For the organization, the benefits are less immediate, but just as valid. Entering into a meaningful dialogue with employee representatives is likely to build up a relationship of trust which will stand the organization in good stead when it needs support with any future plans or proposals. One of the potential flashpoints in a redundancy situation is the selection for redundancy. As noted in the H & R Johnson Tiles case study above, disputes can arise if the organization wishes to keep specific workers. A good relationship with employee representatives can help resolve such conflicts, resulting in negotiated solutions, as is often the case in Sweden. Finally, building a profile as a socially responsible employer can also help the organization in the wider community and avoid bad publicity, including damaging consumer boycotts and trade union campaigns.

If an organization is serious about carrying out a restructuring exercise in a socially sensitive way, involving the workforce at an early stage is key. This means that employee representatives can have the opportunity to put forward their views, a discussion can be carried between management and the employee representatives, and management has a chance to respond to the concerns of the employee representatives, ideally ultimately finding a solution that is acceptable to all parties. In this way, employee representatives are actively involved in the process rather than being obliged simply to cope with the consequences of an employer decision.

### *The mixed blessings of early retirement*

One of the issues that has come very much to the fore in the western European debate in recent years is that of early retirement. When an organization is in a restructuring situation involving large-scale job losses, one

of the ways to mitigate the effects of this is to offer early retirement to workers over a certain age, sometimes as low as age 50. Employee representatives are often in agreement with this, viewing it as a non-traumatic way of achieving the departures sought by management and allowing people to cease work on a percentage of their former salary. Indeed, many of the case studies outlined above include early retirement as one of the measures on offer to redundant workers.

However, early retirement also has negative consequences, which are now beginning to make themselves felt. Firstly, shedding most of an organization's older workers can have a negative effect on the organization itself, which loses its experience and expertise. Secondly, although early retirement may seem like a good idea for the workers themselves at first, it is beginning to result in a whole generation of workers in western Europe who are no longer participating actively in the labour market. This is particularly grave when the link is made to demographic trends. The population of western Europe is ageing and birth rates are falling. This is putting pressure on the state welfare systems in many EU countries, which are based on pay-as-you-go systems and consequently beginning to suffer financially from the burden of ever fewer people in work and ever more people either out of work or retired.

The EU is aware of this difficulty, and therefore one of the key targets of the European Employment Strategy and the linked Lisbon strategy is to achieve an average EU labour market participation for older workers (aged 55-64) of 50 per cent by 2010. According to the Commission's most recent assessment of the progress of this strategy (European Commission, 2002), there is a real danger that this target will not be met: the current average participation rate for older workers in the EU is 40.1 per cent. It is therefore advising national governments to discourage the use of early retirement. Many countries are therefore now working towards reforming existing incentives to take early retirement.

### *The problems associated with regions dependent on large employers*

Many countries outside western Europe are faced with the particular difficulties related to closing down large operations in a single area. The existence of so-called mono-towns, in which the majority of the inhabitants of a particular area are dependent on one employer, means that if that employer decides to embark upon a large-scale restructuring exercise, this can be devastating for a whole region. This has been the experience to a certain extent in the former German Democratic Republic, but is much more of a problem in many countries in central and eastern Europe.

Based on the experience of some western European organizations, the effects of this can be mitigated by the establishment of strong incentives for other companies to invest in a region. This can be achieved with the help of local, regional and national authorities, offering incentives such as lower taxation rates and reductions in tax on labour. In France, the public authorities at all levels are active in encouraging investment into particular regions following a site closure.

### *Can dialogue influence the outcome?*

The question of whether social dialogue at national or sectoral level, or, more specifically, dialogue between management and employee representatives at local level, can play a role in influencing decisions to restructure is difficult to answer. It is clear that where employee representatives are involved in the process and the procedure works well, some difference can be made to the final outcome. This usually involves agreements on reducing the final number of job losses, allowing people to depart voluntarily and receive adequate severance packages, and helping people to update skills or gain additional competences in order to be in a better position to find alternative employment. This works best where there is a strong state support system in place. As seen above, trade unions in Italy were able to reduce the number of originally planned redundancies at Marconi in 2003 by almost a third, using measures such as working time reductions, voluntary departures, the state wages guarantee fund and the state “mobility” scheme. In the absence of these state support schemes, which pay benefits to workers for a set period or ease workers’ transition from one job to another, it is doubtful whether the unions would have been able to reduce the number of planned redundancies by as much.

Negotiating working-time cuts as a means of preserving employment is also a popular option in many countries, particularly Germany. However, this measure is likely to be economically painful for the workforce if the cut in pay is not made up in some other way. In Germany, it has been relatively easy to do this, as a wide range of additional bonus payments, such as the very commonplace 13th-month payment, the Christmas bonus and additional holiday pay, can be divided up into 12 annual payments to make up the pay packet. It would be more difficult to achieve this if these types of bonuses were not already in place.

In France, the restructuring activities of the food multinational Danone are the most well known. The organization’s restructuring of its biscuits division, announced in 2001, caused uproar among trade unions. Danone’s final plans were scaled down considerably in terms of overall job losses following consultations with employee representatives, and net job losses were much

smaller as a result. In Hungary, the company backtracked on its original decision to close an entire factory at Győr in the face of intense pressure from the Hungarian Government (IRS, 2001, p.24). It should, however, be noted that in its progressive social practices Danone is something of an anomaly and is keen to preserve its reputation as a socially responsible employer.

