

# ARITAKE-WILD

Joint European Level Social Partners'  
Work-programme  
Joint Study on Restructuring in the EU

Improving the anticipation and management  
of restructuring

... adding value through social  
partner engagement

*“Whatever the national framework for the management of change, we found that the active engagement of the social partners in the anticipation and management of change at all levels improved performance in the design of change management architecture and in restructuring practice”*

Synthesis Report for the seminar to be  
held in Brussels on 21<sup>st</sup> and 22<sup>nd</sup> January 2010

Prepared by Alan Wild  
ARITAKE-WILD  
January 2010



Project of the European Social Partners with the financial support of the European Commission

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Finally, thanks are due to the European Commission for their funding of the project and for showing their interest by attending a number of the national seminars.

ALAN WILD  
Project Expert Coordinator

**Improving the anticipation and management of restructuring**

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held in Brussels on 21<sup>st</sup> and 22<sup>nd</sup> January 2010**CONTENTS**

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*This document is presented as an “expert report”. It represents the views of the author, the project expert coordinator, and the project experts responsible for the national dossiers. It does not purport to represent the views, either individually or collectively of the European social partners that were responsible for its commissioning; the national social partners or case study enterprises involved in the project; or the European Commission who supported the project financially.*

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### Executive Summary

1. Change in the global economic and political balance involving states of the former Soviet Union, China, India and other parts of the emerging world have combined with advances in technology to change the structure of Europe's economies substantially and permanently.
2. Whilst this report uses the content and findings of the many recent works on restructuring in the EU, it is distinctive because of its single minded focus on one important aspect of the subject. The report has been commissioned by the European social partner organisations<sup>1</sup> and looks specifically and exclusively at the role of the social partners at the national, sectoral, regional and enterprise levels in economic restructuring.
3. The project that resulted in the preparation of this synthesis report commenced in Malta in April 2005 and ended in Romania in November 2009. Over this time period, the project leaders and managers encountered a wide range of national situations and economic circumstances. In total, the project engaged around 800 representatives of employers' and trade unions in the 26 participating countries in the national seminars and more than 50 social partners' organisations presented case studies.
4. The first phase of the project undertaken in 2005 and 2006 covered the 2004 entry countries of Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia and Slovenia. During this phase, the role of the social partners in restructuring was discussed against the background of the enormous transition from command to market economies and subsequently to job growth in certain sectors through the direct and indirect effects of increased foreign direct investment.
5. The second phase of the project (2007 – 2008) involved ten more Member States: Austria, Denmark, France, Greece, Ireland, Italy, the Netherlands, Spain, Sweden and the United Kingdom. The restructuring that took place in many sectors in most of these countries reflected a growth in the importance of services and a parallel reduction of employment in manufacturing associated with the strive for world competitiveness. Whilst job reductions took place, the overall background to restructuring was one of economic and employment growth, with Europe as a whole adding seven million new jobs over the period 2000 to 2005. The burden of job loss did not, however, fall evenly between sectors and regions and there were often clear distinctions between those who gained and those who did not.
6. The third phase of the project took place against the background of the financial and economic crisis that took hold toward the end of 2008. Discussions with the social partners in Belgium, Germany, Finland, Luxembourg, Portugal and Romania<sup>2</sup> was dominated by the impact of the crisis and the design and adoption of anti-crisis measures to the exclusion of virtually all other issues.

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<sup>1</sup> ETUC, BUSINESSEUROPE, UEAPME and CEEP

<sup>2</sup> The Bulgarian social partners declined the opportunity to take part in phase three of the project as initially scheduled.

7. This report describes the project as a whole and provides the background for presentation and discussion at a seminar to be attended by the social partners in every European Union Member State and which will be held in Brussels on 21<sup>st</sup> and 22<sup>nd</sup> January 2010. The report draws on the 26 national dossiers and two synthesis papers prepared in the duration of the project to date.
8. From a methodological point of view the following paragraphs describe the purpose and content of the national dossiers and the discussions that took place in the national seminars. Each national dossier follows a similar format covering;
  - A macroeconomic review and trends of restructuring in the country – in order to establish the economic context in which the social partners work;
  - The role of the social partners in restructuring – describing the social partner organisations, the legal and institutional frameworks within which they interact and their role in restructuring at the national, territorial, sector and enterprise levels;
  - Case studies of restructuring in a variety of enterprises of varying sizes, sectors and ownership models.
9. The report is presented in four sections. This first section introduces the project and describes the way it was undertaken. The following three sections discuss the main trends of restructuring and key issues arising in the three phases of the project; the most significant common issues in anticipating and managing change and the ways they have been addressed; and finally present conclusions, recommendations and the future challenges faced by employers, workers and their representatives.

#### *The main trends of restructuring and key findings*

10. We are often tempted in discussing the “exportability” of best practice ideas to talk about the wholesale transposition of employee relations systems or of particular practices that are inextricably linked to the employee relations system of a particular country. Whilst we encourage the notion of sharing and learning from good practice, we discourage consideration of the exportability of entire systems or system dependant processes. We found that learning from others best occurred at two levels. First, the macro themes that together make up an agenda for successful social partner engagement in the management of change and which are common to any national system. These are anticipation and shared diagnosis; managing job transitions; preparing the workforce of the future; and restructuring, social dialogue and the crisis. Second, there are very specific and practical micro level examples from a country, sector or organisation that are capable of adaptation and adoption in differing environments and circumstances.
11. In more general terms it is our view that much of the substantial volume of work undertaken on restructuring has been disappointingly blinkered. We have often limited our view of restructuring to those events that involve significant job losses in large, often manufacturing based, enterprises. Looking at restructuring through such a narrow lens places important limits on our ability to design and implement policy responses and to support enterprises and their workers and representatives in the management of change.
12. The key issues arising from the project are presented under three headings associated with the three phases of the project;
  - The 2004 entry Member States;
  - Restructuring viewed from the perspective of the first years of the millennium;
  - Restructuring at a time of crisis.

*Phase one - the 2004 entry Member States;*

13. The introduction to the synthesis report describing the first phase of the project summarises the issues faced by the 2004 entry countries as follows;

*“The ten new Member States studied faced a series of complex problems. Eight of the ten countries are young market economies that have gone through 15 years of dramatic, and often traumatic, economic transition. This adjustment continues in each country to a greater or lesser extent. All of the countries involved were striving to cope with the requirements of their accession into the European Union whilst dealing with the challenges of globalisation, technological development, modernisation of work organisation and privatisation. The objective of the European Social Partners in undertaking this study was to capture this unique period of experience in a manner that would influence the European social policy agenda and the future joint work of the Social Partners.”<sup>3</sup>*

14. The analysis undertaken at the end of the first phase of the project identified twelve issues which were split into two categories. The first category dealt with the practical issues associated with the anticipation and management of change. The second category dealt with employment policy issues associated with the structure of the labour market and equipping it to cope with future challenges;

Anticipation and management of change	Employment policy issues
<ul style="list-style-type: none"> <li>• The manner and extent of privatisation;</li> <li>• The timing of consultation and speed of introducing change;</li> <li>• Differing standards of behaviour by international enterprises;</li> <li>• Absence of thinking “beyond financial compensation for job loss”;</li> <li>• Predicting future issues;</li> <li>• The effectiveness of the social partners.</li> </ul>	<ul style="list-style-type: none"> <li>• The education system –delivering the skills in young people that the labour market needs;</li> <li>• Keeping skills relevant - the role of lifelong learning;</li> <li>• Economic migration and labour market shortages;</li> <li>• Regional differences and labour market mobility;</li> <li>• The informal economy;</li> <li>• Embracing small businesses as engines of growth.</li> </ul>

*Phase two - restructuring viewed from the perspective of the first years of the millennium;*

15. The economies of the Western European countries participating in this phase of the project faced acute challenges associated with increasing international competition within and outside the European Union. Each of the countries, to a greater or lesser extent, found it increasingly difficult to compete with countries with significantly differing operating costs, including lower labour costs. Over the medium to longer term, these countries will also have to cope with low birth rates and an aging population that will drive up, in some cases sharply, the ratio of dependants to the working population.

16. One of the most significant general trends in the participating countries was the shift in share of GDP and of employment from manufacturing to services. Whilst it is clear that there has been a substantial change in the sectoral structure of employment, the data has to be assessed with a degree of caution. The generally noted shift in employment concentration from industry to services is, at least in part, associated with the outsourcing of activities like cleaning, security, cafeteria and restaurant services and IT from manufacturing enterprises to those defined as specialist service providers.

<sup>3</sup> Study on Restructuring in new Member States” Alan Wild July 2006 [www.resourcecentre.etuc.org](http://www.resourcecentre.etuc.org) and [www.erc-online.eu](http://www.erc-online.eu).

17. Where new jobs have been created, how they compare qualitatively and quantitatively with the jobs lost, is an important consideration. Small and medium sized enterprises have experienced huge employment growth in recent years and have acted as “shock absorbers” in the restructuring process. The national dossiers show repeatedly that companies with one to 19 employees create twice as many new jobs as other small and medium sized enterprises and net job creation diminishes with organisational size. Similarly most new jobs are created in young, small enterprises less than five years old.
18. Four broad themes permeated the ten national dossiers and dominated discussion on the role of the social partners in restructuring in this phase of the project. These formed the core of the report produced in June 2008;
  - Flexibility and Security;
  - Developing a shared diagnosis and agenda;
  - Dealing with current and future skills gaps;
  - Two perspectives on “silent restructuring”
    - “*Transformational change*” - focussing on major change without significant job loss;
    - “*Change below the radar*” - jobs created and lost in small and micro businesses

*Phase three - restructuring at a time of crisis;*

19. With the distinct exception of Romania, the profile of the countries involved in the final phase of the project, Belgium, Germany, Finland, Luxembourg, Portugal and Romania, had essentially similar characteristics to those engaged in phase two. The first national dossier in this phase of the project was written at the beginning of 2009 and the seminars took place between March and November of the same year. In every country, with the exception of Romania, the social partners were engaged heavily in the practical and policy responses to the economic and financial crisis that had by then moved from the banking sector into the “real” economy. In Romania the discussion reflected many of the issues that had arisen in the first phase of the project and the issues of restructuring related to outsourcing and relocation were low on the agenda.
20. The discussions in each of the countries on the approaches taken to mitigate the effects of the financial and economic crisis centred around three broad areas;
  - Government job protection schemes;
  - Improving job security through pay moderation and increased flexibility;
  - The nature of the “post crisis” economy.

*The most significant common issues in anticipating and managing change and the ways they have been addressed*

21. From the forgoing analysis of all three phases of the project it is our view that an overall high level agenda, or “road map” of key issues can be identified that is common to all EU member states, and is probably more universally applicable. We also suggest that there are micro examples of practice that can be considered for adoption in the context of differing national environments and systems of employee relations. Whatever the sub-system of employee relations, the over-riding agenda for successful social partner activity remains the same and the practical engagement of the social partners in the process consistently adds considerable value.

22. The agenda below is presented as a “road map” for the development of a comprehensive social partner approach to the issue of restructuring.

Anticipating change and developing a shared diagnosis and agenda
Assuring timely and relevant information and consultation
Managing job transitions
Preparing the workforce of the future
Small and micro- enterprises
Transformational change
Restructuring, social dialogue and the crisis

23. *Anticipating change and developing a shared diagnosis and agenda* - a question that was discussed in each of the national dossiers and at the national seminars was that of anticipating change and developing a shared view on the key issues and how they should be addressed. This is also one of the areas where the engagement of the social partners is currently weakest. Anticipation of change is crucial if sudden and unexpected workforce shocks are to be avoided and restructuring take place against timescales that facilitate both organisational change objectives and the delivery of acceptable solutions for affected workers.
24. *Assuring timely and relevant information and consultation* - the issue of the effectiveness of the social partners at the enterprise level was an important question that was also raised consistently in the countries covered by phase one of the project. It arose in other countries either as a generalised concern or relating to specific sectors or restructuring processes. The specific concern expressed was that information was provided to workers representatives too late, and that consultation was frequently, at best, peremptory. Where this question was raised it was pointed not only toward employers but also toward governments in their consultation related to employment policy and restructuring related laws or projects.
25. *Managing job transitions* - the issue of managing job transitions arose in every one of the 26 participating countries. In a number of countries in all phases of the project, the issue related to achieving the correct balance between financial compensation for job loss and putting plans in place to secure successful job to job transitions for the workers involved arose. From a subjective point of view, it appeared from the discussions that took place in the 26 countries that much more interest is being shown by both workers’ and employers’ representatives in job transition schemes. In countries where job transition arrangements have not traditionally been commonplace, considerable interest is shown in the Trygghetsrådet in Sweden (which have generally been inappropriately translated as “Job Security Councils” whilst in reality they are about “*career*” rather than “*job*” security); the Danish model of flexicurity; Finnish job foundations; or German transfer enterprises.
26. *Preparing the workforce of the future* - the social partners in every participating country highlighted current skills mismatches and/or the future skills needs to support the changing economy as key issues for the social partners and for government. In the longer term, these issues have to be addressed through more, and more effective, investment in education and training at all levels. In the shorter term the issues of lifelong learning and migrant workers need to be tackled.
27. *Small and micro- enterprises* - small and medium sized enterprises constitute the vast majority of businesses in the EU and a substantial volume of net job creation in Europe takes



place in “small” and “young” enterprises. In the national seminars, the amount of discussion and focus on small and micro enterprises was limited and indicates a need for more substantive work to be undertaken. It is often said that small and micro enterprises are the engines of economic growth and act as shock absorbers at times of change, but it is clear that the role of small and micro enterprises in the economy and the issues they face in restructuring are more complex.

28. *Transformational change* - in considering economic restructuring, much of today's research concentrates on mass redundancies or lay-offs in large enterprises. The European Restructuring Monitor located in the European Monitoring Centre on Change, for example, measures only instances where more than 100 jobs are either created or lost and which appear in important national or regional newspapers. An important objective of this project has been to go beyond defining economic restructuring in terms of mass job losses in single large enterprises. In restricting our vision in this way, we ignore the kinds of organisational transformation that take place where massive restructuring of working practices or employment arrangements take place without commensurate major job losses.
29. The extensive changes taking place “below the radar” in small and micro enterprises and transformational change have been collectively titled “silent restructuring” in this project, and the subject has begun to receive more focussed attention on the overall restructuring agenda.
30. From a policy point of view, by focussing on larger examples of restructuring that take place over restricted time periods we tend to base our judgment and decisions on how poorer management strategies are put into effect. Where there are sudden and massive workforce reductions that are not associated with equally sudden and dramatic changes in an enterprise's performance and prospects, this should be associated with sub optimal managerial practices. Better practice is to anticipate and manage change incrementally over a more extended timescale. Where change anticipation in social dialogue processes is inadequate, social partner engagement typically occurs only at the time when dramatic job loss is almost inevitable.
31. *Restructuring, social dialogue and the crisis* - six national seminars were held in the period March to November 2009 and discussion of the economic and financial crisis dominated discussions in Belgium, Finland, Germany, Luxembourg and Portugal. The crisis was discussed in Romania, but it appeared less significant to the social partners there than in the older market economies. The discussions centred on the broad areas of government job protection schemes; improving job security through pay moderation and flexibility; and the “post crisis” world.

### *Conclusions, recommendations and future challenges*

32. When we talk about this project, most people ask which are Europe's “best” and “worst” national employee relations systems for anticipating and managing change. Whilst this question is an interesting one, for practitioners concerned with improving the way they manage change today and tomorrow, it is not a practical one. Employee relations approaches, frameworks and institutions are borne out of a variety of national differences in culture and history which change only slowly, if at all.
33. Whatever the national framework for the management of change, we found that the active engagement of the social partners in the anticipation and management of change at all levels improved performance in the design of change management architecture and in restructuring practice.
34. Within every national framework, the role and influence of the social partners on restructuring the enterprise or sectoral level varied widely. It was clear that the potential for adopting good practice was not chronically inhibited by national employee relations systems.
35. The points above lead to an important conclusion of the project as a whole. We are often tempted in discussing the “exportability” of best practice ideas to talk about the wholesale transposition of employee relations systems or of particular practices that are inextricably

linked to the employee relations system of a particular country. We found that learning from others best occurred at two levels. First, the macro themes that form a “road map” for successful social partner engagement in the management of change and which are common to any national system. These are anticipation and shared diagnosis; assuring timely and relevant information and consultation; managing job transitions; preparing the workforce of the future; small and micro enterprises; transformational change and restructuring, social dialogue and the crisis. Second, there are very specific micro level practices from a country, sector or organisation that are capable of adaptation and adoption in differing environments and circumstances.

36. We also suggest, perhaps controversially, that much of the overall work undertaken on restructuring today is disappointingly blinkered. If we limit our view of restructuring to those events that involve significant job losses in large, often manufacturing based, enterprises we put important limits on our ability to design and implement policy responses and to support enterprises and their workers and representatives in the management of change. This tendency to look at the restructuring phenomenon through the wrong end of the telescope inhibits our ability to respond for three reasons.
- We tend to overlook restructuring in small and micro-enterprises;
  - We risk ignoring the kinds of organisational transformation that take place where massive restructuring of employment arrangements takes place without major job loss. The lessons here are particularly important to the kind of restructuring that often takes place in public services and administration where massive organisational change is needed but the challenge is in the nature, rather than the number, of jobs involved;
  - Putting the current financial and economic crisis aside, by focussing on larger examples of restructuring that take place over a limited time period we tend to look at how suboptimal management strategies are put into effect. Unfortunately, it is these events that make the media headlines rather than those where better anticipation leads to more incremental adaptation over more extended timescales.
37. A major challenge for the social partners going forward is to get better at anticipating future change and developing joint approaches to it. In the national seminars there was a notable lack of discussion on inevitable longer term challenges like tightening public finances combined with the impact on services of general interest of demographic change, continuing restructuring based upon shifts in the patterns of global demand and the job impact of climate change.
38. In concluding, we found consistently that the active engagement of the social partners in the management of change improved performance in restructuring practice. Whatever the national system of employee relations we found practical examples of excellence. Finally, we were able to identify a series of what we believe are universal themes which provide a “road map” upon which practical plans to improve the overall anticipation and management of change at European, national, sectoral and enterprise level can be built.
39. We sincerely hope that this report adequately summarises a very long and comprehensive process of research and discussion. More importantly we hope it opens new areas for discussion and debate that leads to a further improvement in the role played by, and the influence of, social partners at all levels in the process of restructuring.

Alan Wild  
December 2009

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*"Whatever the national framework for the management of change, we found that the active engagement of the social partners in the anticipation and management of change at all levels improved performance in the design of change management architecture and in restructuring practice".*

### Section one - Introduction, background and methodology

The economic impact of the fall of the Berlin Wall just 20 years ago in November 1989, together with the greater integration of China into the world's market economy after the Tiananmen Square incident in the same year has combined with enormous progress in the development of information and communication technology (ICT) over the same period to result in an unprecedented volume of restructuring of every one of Europe's Member States.

In the years following the fall of the Iron Curtain, the countries of Central and Eastern Europe which joined the EU in 2004 and 2007 first had to cope with the painful consequences of moving from "east facing command" to "west facing market" economies. Their initial struggles with privatisation and the quest for global competitiveness were followed by substantial inward foreign direct investment that transformed the nature and location of economic activity in the countries involved. For the older members of the European Union, the addition of around 1.4 billion new workers, mostly from China, Central and Eastern Europe and India, into the global market economy, led to major structural changes from manufacturing to services and the large scale disappearance of low skill, low paid industry sectors. An increase in employment in location sensitive service provision and growth in higher value added manufacturing and service occupations reflected the ambitions of the Lisbon targets for Europe's development. The Lisbon agenda, crafted in 2000, sought make Europe the "most dynamic and competitive knowledge-based economy in the world capable of sustainable economic growth with more and better jobs and greater social cohesion, and respect for the environment by 2010". The strive for increasing competition in public services continued to be driven by European and national legislators and accelerated change virtually across the board in the sectors of general interest (SGI's). Finally, and at the end of 2008, all of Europe's countries began to suffer from the effects of the global economic and financial crisis.

Given the enormity of the change that continues to take place, it is no surprise that a huge volume of reports, publications, studies and articles on the subject of economic restructuring in the European Union and globally have been produced. Whilst this report takes advantage of the content and findings of these works, it is distinctive because of its single minded focus on one important aspect of the subject. The report has been commissioned by the European level social

partners<sup>4</sup> and looks specifically and exclusively at the role of the social partners at the national, sectoral, regional and enterprise levels in economic restructuring.

The project that resulted in the preparation of this synthesis report commenced in Malta in April 2005 and ended in Romania in November 2009. Over this time period, the project leaders and managers encountered a wide range of national situations and economic circumstances;

- The first phase of the project undertaken in 2005 and 2006 covered the 2004 entry countries of Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia and Slovenia. During this phase, the role of the social partners in restructuring was discussed against the background of the enormous transition from command to market economies and subsequently to job growth in certain sectors through the direct and indirect effects of increased foreign direct investment.
- The second phase of the project (2007 to 2008) involved more Member States, Austria, Denmark, France, Greece, Ireland, Italy, the Netherlands, Spain, Sweden and the United Kingdom. The restructuring that took place in many sectors in most of these countries reflected a growth in the importance of services and a parallel reduction of employment in manufacturing associated with the strive for world competitiveness. Whilst job reductions took place, the overall background to restructuring was one of economic and employment growth, with Europe as a whole adding seven million new jobs over the period 2000 to 2005. The burden of job loss did not however fall evenly between sectors and regions and there were often clear distinctions between those who gained and those who did not.
- The third phase of the project took place against the background of the financial and economic crisis that took hold toward the end of 2008. Discussions with the social partners in the six countries involved (Belgium, Germany, Finland, Luxembourg, Portugal and Romania<sup>5</sup>) was dominated by the impact of the crisis and the design and adoption of anti-crisis measures to the exclusion of virtually all other issues.

The entire schedule for the project was;

	Country	Date		Country	Date
<b>FIRST PHASE</b>	Malta	13 April 2005	<b>SECOND PHASE</b>	Ireland	23 and 24 April 2007
	Lithuania	26 May 2005		The Netherlands	12 <sup>1</sup> June 2007
	Czech Republic	22 June 2005		Greece	28 and 29 June 2007
	Cyprus	8 Sept 2005		Italy	23 and 24 October 2007
	Hungary	5 Oct 2005		France	21 and 22 Nov 2007
	Poland	16 Nov 2005		Austria	10 and 11 March 2008
	Slovakia	1 Feb 2006		Denmark	9 and 10 April 2008
	Slovenia	16 Feb 2006		Spain	28 and 29 April 2008
	Estonia	30 March 2006		The United Kingdom	6 and 7 May 2008
	Latvia	27 April 2006		Sweden	14 May 2008
	Synthesis seminar	26 and 27 June 2006		Synthesis seminar	19 and 20 June 2008

<sup>4</sup> ETUC, BUSINESSEUROPE, UEAPME and CEEP

<sup>5</sup> The Bulgarian social partners declined the opportunity to take part in phase three of the project as initially scheduled.

THIRD PHASE	Country	Date
	Finland	5 March 2009
	Germany	31 Mar and 1 April 2009
	Portugal	23 and 24 June 2009
	Luxembourg	2 Sept 2009
	Belgium	14 Oct 2009
	Romania	2 and 3 Nov 2009
	Final seminar	21 and 22 January 2010

This report describes the project as a whole and provides the background for presentation and discussion at a seminar to be attended by the social partners in every European Union Member State and which will be held in Brussels on 21<sup>st</sup> and 22<sup>nd</sup> January 2010. The report draws on the 26 national dossiers and two synthesis papers prepared in the duration of the project to date<sup>6</sup>. Its main purpose is not to summarise or recapitulate the content of previous project publications. It seeks to summarise briefly the findings of each phase of the project and identify and illustrate overall issues and trends in order to inform and to encourage discussion and debate on the role of the social partners in restructuring at the synthesis seminar. The report attempts to be analytical rather than descriptive and readers interested in more detailed descriptions of the macroeconomic challenges facing each of the 26 countries and/or descriptions of the national social partners and the roles they play in restructuring are directed to the national dossiers available on the employers' and trade unions' resource centre websites<sup>7</sup>.

From a methodological point of view the following paragraphs describe the purpose and content of the national dossiers and the discussions that took place in the national seminars.

Each national dossier follows a similar format covering;

1. A macroeconomic review and trends of restructuring in the country – in order to describe the economic context in which the social partners work;
2. The role of the social partners in restructuring – describing the social partner organisations, the legal and institutional frameworks within which they interact and their role in restructuring at the national, territorial, sector and enterprise levels;
3. Case studies of restructuring in a variety of enterprises of varying sizes, sectors and ownership models.

In addition to the national seminar reports, two synthesis papers were prepared for major seminar held in Brussels in June 2006 and June 2008<sup>8</sup>.

<sup>6</sup> All of the national dossiers and seminar reports can be found on the resource centres of the trade unions and employers - [www.resourcecentre.etuc.org](http://www.resourcecentre.etuc.org) (trade unions) and [www.erc-online.eu](http://www.erc-online.eu) (employers)

<sup>7</sup> See footnote 6 above

<sup>8</sup> [www.resourcecentre.etuc.org](http://www.resourcecentre.etuc.org) (trade unions) and [www.erc-online.eu](http://www.erc-online.eu) (employers)

The development of each of the national dossiers followed a similar approach<sup>9</sup>;

1. Desk research by the national expert;
2. Country visit by the national expert to meet with representatives of national social partner organisations;
3. Identification of restructuring case studies by national social partners;
4. Preparation of a draft report for review by the expert coordinator;
5. Circulation of the draft report prior to the national seminar;
6. Discussion of the national dossier at a national seminar with contributions by the national experts, European social partners and chaired by the project's expert coordinator. Each seminar contained four elements;
  - Presentation and discussion of the national macroeconomic background;
  - Presentation and discussion of role of the social partners in restructuring at the national sectoral and enterprise levels;
  - Presentation by the European social partners of their work relevant to restructuring;
  - Presentation and discussion of case studies.
7. Submission of additional information by participants and revision of the final report by the national expert. Review by the expert coordinator and European level social partners;
8. Publication of the national dossier and a note of the national seminar outcomes on the trade unions' and employers' resource centre websites.

During the course of the project, around 800 representatives of employers' and trade unions in the 26 participating countries attended national seminars and more than 50 organisations presented case studies. The case studies provide evidence of actual practice and assist greatly in gaining an understanding of how the social partners use the legal and institutional frameworks described in the national dossiers. The case studies presented at the seminars deliberately represent national and international enterprises of all sizes from the public and private sectors. During the project, we were delighted with the variety of cases offered to us and the fact that organisations were equally prepared to discuss the problems they encountered as well as their successes. Indeed, as is the case in practice, not all of the studies could be described as having optimal outcomes for either or both the employers and workers involved.

The cases (listed below) are described in detail in the national dossiers and those interested can access them through the websites of the European social partners<sup>10</sup>. Where they are relevant to the text, précis of a sample of the cases are included in the body of this report.

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<sup>9</sup> At the end of the first phase the managing consultants were changed and a number of changes were made in the methodology in order to assure better consistency in the content of the national dossiers, to mandate the inclusion of detailed case studies and to extend the national seminars from one day to one day and a half.

<sup>10</sup> During the first phase of the project the inclusion of case studies on the national dossiers was not a project requirement. For this reason the quality of the cases reported varies.

Project Phase one			
Cyprus	Czech Republic,	Estonia	Hungary
<ul style="list-style-type: none"> <li>• Cyprus airlines.</li> </ul>	<ul style="list-style-type: none"> <li>• Plzensky Prazdroj A.S. (South African Breweries);</li> <li>• Jitex;</li> <li>• Philip Morris C.R.</li> </ul>	<ul style="list-style-type: none"> <li>• The privatisation process in Estonia.</li> <li>• Sectoral approaches to restructuring;</li> <li>• Eesti Põlevkivi Ltd</li> </ul>	<ul style="list-style-type: none"> <li>• Major job reductions in Hungary 2003-2005.</li> </ul>
Latvia	Lithuania	Malta	Poland
<ul style="list-style-type: none"> <li>• The wood processing industry.</li> </ul>	<ul style="list-style-type: none"> <li>• VADB Drobe;</li> <li>• Ignakina.</li> </ul>	<ul style="list-style-type: none"> <li>• Restructuring in the public sector.</li> </ul>	<ul style="list-style-type: none"> <li>• Dalkic Posnan zec.</li> </ul>
Slovakia	Slovenia		
<ul style="list-style-type: none"> <li>• The coal mining industry;</li> <li>• The public transport system;</li> <li>• The banking sector;</li> <li>• Matador.</li> </ul>	<ul style="list-style-type: none"> <li>• Gorenje</li> </ul>		
Project Phase two			
Austria	Denmark	France	Italy
<ul style="list-style-type: none"> <li>• ÖBB Holdings;</li> <li>• Austrian Airlines Group;</li> <li>• T-Mobile Austria</li> <li>• SHT Group;</li> <li>• The Plastic Cluster – Upper Austria.</li> </ul>	<ul style="list-style-type: none"> <li>• Nordea;</li> <li>• Codan Rubber;</li> <li>• Danish local government reform.</li> </ul>	<ul style="list-style-type: none"> <li>• Kodak;</li> <li>• La Poste.</li> </ul>	<ul style="list-style-type: none"> <li>• Ferrania Imaging Technologies;</li> <li>• The Textile industrial district of Prato;</li> <li>• Poste Italia.</li> </ul>
Greece	The Netherlands	Republic of Ireland	Spain
<ul style="list-style-type: none"> <li>• Laro Abee;</li> <li>• Ellathrio Strom;</li> <li>• Elefsis shipyards.</li> </ul>	<ul style="list-style-type: none"> <li>• KPN Telekom;</li> <li>• Altuglas.</li> </ul>	<ul style="list-style-type: none"> <li>• Cadbury Ireland;</li> <li>• Aer Lingus.</li> </ul>	<ul style="list-style-type: none"> <li>• RTVE;</li> <li>• The Industrial observatories.</li> </ul>
Sweden	United Kingdom		
<ul style="list-style-type: none"> <li>• Ericsson;</li> <li>• Swedish Mail.</li> </ul>	<ul style="list-style-type: none"> <li>• Cadbury plc;</li> <li>• The National Health Service – the Hospital at Night.</li> </ul>		
Project Phase three			
Belgium	Germany	Finland	Luxembourg
<ul style="list-style-type: none"> <li>• Subcontractors of VW in Belgium;</li> <li>• DAF trucks;</li> <li>• La Poste/De Post</li> </ul>	<ul style="list-style-type: none"> <li>• Daimler;</li> <li>• Nord Oberpflatz Clinics;</li> <li>• Currenta GmbH</li> </ul>	<ul style="list-style-type: none"> <li>• Perlos – and managing structural change in the region of Joensu/North Karelia;</li> <li>• Municipal restructuring in the Salo region.</li> </ul>	<ul style="list-style-type: none"> <li>• Husky;</li> <li>• Montage Schweisstechnik Engineering GmbH</li> </ul>
Portugal	Romania		
<ul style="list-style-type: none"> <li>• Carris</li> </ul>	<ul style="list-style-type: none"> <li>• Dacia Groupe Renault;</li> <li>• Arcelor Mittal;</li> <li>• IMSAT.</li> </ul>		

The report is presented in four sections. This first section introduces the project and describes the way it was undertaken. The following three sections discuss the main trends of restructuring and key issues arising in the three phases of the project; the most significant common issues and the ways they have been addressed; and finally present conclusions, recommendations and future challenges. We sincerely hope that the report adequately summarises a very long and comprehensive process of research and discussion. More importantly we hope it opens new

areas for discussion and debate that leads to a further improvement in the role played by, and the influence of, social partners at all levels in the process of restructuring. It is our strong belief that the active engagement of committed social partners will improve our ability to anticipate and manage the changes Europe's enterprises and workers face in coming years.

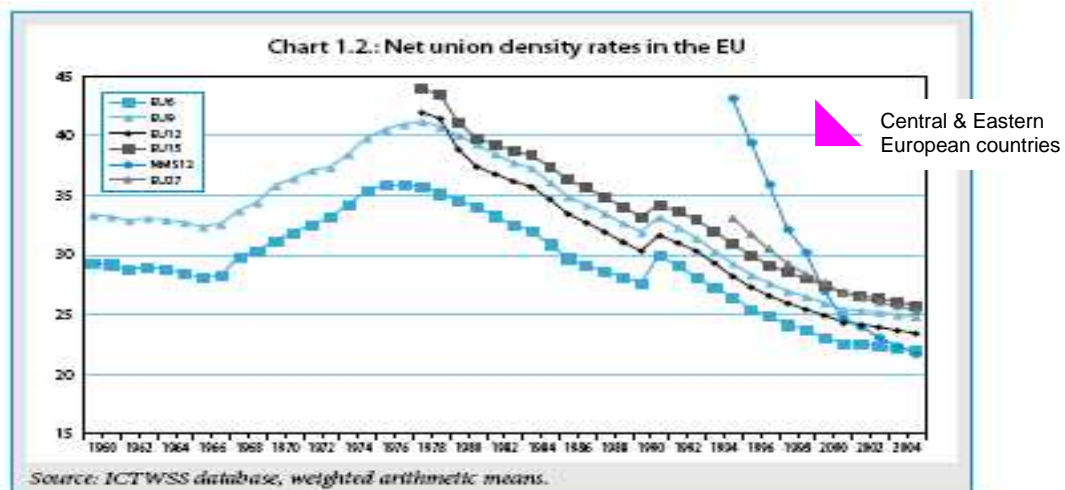
Finally, the document is presented as an "expert report". It represents the views of the author, the project expert coordinator, and the project experts responsible for the national dossiers. It does not purport to represent the views, either individually or collectively of the European social partners that were responsible for its commissioning; the national social partners or case study enterprises involved in the project; or the European Commission who supported the project financially.



## Section two - The main trends of restructuring and key findings

This section of the report reviews the main trends in restructuring and the most important issues that emerged from the national dossiers and which were discussed at the national seminars. As previewed in the introduction, the three phases of the project represented three distinctly different sets of circumstances relating initially to the nature of the countries involved, and later to the change in the economic circumstances facing organisations and workers in the participating economies from 2007 to 2009.

Briefly, phase one of the project involved the 2004 entry European Member States. With the exception of the micro-economies of Malta and Cyprus they were all countries from Central and Eastern Europe (CEECs) which had already experienced a 15 year transition from the command to the market economy model. Entry into the EU also brought with it a new legislative platform for dealing with restructuring through the national adoption of Directives dealing with collective redundancies and acquired rights, and those requiring the establishment of national and European works councils. Entry into the EU also changed the profile of the social partner organisations themselves and placed additional responsibilities and demands on them. At the same time, in most CEECs trade union membership declined substantially (see illustration below) whilst emerging voluntary employers' organisations were gradually establishing their role.



In phase two of the project, ten of Europe's more established economies were reviewed in the context of substantial structural change at a time of generalised economic and employment growth. Traditional industries like textiles and footwear relocated to the east in great numbers and manufacturing industry occupied itself with the twin challenges of improving competitiveness and the relocation or outsourcing of parts of the sector in a new globalised economy. At the same time the service sector grew in the areas of transport, finance and banking, business to business services and location sensitive personal services. Over the period 2000 to 2005 there was a net gain of seven million jobs in Europe whilst job creation more than compensated for job losses. The burden of job loss did not however fall evenly between sectors, occupations and regions and many of the new jobs might be perceived to be of lower quality than those lost.

The likely impact of the global financial and economic crisis had already been highlighted in national dossiers and discussed in national seminars at the end of phase two of the project in the spring of 2008. At the time, the observation made in the national dossier of mounting economic problems in Spain was largely refuted by the national social partners. By the time phase three of the project started in the Spring of 2009 the crisis had already extended from the finance sector and into the "real" economies of the six countries involved. Only in Romania was the crisis felt to

a lesser extent than the five other countries studied where current and projected job losses and anti-crisis measures dominated social partner thoughts and actions.