In countries such as Sweden, negotiations at enterprise level regularly succeed in reducing the number of planned redundancies as a trade-off against allowing employers to retain staff with relatively short length of service with the company. However, it is extremely difficult and rare for social dialogue or negotiations between employers and employee representatives at enterprise level to reverse an employer decision to embark upon a cost-cutting exercise.

Many of the activities that take place in this area in western Europe are the result of a long-standing relationship and interaction between the relevant parties, acting within the framework of legislation or agreements. Such practices are in theory transferable to other countries. However, it will take time and experience to build up a relationship of trust between the actors within an organization and to develop a network of interaction between company-level actors and other organizations such as national-level social partners, state bodies and other relevant organizations such as national-level tripartite bodies. There has to be commitment and a certain amount of willingness to build up a relationship of trust. Experience has shown that this can be possible however – there are examples of adversarial company cultures, characterized by conflicts between the union and management, being transformed into a more cooperative relationship, as typified here by the BorgWarner case study. Partnership arrangements, as outlined in the BorgWarner case, can be extremely valuable in managing restructuring situations. However, reservations about this process on the part of both management and trade unions need to be overcome before it can be put into place.

Although building up good working relationships between management and employee representatives or trade unions may be a long process, it is surely worth making the effort, in light of the fact that the years ahead will doubtless see many more large-scale restructuring exercises as the economies of central and eastern Europe and the developing countries restructure in the context of globalization. Enabling organizations and their workforces to work together to ensure the best possible outcome in a restructuring situation can, as we have seen, bring significant benefits for all concerned.



## CONCLUSION

Enterprises in most countries today are facing similar external pressures, leading to continuous turbulence and change in markets, and increasing intensity of competition. There are some convincing reasons to expect such turbulence, among them globalization of markets, commerce and financial flows; deregulation and trade liberalization; rapid technological changes; the shift from an industrial to a knowledge- and information-based economy; the threats to environmental sustainability; changing expectations and value systems. As a result, enterprises need to be ready for new challenges and to address them in such a way as to maximize economic benefits and minimize social costs. At the same time, enterprises are not alone in facing these challenges; governments can also feel the impact of business restructuring, especially in situations when whole sectors or regions are affected. What can enterprises and other policy-makers do to tackle the restructuring challenge?

### Enterprise-level strategy, policies and practices

- **Before considering downsizing, explore other restructuring options.** Businesses operate increasingly in a highly interdependent ecosystem in which management must balance the interests of various stakeholders. This is particularly true in decisions on restructuring. Frequently, employees are the first victims of restructuring when management decides to implement short-term cost reduction measures, often without really diagnosing the problems or studying the underlying reasons for the need to change and restructure. Experience suggests that successful restructuring takes place when other options are explored before the decisions to downsize or reduce personnel costs are taken. Such options are changes in strategy, ownership, financial structures, organization, production, outsourcing and non-personnel cost reduction.

## Restructuring for corporate success

- **If downsizing is the only option, carry it out in the most socially sensitive way.** Unfortunately, in some cases downsizing seems to be inevitable. But even then international experience has accumulated a number of socially responsible approaches to it. Often these measures will suffice to achieve the needed results without redundancies or lay-offs. If not, a great deal can be done to facilitate re-employment and to reassure the remaining employees.
- **Create a system of functional flexibility.** Enterprises today need to be constantly ready for challenges. Instead of simply reacting when the situation gets worse and then restructuring, today's corporate champions are adjusting their management systems in such a way as to be always prepared for another economic slowdown or any other external challenge. Functional flexibility is a proactive model, based on the long-term approach. It implies continual improvement in the skills and knowledge of the workforce. In turn, such improvements, carried out through on-the-job training aimed at multi-skilling (through job rotation, job enrichment, job enlargement, introduction of semi-autonomous work teams, quality circles and so on), or more traditional vocational training, should be linked to changes in other aspects of human resource management systems. These changes should affect policies and practices of performance management, compensation and benefits, recruitment and dismissal procedures. They should lead to the development of internal labour market policies, giving employees an opportunity to pursue multiple career tracks, opportunities for professional growth, and encouragement of cost-cutting innovative suggestions and recommendations.

## Policy assistance in facilitating the restructuring process

- **Legal and macroeconomic role.** Governments, in consultation with employers' and workers' organizations, play an important part in defining the legal and regulatory environment within which managers decide on whether and how to restructure. For example, one of the lessons that the Russian Government has learnt while pursuing economic restructuring is that it has to modify the legal provisions to facilitate a free flow of workers between the enterprises and the regions. Another example is a government policy of support to SMEs through legal and fiscal provisions, as seen in Denmark and the Netherlands.



- **Creation of labour market institutions.** This book has described some of the tools that enterprises may use to minimize the negative impact of restructuring on people. However, a negative employment impact cannot be avoided without an active labour market policy of the government. The government should create or further improve systems of vocational training, registration and advice services for the unemployed.
- **Communication.** There is no such thing as over-communication when it comes to restructuring. The workers should know their rights, their options and their choices. They should know how to get another job or new skills, or how to start a business. Communication and education of this sort should be one of the most important components of a government's active labour market policy. The government should also provide enterprises affected by restructuring with guidelines focusing on what they can do to minimize the social cost of the process.

SSER is increasingly becoming a part of the long-term strategy of enterprises and the focus of attention of governments, as well as of employers' and workers' representatives.

We hope that if enterprises and policy-makers choose to act in accordance with the ILO recommendations presented in this book, a win-win relationship between enterprises and their environment will result, focused on long-term success and generating a better social climate favourable to economic growth and peaceful social relations to the advantage of all.



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