For this reason the initial discussion of restructuring trends is divided into three sections;

- ✧ The 2004 entry Member States;
- ✧ Restructuring viewed from the perspective of the first years of the millennium;
- ✧ Restructuring at a time of crisis.

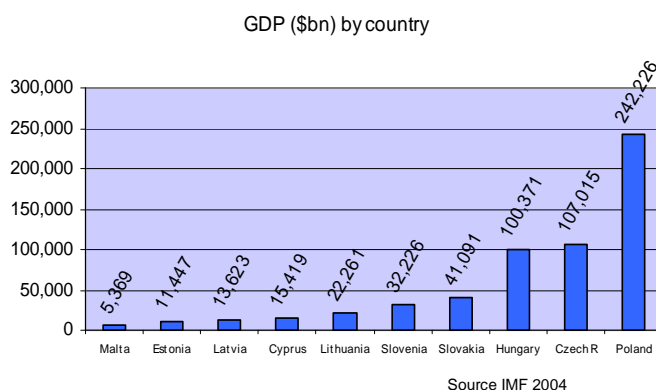
The paragraphs below dealing with the 2004 entry Member States and the first years of the new millennium are based on the executive summaries of the interim synthesis reports already published during the currency of the project in June 2006 and June 2008. The section dealing with the more recent economic crisis contains entirely new material. For this reason, readers already very familiar with the first two phases of the project may choose to briefly review the relevant paragraphs as a reminder of earlier discussions.

### *Phase one - the 2004 entry Member States*

The introduction to the synthesis report describing this phase of the project summarises the issues they faced as follows;

*“The ten new Member States studied faced a series of complex problems. Eight of the ten countries are young market economies that have gone through fifteen years of dramatic, and often traumatic, economic transition. This adjustment continues in each country to a greater or lesser extent. All of the countries involved were striving to cope with the requirements of their accession into the European Union whilst dealing with the challenges of globalisation, technological development, modernisation of work organisation and privatisation. The objective of the European Social Partners in undertaking this study was to capture this unique period of experience in a manner that would influence the European social policy agenda and the future joint work of the Social Partners.”<sup>11</sup>*

The 2004 entry countries are often referred to generically as the EU10 and eight of them as “the CEECs”. In fact at the time the studies were completed, and still today, the ten economies differ substantially in size and character. Poland is the largest with a population of almost 40m, dwarfing Malta with less than a half a million inhabitants. The differing size of GDP is illustrative of substantial economic diversity and is captured in the following table taken from the first project synthesis report.



<sup>11</sup> Study on Restructuring in new Member States” Alan Wild July 2006 [www.resourcecentre.etuc.org](http://www.resourcecentre.etuc.org) and [www.erc-online.eu](http://www.erc-online.eu).

The structure of the economies in the participating countries also varied widely. The following simple table shows the relative sizes (by contribution to GDP) of agriculture, services and industry for the largest and smallest sectoral contributors;

	Highest (% GDP)	Lowest (% GDP)
Agriculture	7 (Lithuania)	3 (Malta)
Services	75 (Cyprus)	56 (Czech Republic)
Industry	40 (Czech Republic)	20 (Cyprus)

Trade union membership, bargaining density and the nature of collective bargaining vary;

- In most countries trade union membership has fallen since 1989 (see above);
- Collective bargaining density varies from a high of almost 100% in Slovenia to a low of around 15% in Lithuania with a number of countries being around the EU average;
- The dominant form of collective bargaining, where it takes place, is at the enterprise level (with the exceptions of Slovenia, Slovakia and Cyprus).

One important area where consistent results can be observed is in their ranking in the UNDP Human Development Index (HDI). The UNDP HDI ranks the world's countries according to quality of life using the proxy indicators of GDP per capita, education and life expectancy. In every one of the ten countries their world ranking improved from 1995 to 2002 (the latest data available at the time of the project). In the most recent data (for 2007) Slovenia, Cyprus, the Czech Republic and Malta are ranked in the highest category of global human development ("very high development") with the other six participating countries ranked in the top ten of the world's "high human development" category.

The analysis undertaken at the end of the first phase of the project identified twelve issues which were split into two categories. The first category dealt with the practical issues associated with the anticipation and management of change. The second category dealt with employment policy issues associated with the structure of the labour market and equipping it to cope with future challenges;

Anticipation and management of change	Employment policy issues
<ul style="list-style-type: none"> <li>• The manner and extent of privatisation;</li> <li>• The timing of consultation and speed of introducing change;</li> <li>• Differing standard of behaviour by international enterprises;</li> <li>• Absence of thinking "beyond financial compensation for job loss";</li> <li>• Predicting future issues;</li> <li>• The effectiveness of the social partners.</li> </ul>	<ul style="list-style-type: none"> <li>• The education system –delivering the skills in young people that the labour market needs;</li> <li>• Keeping skills relevant - the role of lifelong learning;</li> <li>• Economic migration and labour market shortages;</li> <li>• Regional differences and labour market mobility;</li> <li>• The informal economy;</li> <li>• Embracing small businesses as engines of growth.</li> </ul>

*Anticipation and management of change*

*i) The manner and extent of privatisation*

For the eight CEEC countries the privatisation of previously state controlled enterprises that commenced in the early 1990's was the start point for continuing economic restructuring on a massive scale. This was not a significant issue for the micro states of Malta and Cyprus. Not all of the countries approached privatisation in the same manner, nor did they pursue it at the same speed. Consequently, today they are not in the same position vis à vis the remaining challenges of privatisation.

In most countries progressive waves of restructuring and job loss took place as state owned enterprises moved through one or more stages of restructuring including “preparation for sale”, “business failure and bankruptcy”, “transformation related post privatisation restructuring” and “market related restructuring”. The eight nations are today at different stages of the process and progress has varied within the countries sector by sector. Slovenia is generally regarded to have taken a “measured” or “soft landing” approach and is seen to have managed the negative consequences of change well. Privatisation has consequently been a slow process and much remains to be done. By contrast, Estonia pursued a rapid and radical privatisation programme relying on a growing private sector to take up the displaced employees from previously state owned enterprises. Poland initially undertook privatisation on a massive scale with resultant high structural unemployment. A subsequent pause in activity means that the country still has a number of difficult problems to address.

*ii) The timing of consultation and speed of introducing change*

The volume of privatisation undertaken since the early 1990's and Government's general reluctance to engage with the social partners, and to accelerate the pace of change where possible, did not typically allow discussion of anticipatory measures to mitigate job loss ... nor did it encourage more sensitive approaches to dealing with those who lost their jobs. Consistently the trade unions expressed the view that the need for change was not discussed early enough, alternatives were not examined with them and the consequent restructuring was undertaken too quickly. Echoes of this experience continued to exist in the ongoing restructuring activities taking place in 2005.

*iii) Differing standards of national behaviour by international enterprises*

Frequently multinational enterprises were accused by the trade unions of adopting different standards relating to the handling of restructuring in the new Member States to those they adopted as a matter of course at home. Examples were quoted of “learned behaviour” implying that international enterprises quickly begin to follow the established practices of national employers rather than best international practice and sometimes the letter of the law. More positively, the importance to trade union representatives of the recently acquired opportunity to access senior enterprise management through engaging in the work of European Works Councils was welcomed.

*iv) Absence of thinking beyond financial compensation for job loss*

Throughout the national seminars, the main emphasis in dealing with job losses focussed on financial compensation. Success or failure for those negotiating change often related to the multiple of the state guaranteed minimum payment that was attained for staff. There were some individual cases where a more proactive approach to retraining and assistance with job search featured in change plans but these were infrequent. Only in Slovenia did it appear to be common restructuring practice to develop social plans that routinely considered issues beyond financial compensation.

*v) Predicting future issues*

The national dossiers in every case provoked the identification and discussion of sectors likely to be subject to further restructuring in the near future. These included leather and textiles, the motor industry, state owned enterprises and public administration and services. Despite this, there was little evidence of the social partners working together or with Government to establish national labour market strategies to deal with issues where there was complete consensus that the future would involve difficult challenges. Improving social partner capacities to anticipate change was a recurring theme during the synthesis seminar discussions.

*vi) The effectiveness of the social partners.*

Concerns with social partner effectiveness are not limited to one side.

- Other than in Cyprus, Malta and Slovenia there is no recent history of employer solidarity through voluntary employers' organisations. Prior to the early 1990's the state was the nation's primary employer in Central and Eastern European countries and employers' organisations as we know them today did not exist. Multi-employer bargaining, the most important driver of the growth and capacity of employers' organisations, is absent in most

of the participating countries. In almost all cases, at the time of the seminars, employers' organisations had funding and staffing problems;

- In six of the ten states studied (the exceptions being Cyprus, Malta, Slovenia and Slovakia) trade union membership had fallen to around or below the 20% level and was largely concentrated in bigger enterprises in the state sector and "heavier" industries. In virtually every country, the trade unions spoke of the difficulties of organising in the workplace and finding a parallel social partner at the sectoral level. Like the employers, they commonly mentioned funding and staffing issues.

In most countries the social partners found it difficult to establish meaningful bipartite dialogue on issues of national or sectoral interest. There were said to be many reasons for this including the lack of space left for meaningful dialogue by Government regulation; lack of employer enthusiasm for sectoral or national dialogue with trade unions; inability to deliver on agreements without the cooperation of the state due to issues of representivity; the unwillingness of the state to foster bipartite dialogue; and the adversarial attitudes between employers and trade unions fostered to an extent by the prevailing tripartite form of dialogue.

It is clear, with the probable exception of Slovenia, that since the early 1990's the extent and pace of change left little room either to build the capacities of the social partners beyond reactivity or to encourage them to engage in more reflective and anticipatory discussion. In the final synthesis seminar a number of contributors suggested that employers need to be more positive, and trade unions more realistic, about social dialogue.

*Employment policy issues*

Anticipation and management of change	Employment policy issues
<ul style="list-style-type: none"> <li>• The manner and extent of privatisation;</li> <li>• The timing of consultation and speed of introducing change;</li> <li>• Differing standard of behaviour by international enterprises;</li> <li>• Absence of thinking "beyond financial compensation for job loss";</li> <li>• Predicting future issues;</li> <li>• The effectiveness of the social partners.</li> </ul>	<ul style="list-style-type: none"> <li>• The education system –delivering the skills in young people that the labour market needs;</li> <li>• Keeping skills relevant - the role of lifelong learning;</li> <li>• Economic migration and labour market shortages;</li> <li>• Regional differences and labour market mobility;</li> <li>• The informal economy;</li> <li>• Embracing small businesses as engines of growth.</li> </ul>

*vii) The education system – delivering the skills in young people that the workforce needs*

All of the national dossiers discussed the strengths and deficiencies of the education system in terms of its ability to deliver first time job seekers onto the market with the skills and aptitudes most sought by enterprises.

According to national statistics, the general picture emerging from the study countries was of generally well educated workforces with improvement indicators moving in the right direction. The numbers of young people emerging from the education system with relatively high levels of qualification is both high and rising. In the seminars however, the social partners were extremely critical of the "employment readiness" of school and university leavers and the relevance of their formal qualifications to the available job and career opportunities. They painted a picture of a continuing mismatch between acquired skills and labour market needs, compounded by an ongoing lack of anticipatory planning.

*viii) Keeping skills relevant – the role of lifelong learning*

A more significant challenge for every participating country than the skills and aptitudes of those leaving full time education was ongoing or "lifelong learning" for those already in the labour

market. The Lisbon target for adults participating in continuing vocational education is 12.5%. The ten countries studied cluster around or below the current EU average of 9.5%.

The national dossiers in each country were particularly critical of the absence of adequate provisions for lifelong learning in those countries suffering variously from the problems of older workers leaving the workforce permanently and prematurely as their skills became redundant; economic restructuring and new investment leading to differing skill demands from workers; the incidence of long term structural unemployment; and the need to continue to improve productivity. Lifelong learning was one of the most important issues for participants in the synthesis seminar of June 2008.

*ix) Economic migration and labour shortages*

Inward and outward migration flows were important for the labour markets of each of the new Member States. Post 1989, and on entry into the EU, large wage and standard of living differences in narrow geographies have combined with more open borders to drive a variety of migration flows. The national dossiers describe a series of labour movements that can be characterised as "brain drain"; "muscle drain"; "youth drain"; and in the opposite direction "extra EU infill". Whilst most of the moves are from "new Europe to old" with a consequent infill from the non European ex Soviet countries into the EU, there are significant movements across borders within the new Member States themselves. An example is motor workers crossing the border from Slovakia to the higher paying Czech Republic and Hungary.

Whilst these moves are essential drivers of future pay and conditions levelling, they have a series of negative short term effects that manifest themselves in skills shortages and growth of the informal sector. The subject of migration consistently gave rise to a series of animated debates around levels of pay and conditions of employment, minimum wages, taxation rates, lack of control of the informal economy and the loss of the most motivated workers, at all skill levels, in the economy.

*x) Regional differences and labour market mobility*

Whilst there would seem to be no shortage of individuals prepared to cross borders to find work, all of the larger countries (and many of the smaller ones) reported huge variations in regional economic wealth and unemployment and an acute lack of labour mobility from poorer to more wealthy regions. Those already employed and typically working in the more dynamic areas of the countries seem more prepared to move abroad than are unemployed people in depressed regions.

Regional disparities were most frequently associated either with the restructuring of declining industries and/or a shift in the focus of trade from the former Soviet Union to the West. For example, operations servicing Russian military establishments close to national borders have been closed and the local infrastructure has contracted with them. Products previously supplied "on command" by state owned enterprises to the former Soviet Union proved impossible to sell in the West and plants deliberately located close to markets in the "East" are today badly positioned for trade with the "West".

The reasons given for the lack of mobility vary but include lack of transport infrastructure, the costs of commuting not being reflected in pay differentials, the high cost of rent and housing in the more dynamic areas often surrounding the national and regional capitals, poor communication of job vacancies, the costs of job seeking and the fact that people simply do not want to move from their homes. Whilst there are clearly two potential solutions to the issue of labour mobility – take the people to the jobs or the jobs to the people – it seems that regional disparities are generally getting worse over time rather than better.

*xi) The informal economy*

Every national dossier and every national seminar debate touched, to a greater or lesser extent, on the informal sector or the grey economy. The problems associated with a large informal sector are obvious. The state loses tax and social security payments; it pays out unemployment or other social benefits to people that are working; foreign workers live outside the law; published levels of wages are typically understated; workers are not represented by trade unions and are

not protected by the provisions of the labour code. Resolution of the problem would provide an enormous boost to the national treasuries of each of the study countries.

The informal economy takes on a variety of guises, all of which were described in detail in the national seminars and summarised in the table below;

<p><i>The grey worker</i> A worker who simply does not exist on the books of the enterprise and who is paid in cash. Often these workers are foreigners who enter a country illegally or who initially have a right to work that expires. They are often found in construction, hotels and restaurants, child and elder care, security services and cleaning. Most frequently, but not exclusively, they are found in small businesses;</p>
<p><i>The moonlighter</i> A worker who has two jobs, one in the formal sector where s/he pays tax and social contributions, and a second "deduction free" shadow job;</p>
<p><i>The envelope worker</i> Has a single job but receives two salaries. The first salary is often close to the minimum wage or the lower limit for taxation and social security payments. The second is in cash and does not attract deductions. Often the envelope element relates to overtime working;</p>
<p><i>The selective accountant</i> Runs a small business or enterprise and under-records income so that only a proportion of the revenues earned are in the formal economy. This kind of under-recording is often tied in with envelope salaries to workers.</p>

#### *xii) Embracing small enterprises as engines of growth*

For most developed economies, an important engine of economic growth is the small enterprise sector. The economies of Cyprus and Malta are to a large extent built on a large and thriving small enterprise culture. Whilst the numbers of small enterprises are growing in the Central and Eastern European Countries, representatives of small business owners and managers attending the national seminars were generally critical of the lack of Government encouragement and support for small enterprise. Criticisms of state bureaucracy relate to the difficulties and costs of starting a business, the frequency and complexity of mandatory returns, the applicability of the same labour code provisions that apply to large enterprises, the pace of legislative change and either penal or non-preferential tax treatments.

The seminar participants also noted the absence of an entrepreneurial spirit in the population, where individuals were often reluctant to take the risks involved in a small business start up. The trade unions raised concerns that certain individuals were "forced" to start their own business in order to circumvent employment laws and that much small business activity takes place wholly or partially in the "informal" sector. The role of SME's, not just as engines of growth but as economic "shock absorbers" of the negative effects of restructuring was particularly emphasised at the synthesis seminar of June 2008.

#### *Phase two - restructuring viewed from the perspective of the first years of the millennium*

The second phase of the project involved ten older Member States, Austria, Denmark, France, Greece, Ireland, Italy, the Netherlands, Spain, Sweden and the United Kingdom. The participating countries represent a broad spread of economic and social shapes and sizes with a variety of models of social partnership. The economies of the Western European countries participating in this phase of the project faced acute challenges associated with increasing international competition within and outside the European Union. Each of the countries, to a greater or lesser extent, found it increasingly difficult to compete with countries with significantly differing operating costs, including lower labour costs. Over the medium to longer term, these

countries will also have to cope with low birth rates and an aging population that will drive up, in some cases sharply, the ratio of dependants to the working population.

One of the most significant general trends in the participating countries was the shift in share of GDP and of employment from manufacturing to services. Whilst it is clear that there has been a substantial change in the sectoral structure of employment, the data has to be assessed with a degree of caution. The generally noted shift in employment concentration from industry to services is, at least in part, associated with the outsourcing of activities like cleaning, security, cafeteria and restaurant services and IT from manufacturing enterprises to those defined as specialist service providers. Where new jobs have been created, how they compare qualitatively and quantitatively with the jobs lost, is an important consideration. Small and medium sized enterprises have experienced huge employment growth in recent years and have acted as “shock absorbers” in the restructuring process. The national dossiers report consistently that companies with one to 19 employees create twice as many new jobs as other small and medium sized enterprises and net job creation diminishes with organisational size. Similarly most new jobs are created in young, small enterprises less than five years old.

Large scale job losses and employment creation in large enterprises take place above the radar. In the countries participating in this phase of the project, two other important forms of restructuring emerged which we titled “silent restructuring”. This term has become more broadly adopted and the phenomenon has received more subsequent attention. One variety of restructuring that rarely attracts public attention is the internal restructuring that takes place within organisations often without recourse redundancies, and that transforms organisational effectiveness and competitiveness. The other is where simultaneous small numbers of job losses in many small and micro enterprises aggregate to produce a significant employment effect that falls below the radar of those that measure the effects of restructuring. These sometimes result from the knock-on effect of major restructuring in client organisations, but also take place in complete sectors where small businesses predominate. In the case of Spain, job losses in small and micro construction firms have been estimated at between 400,000 to 900,000 between mid 2008 and mid 2009.

One of the most highly media-publicised forms of restructuring in enterprises in the participating countries involved offshoring, or international relocation. At first review, the true incidence and impact of offshoring appears to be much less significant than press accounts would suggest. The European Restructuring Monitor (ERM) of the European Monitoring Centre of Change (EMCC) based in the European Foundation for the Improvement of Living and Working Conditions recently estimated that just 6.5% of jobs lost in Europe were through international relocation. However two issues relating to the extent and effect of offshoring are often not considered.

- The fact that a number of high profile enterprises have offshored major activities, and this has been covered extensively in the media, has resulted in the “perceived threat” of offshoring amongst Europe’s workers being heightened. On the one hand enterprises are more likely today to seriously review offshoring options and to benchmark international costs of manufacturing and service provision. On the other, workers are more likely to discuss internal restructuring as the result of their increased perceived threat of job loss. A similar phenomenon is associated with the threat of “private equity take-over”. The private equity industry has become an extremely important player in the global economy and private equity enterprises have been at the heart of a number of major restructuring exercises;
- It is often suggested that small and micro enterprises no longer grow into successful medium to large sized enterprises in the way they used to. It is certainly true that small and micro-enterprises are less likely today to increase employment substantially, but that does not mean that they do not grow in revenue terms. Successful small entrepreneurs are less likely today to expand into substantial manufacturing enterprises. They are much more likely to outsource this activity, often to the lowest cost manufacturer abroad. There



was a considerable amount of anecdotal evidence of this from the national seminars - and this activity takes place under the restructuring radar.

A final and important factor in the examination of restructuring in the participating countries over the period prior to the current crisis was that the financial nature of the management of redundancies has changed. Twenty years ago, organisations that made people redundant generally did so because the enterprises involved were in financial difficulty or were bankrupt. Today profitable enterprises make decisions on job losses more frequently because they wish to retain their competitiveness by shifting the location of production to more cost effective outsource providers, regions or countries.

In a number of the national seminar reports, public sector performance, cost and productivity were highlighted either as current or future restructuring priorities. Pressures on the public purse had resulted in a series of national initiatives to make the public sector more efficient and more effective. At the same time there were considerable upward pressures on spending on pensions, health and education; and ageing populations, new technological possibilities in healthcare and the skills demands of knowledge economies were adding to the need to control and redistribute public spending. These factors combined with the implementation of national and European legislation driven competition generation agendas in SGIs.

In more general terms, it was reported throughout the dossiers that restructuring had become more frequent, and in many enterprises a permanent state of change exists. The engagement of the social partners in some enterprises had shifted from “project to project” involvement to discussion and negotiation on a permanent state of work transformation. This also influenced employer and trade union attitudes toward the management of job transitions and the importance of lifelong learning.

Four broad themes permeated the ten national dossiers and dominated discussion on the role of the social partners in restructuring in this phase of the project and these formed the core of the report produced in June 2008. These were;

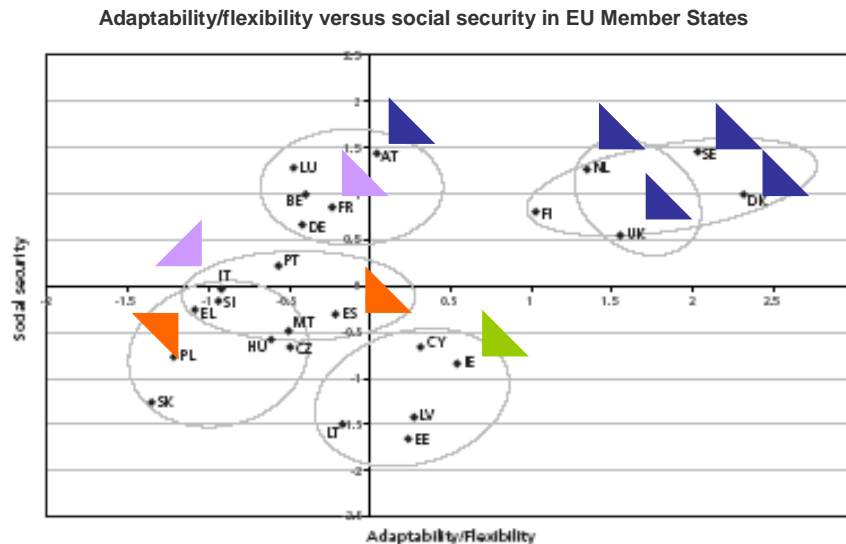
- Flexibility and Security;
- Developing a shared diagnosis and agenda;
- Dealing with current and future skills gaps;
- Two perspectives on “silent restructuring”
  - “*Transformational change*” - focussing on major change without significant job loss;
  - “*Change below the radar*” - jobs created and lost in small and micro businesses

*i) Flexibility and security*

Improving competitiveness and the development of a country’s capacity to “bounce-back” from economic shocks requires the creation of more flexible labour markets at the national, regional and enterprise levels. On the other hand Europe’s workers, brought up on a history of relatively secure and stable employment, seek employment security in a climate of rapid structural change. In policy terms, balanced measures that address both flexibility and security for workers and employers and that create win/win solutions are needed.

In the ten sample countries there were a variety of social partner views on, and approaches to, flexicurity. Denmark and the Netherlands are often used as benchmarks for flexicurity but it was clear from the national dossiers that these are not the only “success models” and that no single flexicurity solution exists for all countries based on the historical and current political, economic, social and legal environment of the country.

Although the underlying methodology behind the analysis is not universally accepted, the illustration below was used to encourage discussion in the national seminars and the synthesis seminar<sup>12</sup>. The ten participating countries in phase two of the project are identified.



The spread of countries in the ten country sample is convenient for the purpose of analysis and discussion of the role of the social partners in flexicurity with the countries falling in all four quadrants. Five countries are in various places in the “high flex/high security” upper right quadrant (Sweden, the Netherlands, Denmark, Austria and the UK); the Republic of Ireland falls in the “high flex low security” quadrant; France and Italy are marked by high security with low levels of flexibility; and Greece and Spain fall in the lower left quadrant reflecting lower flexibility and security.

The countries in the upper right quadrant illustrate the point that there is no one route to flexibility and security and no single model role for the social partners. In fact, of the four countries at the centre of the upper right quadrant there are three quite distinct employee relations models. What is important for the social partners and policy makers is to understand how the various systems work and, in particular, what the role of the social partners has been in achieving success.

The three distinct models are Sweden and the Netherlands; Denmark; and the UK. The relatively restrictive approaches to dismissal in Sweden and the Netherlands encourage positively minded social partners to develop innovative and responsible approaches to the management of change. Whilst the trade unions in both countries share the notion that economic success is born out of embracing change through better anticipation and management, employers are encouraged to enter into dialogue as mass dismissals are difficult to implement in the absence of agreement with representatives of workers. The UK and Denmark have employee relations system where there are relatively few regulations on hiring and dismissal. Their approaches to restructuring are however quite different from each other. The Danish model is based around positive social dialogue between strong and representative social partners. The UK model is based around low levels of legal obligation in the area of employment (in European terms); the promotion of competition; and state and privately run agencies that are generally effective in minimising job transition times.

It seems clear that investment in comprehensive long term employment strategies is directly correlated with flexicurity success. Whilst not applicable to the UK amongst the participating

<sup>12</sup> “Approaches to flexicurity: EU models” – The European Foundation for the Improvement of Living and Working Conditions 2007

countries, a mature, influential and cooperative relationship between the social partners where government views the role of the social partners as essential to securing the acceptance, implementation and often management of employment policy initiatives is positively associated with success. It appears that in the absence of comprehensive systems of social dialogue, and at least in the cultural traditions of the Anglo Saxon world, national government can achieve significant employment policy successes. The long term sustainability of this is questioned and the evidence would suggest that whilst isolated initiatives can work, true success is borne out of taking an overall view of labour market effectiveness and is assisted greatly by securing the conviction and commitment to it of the social partners.

*ii) Developing a shared diagnosis and agenda*

The positive impact of the social partner organisations on restructuring is based not just on cooperation and trust but in addition on two clear, but simple, pre-requisites. First the social partners should have a realistic and shared analysis of the issues facing the economy currently and in the future. Second, they should have a clear and shared diagnosis of the broad approach that needs to be taken to labour market policy. Only from this point of departure can they start to discuss and debate appropriate policy solutions and the various options open to them and to government.

The extent to which the social partners in the participating countries shared a diagnosis and agenda varied. In few countries was there a shared diagnosis of the key issues that enabled a joint agenda to be discussed or negotiated that took the economy forward. The ability of the social partners to develop a shared analysis, diagnosis and agenda for change often depends on the attitude of government to the work and recommendations of the social partners. Whilst a number of governments encourage social dialogue and create the space for social partner ideas to be implemented either through agreement or with the support of government, others are less enthusiastic about encouraging the social partners to reach common views and/or taking these views into account. At the enterprise level it was noted in more than one of the national seminars that social partner involvement in discussions on problem diagnosis and an agenda for change can be limited when the parent enterprise is headquartered outside of the country.

*iii) Dealing with current and future skills gaps*

The social partners in every participating country highlighted current skills mismatches and/or the future skills needed to support the changing economy as key issues for the social partners and for government. In the longer term, these issues have to be addressed through more, and more effective, investment in education and training at all levels. In the shorter term two issues are important. First, investment in lifelong learning initiatives that develop the skills of the current workforce to match the evolving labour market. The second more immediate, and more controversial policy response is the attraction of migrant workers who possess the skills needed by the economy. Whilst this policy attracts people who are almost immediately effective and net contributors of tax revenues, they are often unpopular both in the countries where labour comes from and in the countries that attract them. It seems that whilst the economic arguments in favour of migration have been well made, the social argument has a long way to go before it is won or lost.

The educational achievement of the current working age population in the ten participating countries falls into three clusters. At the top end are Sweden, Denmark and Austria. At the lower end are Spain, Italy, Greece and the Republic of Ireland. For Spain and the Republic of Ireland it might be argued that investment in education during the recent years of major economic success has not been sufficient. Italy and France fall in the centre of the sample. Looking at the involvement in training and education of the existing workforce, the four countries scoring best on lifelong learning are Sweden, Denmark, the Netherlands and the United Kingdom.

Whilst the participating countries in phase one of the project discussed skill and experience drains from their labour markets, the simple and immediate policy response to the combined skills shortages and social security funding issues that face a number of "old Europe's" countries is the

national and international mobility of workers with skills in areas of need. In some economies this need is at the higher end of the skill spectrum, in others migrants have helped sustain the construction and hotel and restaurant sectors. The economics of inward migration to the “receiving countries” are fairly straightforward. Migrants pay taxes, act as consumers of domestic goods and services and fill job vacancies that, if left open, would put a brake on economic development. In every country visited however, the issue of legal and illegal migrant labour was a topic of discussion that often led to controversy.

#### *iv) Perspectives on silent restructuring*

##### *Organisational change without significant job loss*

In recent years, major organisational change initiatives designed to produce more or different outcomes from essentially the same workforce have taken place in some of Europe’s largest enterprises. In the private sector, these changes have often taken place where management and workers have developed plans to improve competitiveness as an alternative to the options of outsourcing or offshoring. Delivering challenging organisational change objectives in public sector organisations often means convincing workers who have enjoyed considerable levels of job security and many years experience of a relatively “change free” environment that things need to change. From this point of view, high levels of engagement between the social partners and between the organisation and its workers are even more essential to success than in other circumstances.

##### *Change below the radar*

Small and medium sized enterprises constitute the dominant form of business organisation in the ten participating countries and in the EU as a whole. Distinctions over the size spectrum between the contribution to national GDP, employment and job creation between “micro” and medium sized enterprises deserves comment. The long standing and commonly adopted definition of an SME is an enterprise employing less than 250 workers. In reality this is not a helpful definition and comprises three important subsets with very different characteristics and deserving differing policy treatments. “One person” enterprises make up around a half of SMEs; small or micro enterprises employing less than ten workers make up around 40% of SMEs; and medium sized enterprises, generally considered to employ more than 50 workers, make up just 1% to 2% of SMEs.

In the national seminars, the focus of discussion on small and micro enterprises was limited but three important issues emerged;

- It was suggested that “one person” enterprises tend to grow by “trading” rather than “employing” and increasingly they trade with enterprises internationally to secure lowest purchase prices;
- In some countries and sectors, the role played by “industrial districts” in promoting innovation and supporting transition has been important. Case examples were presented from the textile district of Prato in Italy and the Plastics Cluster in Upper Austria;
- Finally, although small enterprises are generally less inclined to dismiss their workers, when they run into financial difficulties, the speed of change in small enterprises and its impact on the broader economy can be significant. This is particularly the case where there is a high degree of concentration of small enterprises in a particular sector. The construction industry is a good example of a highly volatile sector where the collective actions of a large number of small employers can produce a substantial aggregate effect on the economy.

#### *Phase three - restructuring at a time of crisis.*

With the distinct exception of Romania, the profile of the countries involved in the final phase of the project, Belgium, Germany, Finland, Luxembourg, Portugal and Romania, had essentially similar characteristics to those engaged in phase two. In the planning stage for the project this

group were to be used to test the hypotheses developed in the two earlier stages of the project. In the event, things turned out quite differently. The first national dossier in this phase of the project was written at the beginning of 2009 and the seminars took place between March and November of the same year. In every country, with the exception of Romania, the social partners had become engaged heavily on the practical and policy responses to the economic and financial crisis that had by then moved from the banking sector into the “real” economy.

The more underlying longer term restructuring-related issues raised in the seminars in Belgium, Germany, Finland and Portugal very much reflected the priorities and practices described in phase two of the project above. The discussion not directly related to the financial and economic crisis covered the issues of;

- Achieving the correct balance between flexibility and security in the context of national culture and circumstances;
- Developing an improved ability to anticipate change and agree a diagnosis and agenda for action;
- Current and future skills gaps focussing on full-time education, lifelong learning and inward migration. In the case of Luxembourg the role of frontaliers was discussed at length;
- The problems experienced by small and micro enterprises and the role of these organisations in generating and supporting economic growth. It was noted that small and micro enterprises in Belgium and Luxembourg were the most profitable in Europe;
- The current and future challenges of restructuring in the public sector.

In Romania the discussion reflected many of the issues that had arisen in the first phase of the project. As in these countries, the issues of restructuring related to outsourcing and relocation were low on the agenda. Improving competitiveness to retain current employment levels and to encourage inward investment was much higher. The shift from subsistence agriculture to industry and services was an issue not raised in any other country in the totality of the project to the extent that it appeared in Romania. Turning specifically to the role of the social partners, the general lack of effective social partner engagement in many aspects of restructuring was highlighted, as was the influence of the social partners on the national employment policy agenda. On the broader labour market agenda the issues of education, lifelong learning and regional and structural unemployment featured. The discussions were dominated by the debate on the extent and impact of the grey economy in Romania.

What marked the discussions in each of the countries was comment on the approaches taken to mitigate the effects of the financial and economic crisis. The discussions centred around three broad areas;

- Government job protection schemes;
- Improving job security through pay moderation and increased flexibility;
- The nature of the “post crisis” economy.

#### *Government job protection schemes*

In every country with the exception of Romania emergency government funded schemes had been put in place to facilitate either, or both, shorter working weeks or extended shut downs. Some of these required skills-related training to be undertaken or paid more to those workers that elected to pursue training programmes. These initiatives were welcomed wholeheartedly by both sides of the social partnership. It was recognised that the schemes had been successful to date in limiting recourse to collective redundancies in struggling enterprises and as a result unemployment had increased at a lower rate than countries without these provisions. It was also acknowledged that the use of these measures to avoid plant closures would increase the

likelihood of post crisis job creation taking place on the sites and in the countries where the jobs had been lost rather than elsewhere.

Universally, the social partners shared the concern whether the schemes would be financially sustainable until economic recovery took hold in the labour market, or whether they were delaying inevitable job losses.

*Improving job security through pay moderation and flexibility*

Throughout the participating countries, and in particular in Germany, the social partners discussed national, sectoral and enterprise level agreements designed to increase employment flexibility and to generate the pay moderation that would see out the current crisis and provide a platform for ongoing competitiveness. The increasing use of the system of “so-called” opening clauses, most frequently used in Europe’s “northern” economies and that facilitate derogations by agreement from the terms of national and sectoral agreements, was raised and viewed in a positive light.

*The nature of the “post crisis” economy*

Conspicuous by its virtual absence in the seminar discussions was any detailed consideration of what the media has come to term post crisis “*normalcy*” – that is a return to something that is likely to be “*not quite normal*”. Everyone agreed that the future would be impacted by a number of features;

- Continued restructuring of the financial sector;
- Reduced demand in home markets as people strive to pay down their personal debt burden and provide a cushion for the future;
- The likelihood that increased demand will be most likely in the BRIC economies of Brazil, Russia, India and China. With the possible exception of Russia the consumer goods purchased by these consumers would be likely to be primarily sourced locally;
- The impact of higher levels of government debt on public administrations and the services they provide;
- The employment impact of climate change.

Whilst these issues were on the minds of the social partners, they were not being debated formally with a view to developing a shared diagnosis and agenda for change. It may be that the social partners are today more than fully occupied with crisis response measures. The more general shortfall in the areas of anticipation and planning identified in all phases of the project suggest that this may not be the only reason.

### **Section three - The most significant common issues in anticipating and managing change and the ways they have been addressed;**

The primary purpose of this report is to identify common issues and themes that are associated with improving the process of restructuring from the point of view of both participants in the social partnership working at the European, national, sectoral and enterprise levels. The report is challenged with the task of suggesting ways in which a complex and controversial process, which often requires reconciliation of widely differing views and objectives, can be improved. From the forgoing analysis of all three phases of the project it is our view that an overall high level agenda, or "road map" of key issues can be identified that is common to all EU member states, and is probably more universally applicable. We also suggest that there are micro examples of practices that can be considered for adoption in the context of differing national environments and systems of employee relations.

In discussing the project with interested parties from policy makers and academics to employers' organisations, enterprises and trade unions, two questions frequently come up. The first is whether the countries entering the EU in 2004 and 2007 have different and specific characteristics to Europe's older member states. The second asks which is the best employee relations system in Europe for delivering change in a manner that deals effectively with the negative social consequences of change.

#### *"New" and "old" Member States – a relevant distinction?*

For many of us, the acronyms EU27, EU10, EU12, EU15 and NMS have become less and less useful over time to the point where they have become almost meaningless. One of the conclusions of the parallel project undertaken by the European Social Partners alongside this one "*Social Partners' Participation in the European Social Dialogue: What are the Social Partners' needs?*"<sup>13</sup> was that, in social dialogue terms, there are far more similarities today between some new member states and some old ones than there are between the so called "old member states" and "new member states".

The current project was conceived and designed in 2004 to build the capacity of the social partners to better manage restructuring in the "2004 entry" countries. In a sense the genesis of the project contained the assumption that there were differences between the ways "new" and "old" member states approached restructuring and that new member states had something to learn from their elder siblings. In fact, one of the conclusions of the work in the ten 2004 new entry countries, and of the social partner representatives from the 25 countries attending the final synthesis seminar, was that the project should be extended into the EU15 as there were potential lessons to be drawn from the project to date for everyone seeking to better manage restructuring. Indeed, when the project was extended, the social partners in the remaining countries approached it with enthusiasm despite the already high volume of work being undertaken on the subject of restructuring.

It is true that an analysis of the outcomes of the first phase of the project contain some differences of both nuance and substance from those emerging in phases two and three. In phase three itself, the Romanian dossier and seminar discussion were often out of step with the significantly more consistent picture portrayed in the other participating countries.

In 2005 and 2006 the first ten countries were more historically anchored, looking backward, on the manner and extent of privatisation and the attitude of government toward social partner engagement. Romania, as a very new entrant, tended to do the same. They were more concerned about the effectiveness of the social partner organisations themselves in influencing

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<sup>13</sup> "*Social Partners' Participation in the European Social Dialogue: What are the Social Partners' needs?*" – final seminar report June 2009

the way restructuring took place at the national policy level and in individual organisations. Finally, and understandably, they were less worried about issues like outsourcing and offshoring as they were, for the most part, net beneficiaries of the process.

Today, the issues facing both new and old and the approaches being considered by the social partners are much more closely aligned. A good example is the bipartite agreement between the Polish social partners on anti-crisis responses reached early in 2009.

### *Do “best in class” systems exist?*

A considerable amount of thought has been given to the question of the most effective, and by inference the least effective, systems of employee relations in Europe. Given that one of Europe’s distinctive features in the manner in which it approaches management of the economy is the “European Social Model”, this should come as no surprise. It seems to us that there is no conflict between having a distinctive Continental approach to social issues and differing national systems of employee relations. The systems simply reflect different ways of delivering the same overall values and objectives.

There are quite clearly different employee relations “sub-systems” in Europe and the most recent attempt to define them specifically is that undertaken by Jelle Visser, published in the Industrial Relations in Europe Report (2008)<sup>14</sup> and reproduced below.

	North	Centre-west	South	West	Centre-east
<b>Production regime</b>	Coordinated market economy		Statist market economy	Liberal market economy	Statist or liberal?
<b>Welfare regime</b>	Universalistic	Segmented (status-oriented, corporatist)		Residual	Segmented or residual?
<b>Employment regime</b>	Inclusive	Dualistic		Liberal	
<b>Industrial relations regime</b>	Organised corporatism	Social partnership	Polarised/state-centred	Liberal pluralism	Fragmented/state-centred
<b>Power balance</b>	Labour-oriented	Balanced	Alternating	Employer-oriented	
<b>Principal level of bargaining</b>	Sector		Variable/unstable	Company	
<b>Bargaining style</b>	Integrating		Conflict oriented		Acquiescent
<b>Role of SP in public policy</b>	Institutionalised		Irregular/politicised	Rare/event-driven	Irregular/politicised
<b>Role of the state in IR</b>	Limited (mediator)	‘Shadow of hierarchy’	Frequent intervention	Non-intervention	Organiser of transition
<b>Employee representation</b>	Union based/high coverage	dual system/high coverage	Variable (*)	Union based/small coverage	Union based/small coverage
<b>Countries</b>	Denmark Finland Norway Sweden	Belgium Germany (Ireland) Luxembourg Netherlands Austria Slovenia (Finland)	Greece Spain France Italy (Hungary) Portugal	Ireland Malta Cyprus UK	Bulgaria Czech Republic Estonia Latvia Lithuania Hungary Poland Romania Slovakia

It is interesting to note that Visser himself shares to an extent the issue we describe above relating to new and old member states, placing Slovenia into “centre-west” and putting Hungary into two categories. The recent work we have undertaken with national social partners during the latter stages of the joint work programme would also suggest that other countries in the “centre-east” bloc are not appropriately placed, perhaps most notably the Czech Republic.

Visser’s analysis is reproduced not because we agree with it in its entirety, but because it, by and large, represents current thinking on employee relations sub-systems in Europe. It will be referenced in the analysis below that suggests, whatever the sub-system of employee relations, the over-riding agenda, or “road map” for successful social partner activity remains the same and

<sup>14</sup> Industrial Relations in Europe Report (2008) pp50/51



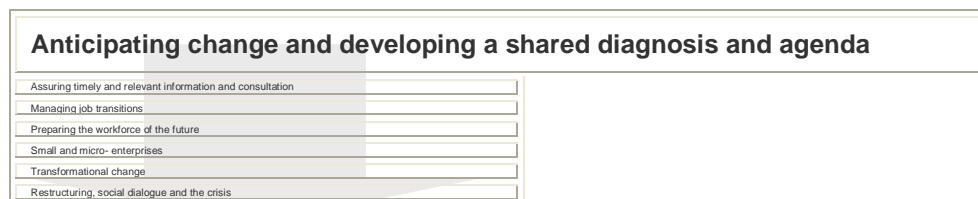
the practical engagement of the social partners in the process of restructuring consistently adds considerable value. Where specific examples are quoted below, and where national case study extracts are used, they are deliberately taken from countries with what are considered to be different employee relations systems.

### *Restructuring – a social partner agenda*

From the analysis of the three phases of the project above, the agenda below is presented as a kind of “road map” for the development of a comprehensive social partner approach to the issue of restructuring. It is interesting to note that the agenda is consistent with, and expands upon, the 2003 “Orientations for reference in managing change and its social consequences”<sup>15</sup>, which references the issues of “Explaining and giving the reasons for change”; “Developing employability”; the “Territorial dimension”; the “Specific situation of SMEs”; and “Managing restructuring”. Our agenda for the consideration of European, national, sectoral and enterprise level is;

- Anticipating change and developing a shared diagnosis and agenda;
- Assuring timely and relevant information and consultation;
- Managing job transitions;
- Preparing the workforce of the future;
- Small and micro- enterprises;
- Transformational change

In today’s climate, and based on the outcomes of the phase three seminars, “restructuring, social dialogue and the crisis” should be added.



An issue that was discussed in each of the national dossiers and national seminars was that of anticipating change and developing a shared view on the key issues and how they should be addressed. It was also one of the issues where the engagement of the social partners is currently weakest.

Anticipation of change is crucial if sudden and unexpected workforce shocks are to be avoided and restructuring take place against timescales that facilitate both organisational change objectives and the delivery of acceptable solutions for affected workers. There are perhaps two factors explain why, despite the importance of this issue, the social partners find this difficult to do.

The first can be described by likening it to the “curse of Cassandra”. Cassandra was the daughter of King Prium of Troy and was cursed by the god Apollo with the gift of prophesy. Cassandra’s gift of prophecy allowed her to see into the future and predict events that were yet to happen ...

<sup>15</sup> The “Orientations for reference in managing change and its social consequences” is the output of a joint initiative undertaken in 2003 by the European social partners but was not subsequently adopted as a “joint text”

however, although she always prophesied the truth, she was never believed or listened to. Her punishment and torment was to be ridiculed, ignored and dismissed as being a raving lunatic. Her final prophesy was to foresee her own violent death. The dilemma was equally well described by Jean-Claude Juncker, the Prime Minister of Luxembourg who famously said "We all know what needs to be done, but we do not know how to be re-elected after we have done it." Those best able to predict the future are often unwilling to share it in a timely manner with those likely to be affected because they wish to avoid the uncertainty, unrest and criticism that come with the sharing of that knowledge. Even if the future can be predicted, reaching consensus on how to tackle it in a manner that gains the support of constituents and stakeholders is an extremely difficult thing to achieve.

The second issue relates to the predictability of future events. Looking at the current financial and economic crisis, most economists had described the tensions building up in the financial system and some had predicted imminent problems arising from it. No-one of consequence however predicted either the speed, scale or impact of the collapse. There are of course two types of future events. First, there are those events that are unpredictable or occur despite a low degree of probability. Second, there are events that are either certain, or have a very high degree of probability. The art is to distinguish between the two ... or at least limit the risk of hiding behind one to avoid discussing the other.

Major crises are often unpredictable in cause and timing. In the past they have arisen from oil shocks, war, terrorism, natural disasters and, most recently the near collapse of the financial system. What is certain is that unpredictable crises will occur in the future and their impact will be substantial. The key to dealing with these crises is developing the strategies that will limit their impact and produce a quicker "bounceback". This issue will be discussed under the crisis related heading below.

Other issues on the future agenda are more predictable and lend themselves to future planning. Examples raised in the national dossiers and seminars are;

- The impact of current and rising government debt on the future funding and management of public services and administration combined with the new demands on the system arising out of demographic change;
- The likelihood that consumer spending will shift proportionately from the legacy economies of Europe, North America and Japan to the BRICS and emerging economies. Current overcapacity and dislocation in the motor industry is a good example. At a time of crisis in the US and Europe, car demand in China from mid 2008 to mid 2009 rose by a staggering 71%<sup>16</sup>;
- Technological change will mean that most jobs that exist today will transform radically over relatively short periods of time. To cope with this, workers of all ages need to be presented with readily available and accessible schemes to update their current knowledge and skills and to learn completely new ones;
- If the challenges of the Lisbon agenda are to be met, full-time education systems and the way they relate to the world of work will need to be improved.

Whilst anticipation is categorised here as an area in need of further attention by the social partners, there are good practice examples that might be considered in a variety of contexts.

At the European level the social partners in 2007 agreed on the "Key challenges facing European labour markets: a joint analysis of European social partners". The document available on the websites of each of the social partner organisations contains a comprehensive economic analysis; a description of challenges Europe's economies and labour markets face; and a series

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<sup>16</sup> The Economist Nov 7<sup>th</sup> 2009

of recommendations in twelve policy areas. This document may be a template for the consideration of national social partners in conducting their own national level analysis.

The following case extract is taken from the Spanish national dossier produced in April 2008 and extracted from the report of the Ministry of Industry, Tourism and Commerce on the activities of the Industrial Observatories over the period 2005 to 2007.

#### EXTENDED CASE EXAMPLE

##### SPAIN

##### *The industrial observatories*

As a consequence of the *Declaración para el Diálogo Social* (2004), a protocol signed in 2005 by the Spanish Ministry of Industry, Tourism and Trade (MITYC), CEOE, CEPYME, UGT and CC.OO, eight industrial observatories were set up. The sectors covered are textiles and clothing, automotive industries, manufacturing of equipment products, chemistry and electronics, information and telecommunications technologies, wood and metal.

The observatories' mission is to analyse the structural situation of the sectors, from the entrepreneurial, labour and technological perspectives; to produce information and to recommend concrete measures to improve the sectors situation and its strategic perspectives; and to share the results obtained with the relevant actors. The observatories were set up in 2005 and 2006 and may prove to become a relevant tool for a more

proactive and structural approach of restructuring by encouraging a shared diagnosis of current problems and anticipation of future changes between the social partners.

The observatories were conceived as active tools for the design and implementation of an industrial policy targeted on the increase of productivity of enterprises operating in Spain and is based on the positive role of social dialogue for the identification of problems that limit productivity growth and on social partners' capability to socialise shared diagnosis and proposed measures to tackle the recognised shortcomings.

Each observatory includes the sectoral employers' representatives, trade union representatives appointed by UGT and CC.OO, representatives of the *Federación de Entidades de Innovación y Tecnología*, representatives of the Ministry of Industry, Tourism and Trade and of the former Ministry for Labour and Social Affairs (at present, The Ministry for labour and Immigration).

The analysis of industrial policy shortcomings and opportunities developed by the observatories is based on a matrix whose lines are the measures of industrial policy and whose columns are the sectors under analysis. The adopted set of horizontal industrial policy measures include economic and competitiveness policy, infrastructures, environment and sustainability, internationalization and foreign trade, training and labour market, health and safety and quality and promotion of R&D and use of ICT.

The impact of the regulatory framework of each sector on production costs and its consequences on international competitiveness, the problems linked to the existing infrastructures and the type and level of innovation in the respective sector are common domains of the eight active industrial observatories.

#### *Some outcomes of the activity of Spanish industrial observatories*

<i>Textiles and clothing</i>	<ul style="list-style-type: none"> <li>• Analysis of enforcement of labelling regulations of textile products from third countries;</li> <li>• Analysis of absenteeism on textile and clothing sector</li> <li>• Logistics as a competitive factor on the textiles and clothing sector</li> <li>• Incidence of energy costs on the textiles and clothing sector competitiveness.</li> </ul>
<i>Metal, Chemistry and Textile and Clothing</i>	<ul style="list-style-type: none"> <li>• Analysis of EU's REACH Regulation in Spain</li> </ul>
<i>Automotive industry</i>	<ul style="list-style-type: none"> <li>• Sectoral use of <i>contratos de relevo</i><sup>17</sup></li> <li>• Logistics as a competitive factor</li> <li>• Potential effects of tax reform and elimination of public subsidies to automotive components industry</li> <li>• CARS 21. Use and follow-up of the agreed principles</li> </ul>
<i>Wood</i>	<ul style="list-style-type: none"> <li>• Accidents at work on the sector</li> <li>• R&amp;D on the wood sector</li> <li>• Environmental policies on the wood sector</li> </ul>
<i>Chemistry</i>	<ul style="list-style-type: none"> <li>• Sustainability of the chemistry sector</li> <li>• Enforcement of SEVESO Regulation to the chemistry sector</li> <li>• Analysis regulatory framework set up by collective agreements</li> <li>• Follow-up of employment and related factors</li> </ul>
<i>Manufacturing of equipment products</i>	
<i>Metal</i>	<ul style="list-style-type: none"> <li>• Qualifications, skills and training needs on the metal sector</li> </ul>

<sup>17</sup> Special type of contract that allows an unemployed person to be hired by a enterprise to substitute an employee on partial retirement

- |                    |   |
|--------------------|---|
| <i>ICT</i>         | <ul style="list-style-type: none"> <li>• ICT impacts on potentially ICT intensive sectors</li> <li>• Telework and its regulation at the ICT sector</li> </ul> |
| <i>Electronics</i> | <ul style="list-style-type: none"> <li>• Self-diagnosis methods for the technological situation of the enterprises</li> </ul>                                 |

Extract from the Spanish national dossier produced in April 2008



The issue of the effectiveness of the social partners at the enterprise level was an important issue that was raised consistently in the countries covered by phase one of the project. It also arose in other countries either as a generalised issue or relating to specific sectors or restructuring projects. The concern expressed was that information was provided to workers representatives too late, and that consultation was frequently, at best, peremptory. Where concerns were raised they were pointed not only toward employers but also toward governments in their consultation related to employment policy and restructuring related laws or projects.

#### *Macroeconomic policy*

At the macroeconomic level, tripartite bodies generally exist for social partner consultation on matters of economic and labour market policy. However, the extent to which governments are open to genuine consultation and to which the social partners jointly prepare themselves to maximise their influence varies widely. The final report of the European social partners project on social dialogue in Central and Eastern European countries<sup>18</sup> highlights the need to encourage some governments to take the issue of social dialogue more seriously and the need for the social partners to work together in areas where they can agree approaches in order to better influence labour market policy. At the seminar at the close of the project involving social partner representatives from all 27 Member States, it was acknowledged that this was not an issue that was limited only to the EU12.

There are good examples of success;

At the end of 2008 the Polish social partner members of the Tripartite Commission for Social and Economic Affairs agreed to launch an autonomous negotiation to produce a framework agreement on “anti-crisis actions”. Discussions focused on a combination of short and longer term measures to address the immediate consequences of the crisis on employment, workers and enterprises and to help strengthen the long-term potential of Polish economy. Whilst not all of the proposals were accepted by government, a number of actions were implemented, and on other issues the social partners were able to mount a joint, and more forceful, response.

In 2006, the Austrian Institute of Economic Research (*Österreichisches Institut für Wirtschaftsforschung*, WIFO) presented a ‘white paper’ on long-term national employment strategies. The paper entitled “Towards higher employment via economic growth based on innovation and qualification” was commissioned by four major Austrian social partners and sponsored by the Austrian National Bank (*Österreichische Nationalbank*, ÖNB) and other public and private institutions. It was based on WIFO expert analysis of 22 studies on growth, the labour market and economic policy.

#### *Information and consultation at the enterprise level*

<sup>18</sup> “Social Partners’ Participation in the European Social Dialogue: What are the Social Partners’ needs?” June 2009

Throughout Europe, there are information and consultation regulations and practices that have existed in some countries for many years. New laws were passed in 2002 in the form of Directive 2002/14/EC establishing a general framework for informing and consulting employees in the European Community. The 1994 European Works Council Directive was “recast” in 2009 in part in order to better provide for anticipation of change and more meaningful consultation. These laws address what can be a reluctance on the part of those able to predict future events to share them in a timely way. Within the national dossiers a number of enterprise restructuring programmes that have worked well because of sound anticipation of future events are highlighted and these occur irrespective of national employee relations system.

A good example from Estonia is the restructuring of the Eesti Põlevkivi Ltd oil shale mining enterprise. In France the restructuring of the Kodak 35mm film plant as a result of the impact of digital photography was managed over an extended time period and with considerable attention to finding solutions for the workers involved.

#### EXTENDED CASE EXAMPLE

##### GERMANY

##### *Nord Oberpfalz Clinics*

The case study presented related to the restructuring and privatisation of former municipal authority hospitals in order to keep local facilities open, to provide best value for money and avoid duplication of hospital services in the region.

Nord Oberpfalz is one of the administrative regions in the east of Bavaria. The Nord Oberpfalz clinics provide hospital services to 22,000 inhabitants in facilities with 1,265 beds serving 46,000 patients per year through 2,700 employees. It is the largest employer in the region.

In 2003, the region's hospitals came under severe financial pressure in the context of limited public budgets. In that year the combined hospital's deficit was running at €6m with a prospect of this increasing to €10m by 2006. Public officials, hospital management and employee representatives from the works councils met to discuss the problem and it was decided that the solution was to merge the regions hospitals into a single joint stock enterprise or “AG”. The form of AG established was in “not for profit” form in order to maximise potential tax benefits. The challenge all parties accepted was to survive economically with as few job losses as possible in a region that had already suffered major job loss with the closure of porcelain plants. One step toward this was the establishment of new a new collective bargaining agreement covering the organisation's staff.

The German trade union VerDi entered discussions with a series of concerns. These related to job security, the prospect of pay and benefit cuts following the organisation's withdrawal from the previous collective bargaining agreement and the threat of outsourcing of services like laboratories and cleaning. The union was however supportive of the establishment of the new AG structure and entered negotiations to establish new arrangements that would lead to a sustainable future.

In the end, the negotiations produced an outcome where the organisation used the collective bargaining agreement for public sector workers as a basis for their own arrangements and avoided collective redundancies. The employees invested in the future of the organisation by agreeing to take a share of 50% of any surplus made but accepting that in the event of losses there would be a formula where pay could be reduced by up to 7% per year. In the event pay reductions of 3% in 2006, 3% in 2007 and 2% in 2008 were accepted. In effect the employees had collectively invested some €5.5m back into the enterprise in forgone pay. By 2006 the hospital had avoided the projected €10m deficit and achieved a balanced budget based upon €2m savings in pay and €8m of savings achieved through a variety of other means.

Both management and the employee representatives reported that the post 2003 working atmosphere had changed and engagement in the process of change had led to the development of a new mentality. With the long term goal of “medical care for people from the region in the region” further hospital mergers are

planned and a new service provision model being introduced. Rather than every hospital offering uniform provisions, service duplication will be minimised by establishing separate primary care, general and tertiary care facilities.

The new regional management structure is mirrored by a new regional works council structure. It was recognised that privatisations of public services are not always success stories, and this case an important investment in the success of the initiative to date was made by the employees themselves in terms of salary and the acceptance of new challenges. This relatively small case was described against the current €56bn deficit in German healthcare, chronic overwork of staff and 50,000 recent job losses. In Nord Oberpfalz the shift from an administrative to a business based approach combined with a new approach to collective bargaining and worker engagement had produced results.

Three factors were highlighted that had contributed to the success of the initiative;

- The anticipation of change and the willingness of both parties to recognise problems and discuss alternatives at the earliest stage;
- The restructuring plans took into account the interests of employees at every stage and a formal structure was put in place to make this happen;
- The trade unions played a crucial role in the setting up of the new collective bargaining agreement and recognising that the interests of the employees in this case were best served by a single employer agreement.



The issue of managing job transitions arose in every one of the 26 participating countries. In a number of countries in all phases of the project, the issue related to achieving the correct balance between financial compensation for job loss and putting plans in place to secure successful job to job transitions for the workers involved arose.

It is clear that where profitable enterprises seek to reduce or close activities in a particular country or region with a view to relocation to improve longer term sustainability and profitability, or where a rapid reduction in activities is critical to success, they are more likely to focus on financial compensation for job loss rather than the generally longer processes associated with securing job transitions. It is also clear that where the average age of workers involved in restructuring is high and lengths of service are long, the workers themselves will also be interested in seniority based compensation payments. On more than one occasion both trade union representatives and employers recognised the social desirability of job transition measures but explained that these often were directly at odds with worker desires. There were clearly national differences across employee relations subsystems where the approach tended more toward financial compensation rather than the management of transitions. The only exceptions to this were in the Nordic states of Denmark, Sweden and Finland, where their distinctive approaches to the management of job transitions dominated behaviours.

The dangers with reliance on a “compensation biased” approach are plain to see;

- Large financial settlements are attractive to workers in the short term but may not be in their longer term interests;
- Where the shift from job to job takes time, it is the state that bears the cost of social benefits over this period;
- Where rapid and high cost solutions are adopted, this is at odds with the preferred behaviours of anticipation and consultation;
- The concept of job obsolescence based redundancy with periodic “pay-offs” does not align well with the notion of enterprises and workers taking responsibility for lifelong learning;
- The prevailing view that it is either acceptable, or normal, to retire in a worker’s early 50’s is not consistent with managing emerging demographic challenges successfully.

Perhaps one positive aspect of the current financial and economic crisis is that enterprises with cash flow problems cannot readily afford large single settlements and the balance of consideration has shifted toward state supported job retention schemes and severance arrangements that are paid over a period of time and which are therefore more consistent with job transition arrangements.

In any event, it would be good practice for the social partners on both sides, and in countries or sectors that routinely move in the first instance to compensation negotiations, to reflect on this practice with both short and longer term considerations in mind. This may be reinforced as

governments seek increasingly to limit even further their responsibility for social protection payments for workers displaced through redundancy.

From a subjective point of view, it appeared from the discussions that took place in the 26 countries that much more interest is being shown by both workers' and employers' representatives in job transition schemes. In countries where job transition arrangements have not traditionally been commonplace, considerable interest is shown in the Trygghetsrådet in Sweden (which have been inappropriately translated as "Job Security Councils" when in reality they are about "career" rather than "job" security); the Danish model of flexicurity; Finnish job foundations; or German transfer companies. Additionally, a number of the case studies presented by individual enterprises placed a heavy focus on retraining, requalification and outplacement support. Good examples from the national dossiers include Gorenje in Slovenia, La Poste in France and Swedish Mail.

#### EXTENDED CASE EXAMPLE

##### SWEDEN

###### **Swedish Mail**

In 1993 the decision was taken to deregulate the Swedish postal service in order to improve quality, service and price. Although there had historically been some competition in the postal market, the formal monopoly was taken away and a trading enterprise was established under the Postal Services Act of 1994. Similar legislation dealt with the banking side of the postal business in 1999.

Although there have been a limited number of new market entrants into the Swedish postal market, the reforms have been largely seen as a success. They have brought new products and services to the market based on customer demand and introduced "service" rather than "production" based thinking to the management of Swedish Post.

The case presentation was made by a member of the postal workers trade union who described in detail what he explained had been a "long mental

journey" from government service to free market orientation. The restructuring process not only changed the way the enterprise was organised and run, but also the structure and management of the trade union. Over the period of restructuring the trade union had learned to live with change and to support employees in transition through providing security in the move from job to job. There were points in time where the leadership of the trade unions had a different point of view from their members in the need for wide-ranging change and had to help in ensuring they had a shared view of the future.

He also suggested that the Post management had taken a similar journey, learning that gaining commitment to change from employees through openness, trust and respect for the other's point of view were key elements in the delivery of the change process.

The extent of the change in the Swedish Mail system over 15 years

has been enormous. The organisation employed 70,000 workers in 1993 and now employs 30,000.

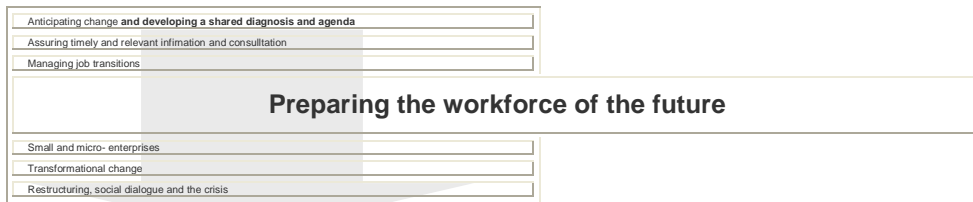
At the heart of the change are a series of collective agreements designed to promote security in transition and the "Futurum" structure that provides one year of job search and transition management coaching for individuals. The "Futurum" structure is a "Job Security Council" of the type described in the Swedish national dossier and was modelled on that used successfully in Swedish Telekom. The assistance offered is geared specifically to the needs of each individual. It rewards financially those who find early solutions and protects those who find transition more difficult. To date it has enjoyed a 95% success rate.

Today the post system is making a profit and the adoption of high technology solutions positions the organisation well for a future with more competition.

#### Extract from the Swedish national dossier produced in May 2008

For those who believe that the management of transitions is an expensive option, recent research by the Swedish Trygghetsfonden TSL, that offers job transition insurance to more than 900,000 Swedish blue colour workers and which was established in February 2004, has calculated the per capita cost of transition to a new job since their founding at just €1,900.<sup>19</sup>

<sup>19</sup> Presentation by TSL during the 2009 Swedish presidency of the EU – November 2009



The social partners in every participating country highlighted current skills mismatches and/or the future skills needs to support the changing economy as key issues for the social partners and for government. In the longer term, these issues have to be addressed through more, and more effective, investment in education at all levels. In the shorter term two issues will be important.

First, investment in lifelong learning initiatives that develop the skills of the current workforce to match the evolving labour market. It is clear that too many workers over the age of 50 "check out" of the labour market, often at a cost to government social protection plans that they can ill afford today and that are unsustainable into the future.

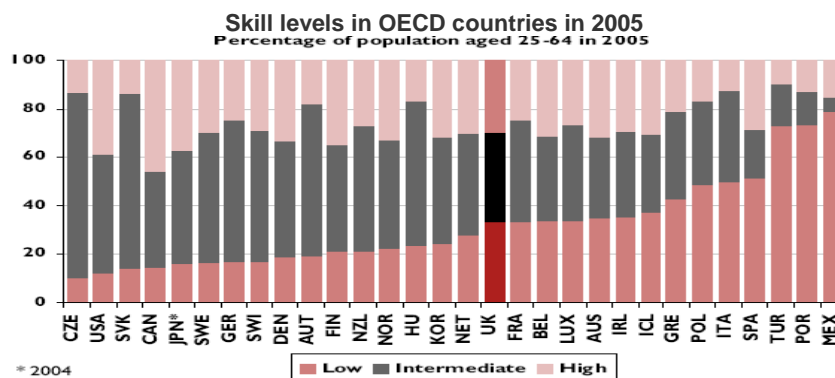
The second and more controversial policy issue relates to migrant workers. In the "phase one" countries this was frequently linked to the notions of "brain", "muscle" and "youth" drains which affect the higher skilled and motivated workers as well as those with the most potential for the future. In the phase two and three countries the need is to attract people who are almost immediately effective and net contributors of tax revenues. For different reasons migration is a very sensitive issue. It is often unpopular both in the countries where migrant labour comes from (the "brain", "muscle" or "youth" drains) and in the countries that attract them ("stealing" jobs that would be available for local nationals). It seems that whilst the economic arguments in favour of migration have been well made, the social argument has a long way to go before it is won or lost.

Each of these issues is important to the social partner agenda and, whilst many of the solutions rest with macroeconomic labour and education policies, the solutions will be better if they are engaged in their development and implementation.

*Investment in primary, secondary and tertiary education*

The following illustrations, taken from the national dossiers, provide an insight into past and current investment in the formal education system for young people in the OECD – providing data on 18 of the participating countries and important international comparisons.

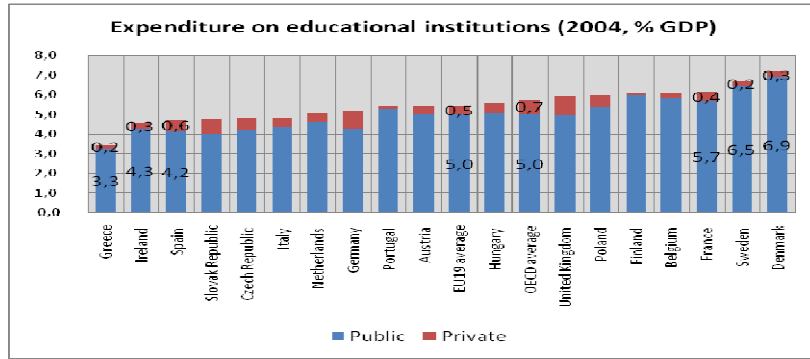
The first illustration shows the educational achievement of the current working age population (age 25 to 64) in a variety of countries listed in order of country with the highest proportion of the working population with only low educational attainment levels.



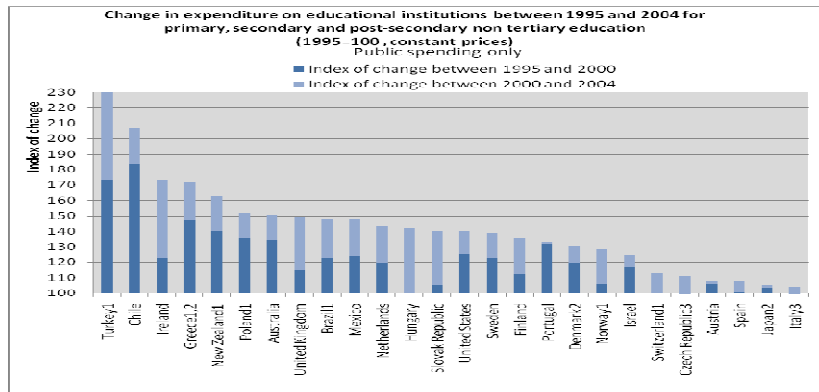
Source: OECD Education at a glance 2007



The following three illustrations show respectively levels of expenditure on educational institutions as a proportion of GDP; the change in expenditure over the years from 1995 to 2004; and the difference in education between the “older” current workforce (ages 45 – 54) and the immediate “future” workforce (ages 25 – 34).

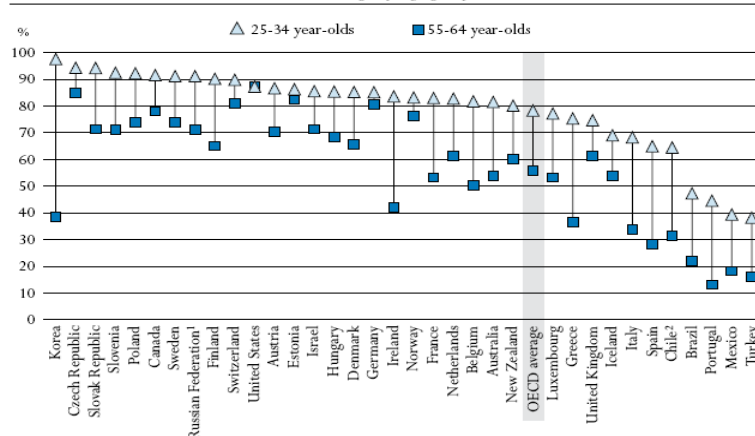


Source: OECD, Education at a Glance, 2007



Source: OECD, Education at a Glance, 2007 \* No data available for France

Chart A1.2. Population that has attained at least upper secondary education (2007) Percentage, by age group



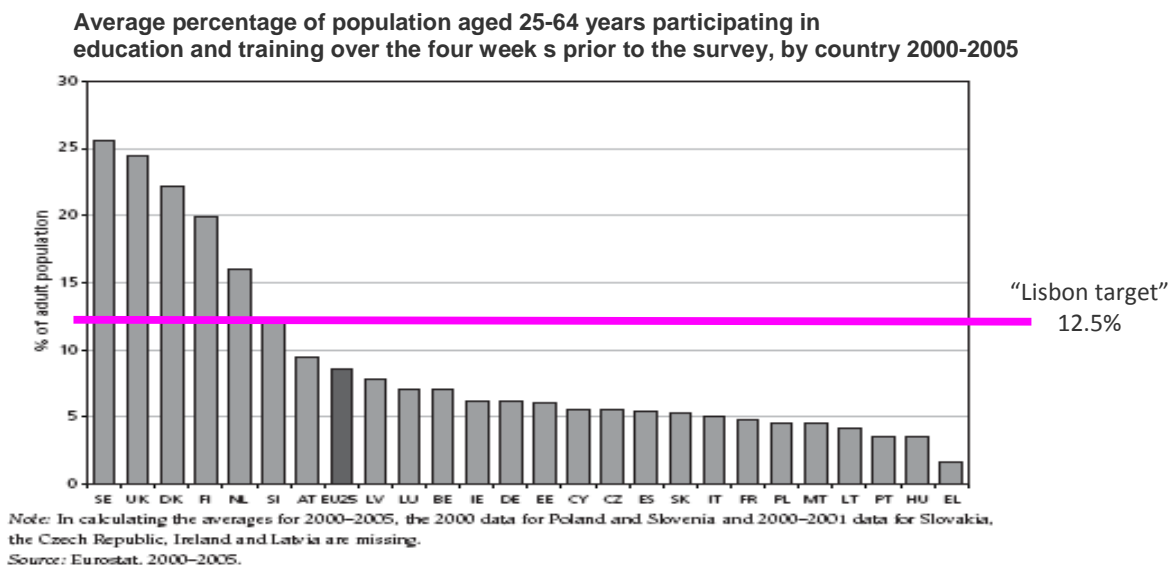
Source: OECD Education at a glance 2009

This mass of data shows two things. Although the social partners in every participating country were critical of how the education system prepared young people for entry into the labour Market, actual performance by a variety of measures varies widely. The second is that there is no direct

correlation between the performance of a country in the preparation of young people for entry into the world of work and the nature of the employee relations system. This is an issue which should not separate the social partners along traditional interest lines and is one where they might seek to increase their influence.

*Lifelong learning*

The following illustration shows the number of people of working age in receipt of a learning experience (including both formal and non formal learning) in the previous month. The “Lisbon target” of 12.5% is also indicated.



Just five countries met or exceeded the Lisbon target in 2005, all of the Nordic states, the UK and Slovenia. It is clear that much more needs to be done to secure employability for more workers over what is likely in the future to be a longer working life and with more and faster increases in technology. The social partners at all levels have an important role to play in influencing the behaviours of enterprises and policy makers and another issue that should not divide social partners along traditional interest lines.

A number of examples of good practice were reported throughout the duration of the project including that developed in Austria in early October 2007 where the social partners presented a joint programme aimed at improving employment opportunities for unskilled, unemployed and young people.

EXTENDED CASE EXAMPLE

UNITED KINGDOM

*Union Learning Representatives*

In an innovative state funded trade union initiative introduced by the Trade Union Congress (TUC) in the UK, a process has been designed to engage employee representatives in the promotion and management of lifelong learning. The TUC found that even where programmes of further training and skills development exist, people who are not used to academic study are reluctant to commit themselves to

any kind of training or process certifying their existing practical experience.

The Union Learning Representatives (ULR) initiative developed by trade union organisations in the UK is addressing this issue in a unique way. The ULR approach is based on the trade unions’ access to large numbers of low-skilled workers who have little experience of the education system.

<sup>4</sup> Organised on a regional and branch basis, the ULR system relies on

financial support from the government and enables the unions to appoint “representatives in charge of training” in the workplace itself. Their role is to analyse training needs, promote and supply the information the workforce requires, organise training courses and engage in dialogue with employers to implement these activities.

Unions have funds through which they can train ULRs to do their job. ULRs perform their tasks during normal working hours so that employees can contact them while they are at work. ULRs are therefore

a link between workforce, employer and training agency.

The close relationship between union representatives and workers, just like that between union representatives and training agencies, enables them to advise the least-qualified members of the workforce on the course(s) best suited to them.

The organisation supporting the ULR system was set up in 1998 with a grant

from the government of £2.5m. By 2008 UnionLearn had a budget of £15.5m and employs 145 people. The organisation has 20,000 trained and accredited union learning representatives.

Around 85% of ULRs provide information and advice and 59% arrange training courses. Whilst some 10% of ULRs spend more than 10 hours working time per week undertaking ULR related

duties, 40% spend less than one hour of enterprise time per week and 30% use exclusively their own time. Each ULR covers on average 200 workers.

More than 50% of learning representatives are women. In around one third of cases the ULRs receive active management support for their activities

Extract from the UK national dossier produced in May 2008<sup>20</sup>

### *The migration dilemma*

Migration was one issue that sharply separated the views of “old” and “new” European Union member states at the time the project was undertaken. In every country visited, the issue of legal and illegal migrant labour was a topic of conversation, and often controversy. Although there is a very clear distinction in legal and policy terms between migration between countries within the EU and the entry into the EU of migrants from third countries, the generally negative perception of migrants changed little in the discussion. In the latter stages of the project, during the financial and economic crisis, migration was a lower profile issue as many “intra EU” migrants returned to their home country as jobs were lost in large numbers in areas like construction. In the Luxembourg seminar, the role of “frontalier” workers as labour market stabilisers for the local workforce was considered in detail. The migration issue will however return to more prominence as economies improve and population aging continues to bite.

From the point of view of “old Europe” the inward migration of workers with skills in areas of need is a more rapid answer to the combined skills shortages and social security funding issues that face a number of countries than the longer term strategies of lifelong learning and changes in the education and training system. In some economies this need is at the higher end of the skill spectrum, in others migrants helped sustain the construction and hotel and restaurant sectors in the years up to 2008, and will be called on to do so again in the recovery. The economics of inward migration to the “receiving countries” are straightforward. Migrants pay taxes, act as consumers of domestic goods and services and fill job vacancies that, if left open, would put a brake on economic development. The UK Treasury, for example, estimates that between 2001 and 2006 migration added 0.5% to the working age population and supported economic growth to the value of around £6bn. Evidence collected by business organisations in the UK also highlights the benefit arising from the skills, flexibility and work ethic that migrant workers bring.

From the point of view of “new Europe”, inward and outward migration flows are important for their labour markets. In recent years the existence of large wage and standard of living differences in narrow geography have combined with more open borders drive a variety of migration flows. The national dossiers describe a series of labour movements that were described earlier as “brain drain”; “muscle drain”; “youth drain”; and in the opposite direction “extra EU infill”. Whilst most of the moves are from “new Europe to old” with a consequent infill from the non-European ex-Soviet countries into the EU, there are significant movements across borders within the new Member States themselves.

Whilst these moves are essential drivers of future pay and conditions levelling, they have a series of negative short term effects that manifest themselves in skills shortages and growth of the informal sector. These effects can be seen from the following illustrations of migration flows taken from the national dossiers;

<sup>20</sup> For more information on this initiative see “From Voluntarism to post-voluntarism ... the emerging role of unions in the vocational education and training system” Bert Clough June 2007

- Poland suffers, despite its high levels of unemployment, from a loss of specific types of worker. This includes a “brain drain” of medical staff and a “muscle drain” of construction workers primarily to the UK and Ireland;
- As the second lowest paying country in the study group (after Romania), Latvia loses workers from across the spectrum of the labour market. It is estimated that in 2007 23,000 Latvians were working legally in the Republic of Ireland and that a further 30,000 were working there in the grey economy<sup>21</sup>. Inflows to Latvia are from Belarus and Russia, primarily into the grey economy;
- The Estonian health service is the victim of professional migration of nurses to Norway and the UK and doctors to Finland. Large numbers of Estonian construction workers find it easy to make the short trip to Finland. They are replaced by workers from neighbouring Russia, Ukraine and Belarus. Cross border contracting is at the heart of the highly controversial “Laval” judgment of the European Court of Justice<sup>22</sup>;
- The prime destination for Czech workers is to Germany whilst Slovakian auto workers cross the border to find employment in Czech car assembly plants. In a similar manner Slovakian auto workers also cross the border to Hungary to work in the Győr Audi plant ;
- Officially recorded high levels of unemployment amongst young Lithuanian workers is blamed on young people leaving the country for the UK and Ireland whilst remaining on the unemployed register at home.

The subject of migration in the “phase one” countries gave rise to a series of animated debates around levels of pay and conditions of employment, minimum wages, taxation rates, lack of control of the informal economy and the loss of the most motivated workers, at all skill levels, in the economy. The issue of migrant workers has assumed a different significance during the current financial and economic crisis with many ex migrant workers returning home and registering as newly unemployed. Nonetheless the social partners have an important role to play in influencing public attitudes and policy.

There are good examples of programmes which aim to improve the employment prospects of workers with a migrant background in the Nordic countries and in the United Kingdom. In Austria the social partners have agreed on changing the legal basis for further vocational training, (the “*Bildungskarenz*”) which also addresses the issue of improving early learning and learning support services for students with a migration background.



Small and medium sized enterprises constitute the vast majority of businesses in the EU. Of an estimated 23 million European enterprises, more than 99% are small and medium sized (SMEs)<sup>23</sup>. More significantly, nine out of ten SMEs are micro enterprises employing less than 10 workers and these businesses employ 30% of the European workforce. The illustration below shows that a substantial volume of net job creation in Europe takes place in “small” and “young” enterprises.

<sup>21</sup> See Irish national dossier

<sup>22</sup> C-12/03 P2005-02-15 Commission v Tetra Laval

<sup>23</sup> Employing fewer than 250 people and an annual turnover of less than €50m

	Job creation	Job destruction	Job reallocation	Net job creation
<b>By company size</b>				
1-19	10.7	3.5	14.2	6.9
20-49	7.8	3.8	11.6	3.8
50-99	7.4	3.8	11.2	3.3
100-249	7.0	4.0	11.0	2.9
250-499	5.8	3.4	9.2	2.2
500-999	5.7	3.6	9.4	2.0
1000-2499	4.8	3.7	8.5	2.2
2500 and more	3.7	3.8	7.5	-0.4
<b>By age of company</b>				
1 year old	8.9	3.7	12.6	5.2
2-5 years old	8.4	4.1	12.5	4.3
6-10 years old	7.6	4.0	11.6	2.6
more than 10	5.2	3.6	8.8	1.6

*Source: ECB based on Amadeus database*

In sectoral terms, SMEs are most likely to be found in construction, hotels and restaurants and the distributive trades. Enterprises employing less than 10 workers make up between 40% and 50% of Europe's businesses in these three areas.

An important point should be made on the definition of SMEs and the impact of this on policy making. Whilst enterprises employing around 250 people tend to think and behave like smaller versions of large enterprises, those employing less than ten workers neither think nor behave like their larger siblings. A participant in the phase two synthesis seminar put it succinctly when she explained that "micro enterprises are not bonsais of big companies". The volume and recent growth in the numbers of Europe's micro enterprises illustrate why this issue matters;

- Sole trade or "one person" enterprises are growing and make up around a half of Europe's SMEs;
- Micro enterprises, employing less than ten workers, make up around 40% of SMEs;
- At the other end of the small business spectrum, medium sized enterprises are generally considered to employ between 50 and 250 workers and make up just 1% to 2% of SMEs. Times change. Today, in many industries, a factory or office employing more than 100 workers would often be considered to be a "large" business and may well be a subsidiary of an important multinational enterprise. Indeed one of the "small enterprise" case studies in the project was a subsidiary of one of Europe's largest enterprises that was being restructured as a result of an international transfer of production<sup>24</sup>.

In the national seminars, the amount of discussion and focus on small and micro enterprises was limited and indicates a need for more substantive work to be undertaken. It is often said that small and micro enterprises are the engines of economic growth and act as shock absorbers at times of change, but it is clear that the role of small and micro enterprises in the economy and the issue they face in restructuring are more complex. The issues that emerged in the currency of the project were;

- "One person" enterprises are much more likely to grow by "trading" rather than "employing". This means that although revenues grow, the employment effect of this is felt by the creation of other micro enterprises or through subcontracting manufacturing and service provision to other enterprises, sometimes internationally;
- Although small enterprises are generally less inclined to dismiss their workers, when they do run into financial difficulties, the speed of change in small businesses is high. In addition, they frequently do not have the expertise, the management time or the money to engage in the kinds of restructuring practices routinely expected of larger enterprises. The smallest enterprises not only fall below the radar in terms of the notification and recording of collective redundancies, in most countries they also fall below the thresholds necessary for the establishment of worker representative bodies. Nonetheless the

<sup>24</sup> Codan rubber – Danish case study

impact of job losses can be enormous where they are concentrated in many businesses in a sector or region, its impact on the broader economy can be significant. It was variously estimated by the Economist magazine and BBC World respectively that from mid 2008 to mid 2009 between 400,000 and 900,000 construction workers in Spain lost their jobs;

- On the positive side, in some countries and sectors, enterprises in the same geography act cooperatively in “clusters” or “industrial districts” to promote innovation and to support their restructuring needs. During the national seminars, examples of cooperative behaviour by large numbers of small and micro enterprises in the areas of research and development, innovation, training and the management of job transitions were presented in Italy (the textiles district of Prato) and in Austria (the plastics cluster in Upper Austria). Job transition management insurance along the lines of the Swedish model may facilitate this approach in other sectors and countries.

If substantive work is to be undertaken with the SME in mind, the primary focus should be centred on the needs of “one person” enterprises and micro enterprises employing less than say ten or twenty workers. It is these enterprises that are not covered by legal commitments for dealing with mass redundancies; where job losses are likely to be created as a result of financial difficulties being faced by businesses that cannot afford expensive severance payments or job transition arrangements; where there are less likely to be legal requirements relating to systems for social dialogue; where trade union membership and representation tend to be lowest; and who find it more difficult to invest in staff training.

Heightened legal regulation will not be welcomed by the business community and add to the difficulties of starting a new enterprise. Territorial pacts and cluster initiatives may form a part of the answer, but the social partners might wish to consider more in depth the forward looking implications of the increasing incidence of large clusters of small and micro employers.

#### EXTENDED CASE EXAMPLE

##### AUSTRIA

##### **Plastics Cluster Upper Austria**

The plastics cluster initiative in Upper Austria is an example of successfully dealing with challenges in the context of structural change and globalisation faced by enterprises in the sector which overwhelmingly are small and medium sized enterprises. Since 1998, clusters were gradually developed in important economic branches in Upper Austria:

- Around 255 partners are members of the *Automotive Cluster*;
- In 1999, Upper Austria established a *Plastics-Cluster*, which combines the energy of businesses in this sector and is an example of successful cluster policy with international acceptance and 400 partners;
- More than 200 partners cooperate in the *Furniture & Timber Construction Cluster* and form a network of carpenters, furniture-, wood- and component producers, their suppliers and education and research facilities.

- 160 partners form the *Health Technology Cluster* – a network for medical technology and for enterprises in the industry of medical technology, their suppliers, education and technology facilities, and health facilities;
- Around 220 partners form the *Mechatronics Cluster* - the biggest network in the mechatronic industry in Austria. Since 2003, the Mechatronics-Cluster has worked with enterprises in the areas of mechanical engineering, plant building, equipment and apparatus construction, special technological supplies and services, and R&D and training facilities.

From 2004 onwards three networks have been established in Upper Austria as platforms of inter-sector information, communication and competence development. In cooperation with partners from science and practice, these networks support the competence of the Upper Austrian economy, especially of small and medium-sized businesses: the *Network Human Resources*, the

*Network Design & Media*, and the *Network Environmental Technology* as a platform for suppliers, know-how-carriers and technology-users in the fields of water, waste, air, noise and soil.

All clusters and networks, are part of the Clusterland Oberösterreich GmbH which was formed in January 2006. The owners are the “Technology and Marketing Association Upper Austria” (TMG) with 61%, Upper Austrian Chamber of Commerce, and the Federation of Austrian Industry with each 19.5%.

Outside the umbrella of Clusterland Upper Austria two other clusters and one network with different ownership structures exist: a Food Cluster which is coordinated by the Upper Austrian Chamber of Commerce, an *Eco-Energy Cluster* coordinated by the Upper Austrian Association for Energy Saving (“Energiesparverband”) and a *Network Logistics* which is coordinated by the Association of Network Logistics.

The basic idea of the cluster initiative has been to strengthen the competitiveness and innovation potentials of enterprises in

this industry by cooperation and various services which are provided by the Clusterland initiative. The overarching philosophy is that strengthening the competition base of the enterprises will only be possible on the basis of quality, a qualified workforce and innovation but not on the basis of price competition.

Main areas of activities are information and communication; know-how transfer and qualification; cooperation and networking; support for marketing and PR; and support for entering international markets and stronger export orientation

Today, there are around 400 enterprises cooperating under the umbrella of the plastics cluster initiative with nearly

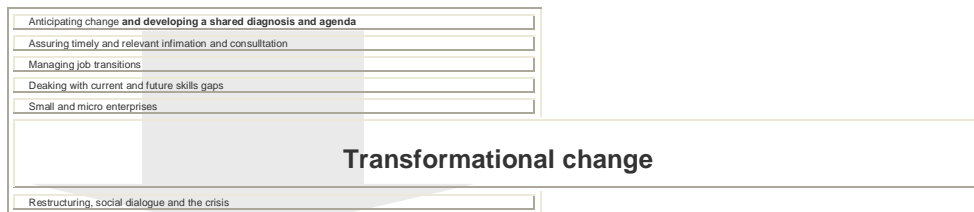
60,000 employees. The cluster includes all segments of the value-chain including plastics production, machinery production and manufacturing as well as business orientated service providers and research and development institutions.

The results of the plastics cluster initiative are quite impressive after eight years of work:

- More than 330 enterprises have been involved in around 80 different innovation projects of which the overall majority would not have been taken place without the cluster initiative;

- Around three quarters of the enterprises involved in cooperation projects continued cooperation and networking after the formal ending of the project;
- The plastics industry developed significantly better in recent years than other industrial sectors in Upper Austria with annual turnover growth of 7-8%;
- During the last three years around 750-800 new jobs have been created as an annual average by the plastics industry.

Adapted from the Austrian national dossier produced in March 2008



In considering economic restructuring, much of today’s research concentrates on mass redundancies or lay-offs in large enterprises. The European Restructuring Monitor located in the European Monitoring Centre on Change, for example, measures only instances where more than 100 jobs are either created or lost and which appear in important national or regional newspapers. An important objective of this project has been to go beyond defining economic restructuring in terms of mass job losses in single large enterprises.

In restricting our vision in this way, we ignore the kinds of organisational transformation that take place where massive restructuring of working practices or employment arrangements take place without commensurate major job losses. The lessons here are particularly important to the kind of restructuring taking place in public administration where massive organisational change is underway affecting the nature rather than the number of jobs involved.

From a policy point of view, by focussing on larger examples of restructuring that take place over restricted time periods we tend to base our judgment and decisions on how poorer management strategies are put into effect. Where there are sudden and massive workforce reductions that are not associated with equally sudden and dramatic changes in an enterprise’s performance and prospects, this should be associated with sub optimal management practice. Better practice is to anticipate and manage change incrementally over a more extended timescale.

Whilst from a legal point of view we have to legislate with a view to assuring minimum standards of practice, when we look to identify and publicise good practices we need to look beyond how mass redundancies are handled. In recent years, major transformational change initiatives have taken place in some of Europe’s largest enterprises. In our experience, it is the commonly accepted view of senior human resource practitioners in both the public and private sector that it is often “easier” to deliver efficiency through significant job losses than it is to do with a stable workforce. It is especially difficult when significant numbers of employees lose their jobs and those that remain are expected to achieve similar results with fewer staff.

### *Organisational change in the public sector*

The recent mapping project undertaken by CEEP suggests that around one third of Europe's workers are employed in the public sector or SGIs. The pressure falling on public authorities to improve services, often in the context of static or reducing budgets, has led to a stream of innovative approaches to the management of change. In a number of the national dossiers, from Slovenia to Sweden to Italy, securing improvements in public service performance and productivity were raised as important issues impacting on economic success. No less than 16 of the case studies contained in the national restructuring reports relate to Services of General Interest (SGIs). Achieving qualitative change objectives in public sector organisations often means convincing workers who have enjoyed considerable levels of job security and many years experience of a relatively stable environment that things need to change. From this point of view, high levels of engagement between the social partners and between the organisation and its workers are even more essential to success than in other circumstances. These features are well illustrated in the national cases involving "the Hospital at Night" in the UK (summarised below), "Réussir ensemble (succeeding together)" in La Poste in France and the restructuring and privatisation of Nord Oberpfalz Clinics in Germany.

One of the major issues facing change in the public sector is that organisations often seek to achieve two logical, but conflicting strategies. The first is to "privatise" or "quasi-privatise" public service contracts of employment and human resource practices. The second is to introduce process or organisation changes that require people to work either differently or more intensively. Best practice suggests that the stresses of organisational or process change should be supported by skilled and committed leadership and management; engagement plans that persuade employees and their representatives of the value of change; communication plans that keep people up to speed with what is happening; well timed and planned training interventions; and a high standard of human resource support in changing locations and managing workloads. HR interventions need to foster an overall sense of certainty and confidence when day to day activities are full of uncertainty and pressure. This is not possible when measures to change long standing contractual and employment security arrangements take place alongside transitional change initiatives. In the Danish municipal administration restructuring programme the continuity of contract and employment security were reinforced prior to the launch of the change process.

#### EXTENDED CASE EXAMPLE

##### UNITED KINGDOM

##### *The Hospital at Night*

The National Health Service in the UK is an enormous undertaking with 394 NHS Trusts; 167,000 beds; 600,000 nurses, midwives, health visitors and health professionals and almost 40,000 doctors in training. The Hospital at Night (HoN) project arose out of the need for the implementation of the Working Time Directive for Junior Hospital Doctors by 2009. It was understood that a reduction in working hours would mean the introduction of shift work and a reduction in the "daytime" hours at work used for training. It was further considered that traditional structures for doctor training did not fit the needs of today's multi-professional workforce. It was recognised from experience that the introduction of night working had to take into account a number of important factors including social and professional isolation; increased errors; higher accident rates; a deterioration in nightshift workers health; and the

need to address continuity of patient care through handovers between professionals rather than through individual doctors.

The basic HoN concept is relatively simple. It called for the establishment of one or more professional teams with a team leader and comprising the range of skills and competencies that would meet the immediate and urgent needs of patients. A number of tasks would shift from doctors to nursing staff and the HoN team would be led by a senior member of nursing staff (the HoN Coordinator). The HoN team would have access to specialists in emergency situations. The concept makes most effective use of both daytime and night-time medical resources and protects certain daytime hours for staff training. Daytime hours were extended and out of hours operating reduced. Night time work focused on primary care against a "treat and transfer" night working methodology.

Whilst the concept is simple, it required significant changes to be made and the buy-in of multiple

interest groups to be achieved. At the national level the Joint Consultants and Junior Doctors' Committees of the British Medical Association (BMA) were engaged together with the nurses union, the Royal College of Nurses (RCN). At the local level, representatives of the BMA and RCN were involved together with Junior Doctors, Nursing staff and allied professional workers. The scheme was piloted in volunteer hospitals and gradually revised and rolled out on a voluntary basis.

The benefits of HoN were predicted to arise from having the right person, with the right skills with the patient at the right time. It was expected to deliver faster treatment, better outcomes and more satisfied patients. Specifically to reduce mortality and length of hospital stay; promote senior nursing staff retention and provide better training. The actual results were staggering. The incidence of cardiac arrest on surgical wards with HoN reduced by 56% and re-admission and death rates reduced dramatically.



Having implemented HoN in almost one third of hospitals since the launch of the project in 2005, the HoN team stress three essential pre-requisites for success. The first is commitment from the top of the organisation to the changes and the devotion of professional clinical and project

management to support implementation. Second, the need to collect accurate data on current practices before undertaking changes, and monitoring the effects of change closely. Finally, the engagement of all of the key stakeholders – including staff and their representatives.

In summary, what started as the development of a response to changes in working time laws resulted in a system that has proven to be safer for patients; safer for healthcare staff and to enhance training opportunities.

Adapted from the UK national dossier produced in May 2008<sup>25</sup>



Six national seminars were held in the period March to November 2009 and discussion of the economic and financial crisis dominated five of them – Belgium, Finland, Germany, Luxembourg and Portugal. The crisis was discussed in Romania, but it appeared less significant to the social partners there than in the older market economies. The reasons for this were partially because a specific section on the impact of the crisis was included in these national dossiers and the social partners were specifically asked to comment on which anti crisis measures were working best, how they had been involved in discussions; and how the crisis had affected relations between the social partners. Nonetheless in the relatively free ranging plenary discussions, the participants were clearly pre-occupied by the crisis and the adequacy of national responses to it.

The discussions centred on the broad areas of government job protection schemes; improving job security through pay moderation and flexibility; and the “post crisis” world. The detailed discussions are summarised in the section of the report describing phase three of the project above – “Restructuring at a time of crisis”.

As is referenced earlier, little was said in the national seminars on two important issues. First, dealing with the restructuring that will occur post crisis as the world settles down into a new equilibrium. The second is identifying the characteristics that support “bouncebackability”. That is those strategies that both mitigate the negative effects of a sudden and unexpected crisis and also facilitate a rapid and successful post crisis recovery.

It is difficult to draw meaningful conclusions from such a small sample but, for the purposes of this section of the report, three issues merit specific mention.

- In Portugal, where there were not long traditions of bipartite social dialogue based upon consensus seeking, the crisis was putting clear strains on social dialogue and adding to divisions between trade union organisations themselves;
- In Luxembourg where there is a very long and solid history of tripartite discussion, the government appeared more willing to take unilateral action or undertake a more cursory process of social concertation than would normally be the case. Both social partners hoped that this reflected a reaction to pressure rather than a change in the way of doing business. Active government sponsored action in areas where things would normally be

<sup>25</sup> For those interested in a fuller description of the project and the various materials used in implementation the website is [www.thehospitalatnight.nhs.uk](http://www.thehospitalatnight.nhs.uk).

left to the social partners themselves was also noted in Germany, although the schemes launched were generally welcomed by both sides if the social partnership;

- In Finland where the social partners enjoy considerable freedom of action on labour market issues, the social partners were pursuing a joint crisis response agenda. This was also the case in Germany in relation to collective bargaining and actions within works councils at the level of the enterprise. In Germany in particular, the social partners were very keen to underline that in the so called "dual system", the coordination between sector level negotiations and decisions taken in the interests of enterprises in works councils were in fact both consistent and closely coordinated.

Whilst the impact of the crisis is affecting many countries similarly, it appears from the small sample we had the opportunity to engage with, that the impact on the role and influence of the social partners and the relationships between them varies considerably. This subject is almost certainly worthy of further and wider study and consideration.

For most of the case enterprises in this phase of the project the initiatives described either predated the crisis or reflected discussions in progress. One Luxembourgish case study did however reflect the enormous and rapid impact of the crisis on a small enterprise, and the efforts taken to re-establish financial and operational stability. The case is included for two reasons. First it illustrates clearly the real and substantial issues faced by small business owners in the prevailing climate of crisis in managing acute cash flow problems in the face of rapidly deteriorating market conditions which call for urgent action. Second, it describes a situation often faced by small business owners and their workers when rapid changes are needed and where there are no trade unions or other structures to support the engagement of representatives in the workforce and in the absence of state facilities to support the company through the kind of short time working schemes more commonly available to larger companies.

#### EXTENDED CASE EXAMPLE

##### LUXEMBOURG

##### **Montage Schweisstechnik Engineering GmbH**

Montage Schweisstechnik Engineering GmbH is a small enterprise located in Remich, Luxembourg. It was set up in September 2006. The enterprise delivers services in the field of industrial piping systems, installation and assembly of central heating systems, sanitary systems as well as air conditioning and ventilation systems. Among the services provided services the enterprise also offers are construction costs estimation, monitoring of construction works, welding services, introducing industrial equipment and systems to the market and installation and maintaining equipment and system elements. It cooperates with enterprises from France and Germany.

Prior to the economic crisis (autumn 2008) the enterprise had developed very quickly. Between 2006 and 2008 the enterprise's turnover grew by 70%, employment was also growing. The enterprise started with nine people in 2006, a year later the number of employees reached 20 and

had grown to 39 people by the end of 2008. By June 2009 Montage Schweisstechnik Engineering GmbH employment level had reduced once more to 17.

##### *Restructuring and downsizing of the workforce*

When the crisis broke the situation of the enterprise deteriorated immediately. Turnover reduced by 70%, and cash flow management became the main problem for the enterprise as planned contracts were cancelled or postponed. In this situation Montage Schweisstechnik Engineering GmbH tried to ask the State and big foreign enterprises from the same sector for assistance. The State was asked for allowing the enterprise to enter partial unemployment scheme. This was refused as the sector in which Montage Schweisstechnik operates was not considered as the one facing "economic difficulties". The larger foreign-owned enterprises in the area were asked to temporarily "lease" employees from Montage Schweisstechnik. Since these two initiatives did not bring the desired results, the enterprise was forced to draft a plan of maintaining workers in employment (*le plan de maintien dans l'emploi*) in order to maintain maximum number of workers in

employment and cope with the crisis. There was no involvement of trade unions in the drafting of the plan - Montage Schweisstechnik is a small enterprise with no in house trade union representatives in house and all discussions concerning possible measures were held undertaken with all employees together. The plan on devised to maintaining as many workers in employment as possible included the following tools:

- Ending all defined duration contracts (CDD);
- Proving training programs for employees;
- Offering assistance in search for new employment;
- Offering "foreign language" leave;
- Introducing partial unemployment scheme (*le chômage partiel*);
- Enabling to profit from parental leave;
- Reducing working time (by approx. 35%);
- Transferring workers to other assignments.

*Results and the outcome of the initiative*

## a) Reduction of employment

Between January and June 2009 the enterprise was forced to reduce employment from 39 employees to 17 (reduction by over 55%). It is important to note that all the enterprise's employees were cross-border workers. Despite the fact that such a significant number of employees that had to leave, the enterprise has managed to avoid collective dismissals through using the non-renewal of fixed-term contracts (CDD).

## b) Reducing working time and salaries

Regular meetings with employees were held throughout the restructuring process. During one of them the decision about changing the contracts and lowering the salary was taken up. It was done with the view to reduce payroll costs; and the salary level was to be restored after the crisis. Introducing these measures was necessary to avoid the complete bankruptcy of the enterprise.

## c) Temporary "loans" of employees

Contacts with bigger Luxembourgish and German

enterprises of a similar profile were taken up and six employees of Montage Schweisstechnik were transferred to a German enterprise for a period of three months. This transfer was done on the basis of a subcontracting arrangement. The result of this initiative was a very positive one - the six employees have not lost their job and, but the payroll costs have been that had to be borne were reduced.

## d) Vocational education activities

Management of the enterprise is in the process of arranging vocational training courses (welding technology) for its employees. Four employees have expressed their interest in pursuing vocational training in this area. At present take-up of training is not possible due to the lack of sufficient number of training programs in the area. The employees have to wait until there is an opening for a new course.

The enterprise also plans to send its employees to language training, but this requires changing of work organisation and different job planning system.

## e) Parental leave

So far none of the employees has benefited from this measure. At the beginning of 2010 one of the office employees is to take parental leave. Another person who was planning to take parental leave was assigned a job, so she remained in employment.

As a result of the introduced measures, Montage Schweisstechnik Engineering GmbH has managed to survive through the worst moments of the crisis. The situation has started to improve, and the enterprise has begun to re-employ, mainly the former workers. Ten people have been re-employed since August 2009. Almost all the re-employed were offered indefinite duration contracts (CDI). Enterprise turnover is increasing once more and newly acquired international clients have been found. The enterprise situation up to the end of 2009 is stable and contracts are assured until the end of the year. The enterprise is working to fill order books, and is actively seeking contracts for 2010.

**Extract from the Luxembourg national dossier produced in August 2009**

## Section four - Conclusions, recommendations and future challenges

When we talk about the project, most people ask us which are Europe's "best" and "worst" national employee relations systems for anticipating and managing change. Whilst this question is an interesting one, for practitioners interested in improving the way they manage change today and tomorrow, it is not a very practical one. Employee relations approaches, frameworks and institutions are borne out of a variety of national differences in culture and history which change only slowly, if at all. The important finding of the project for our purposes is that, whatever the prevailing national framework for the management of change, we found that the active engagement of the social partners in the anticipation and management of change at all levels improved performance in the design of change management architecture and in restructuring practice.

Within every national framework, actual performance at the enterprise or sectoral level varied widely. Some legislative and institutional frameworks and social partner relationships make active engagement easier and some make it more of a challenge. Nonetheless, it was clear that the potential for adopting good practice was not chronically inhibited by national employee relations systems. The development of bipartite social partnership in the phase one countries since 2004 evidenced by the European social partners' parallel project<sup>26</sup> demonstrates in a real way how the value added by social dialogue to both national employment policy and enterprise level restructuring can change.

It can be seen throughout the national dossiers that relationships based on mutual respect and trust from the national to the enterprise level is crucial to success. This is even more the case where the social partners seek to move from consultation on the practical implementation of change to positive engagement in anticipation and the development of a shared diagnosis and agenda. In country after country, and in enterprise after enterprise, we saw evidence of good practice in what are often regarded as inadequate social dialogue structures and the converse in highly developed systems. The difference is made by relationships. One of the challenges in today's economic climate is that new or more fragile relationships are more likely to be blown off course by adversity than are relationships based upon long years of practice. Another real challenge is that of governments at the policy level and enterprises at the operating level being reluctant to allow the time and space for dialogue when immediate actions are required. This leads to imposed top down solutions at a time when social cohesion is most needed. These are real problems that require understanding and positive responses by both sides of the social partnership and by governments. Crisis responses by government and the social partners at various levels in Europe have shown a genuine will and determination to work together in some cases and there have been deteriorating relationships between government and social partners and between enterprises and trade unions in others. If Europe's distinctive social model is, as we believe it should be, at the centre of sustainable EU competitiveness it faces its most difficult trials in times such as these.

The points above lead to an important over-riding conclusion of the project as a whole. We are often tempted in discussing the "exportability" of best practice ideas to talk about the export of employee relations systems or concrete practices that are inextricably linked to the employee relations system of a particular country. We found that learning from others best occurred at two levels. First, the macro themes that form a "road map" for successful social partner engagement in the management of change and which are common to any national system. Second, there are very specific micro level practices from a country, sector or organisation that are capable of adaptation and adoption in differing environments and circumstances.

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<sup>26</sup> "Social Partners' Participation in the European Social Dialogue: What are the Social Partners' needs?" – final seminar report June 2009

We suggest that that the “road map” which offers a high level agenda for positive social partner engagement is based on the seven themes that form the core content of section three of this report;

- Anticipating change and developing a shared diagnosis and agenda;
- Assuring timely and relevant information and consultation;
- Managing job transitions;
- Preparing the workforce of the future;
- Small and micro- enterprises;
- Transformational change; and
- In today’s climate, “Restructuring, social dialogue and the crisis” should be added.

The table below extracts from the body the report identified examples of the challenges faced by the social partners under each of the seven “road map” headings. They are not intended to be prescriptions for success. They are rather ideas for consideration which demonstrate how specific social partner action plans to improve the process of restructuring at the European, national, sectoral and enterprise levels may be evolved.

<p>Anticipating change and developing a shared diagnosis and agenda</p>	<ul style="list-style-type: none"> <li>• A reinforced focus on change anticipation – perhaps through dedicated future looking “observatories”;</li> <li>• Identify those future changes that have a very high degree of probability and high employment-related impact;</li> <li>• Consider “bounceback” strategies from unpredictable crisis events in advance;</li> <li>• Develop a diagnosis of current and future issues based on agreed factual analyses;</li> <li>• Develop an agreed and shared agenda.</li> </ul>
<p>Assuring timely and relevant information and consultation</p>	<ul style="list-style-type: none"> <li>• Work together to increase influence on government policy making;</li> <li>• Use anticipatory strategies to promote early discussions;</li> <li>• Work to build trust to encourage and foster early information sharing;</li> <li>• Differentiate between those issues where speed of implementation is important and those where more extended consultation is beneficial.</li> </ul>
<p>Managing job transitions</p>	<ul style="list-style-type: none"> <li>• Use anticipatory strategies to avoid personal job related redundancy and maximise gradual internal personal transitions;</li> <li>• Recognise the true long term costs of financial redundancy settlements for individuals and for society;</li> <li>• Avoid the direct trade off between “financial compensation” and “speed and extent of job loss”;</li> <li>• Recognise the issue of qualitative change in jobs through transitions and factor this into transformation plans;</li> <li>• Recognise that change is a continuous process and build ongoing systems for transition management;</li> </ul>
<p>Preparing the workforce of the future</p>	<ul style="list-style-type: none"> <li>• Develop a concrete agenda to identify and deal with short, medium and longer term labour market skill needs;</li> <li>• Develop specific approaches to education systems, lifelong learning, immediate post education job preparedness training and migration;</li> <li>• Develop increased employer and worker understanding of the need for longer working lives and investment in processes to support this.</li> </ul>

Small and micro- enterprises	<ul style="list-style-type: none"> <li>• Identify the specific needs and characteristics of small and micro enterprises;</li> <li>• Recognise that small and micro business do not behave like small versions of large enterprises;</li> <li>• Develop ways to encourage cooperative approaches that build the critical mass that enables affordable transformation and development to take place.</li> </ul>
Transformational change	<ul style="list-style-type: none"> <li>• Recognise and promote longer term transformational change as a way of avoiding sudden and dramatic workforce reductions;</li> <li>• Use anticipatory strategies to develop longer term solutions;</li> <li>• Recognise the need for active workforce engagement in long term change strategies;</li> <li>• Build trust in positive engagement.</li> </ul>
Restructuring, social dialogue and the crisis	<ul style="list-style-type: none"> <li>• Identify successful practices from current experience and learn from them;</li> <li>• Build crisis response into the fabric of the labour market reinforcing both negative impact mitigation and "bouncebackability".</li> </ul>

In approaching the challenges illustrated in the "road map", the many examples of good practice in the national dossiers can be reviewed to identify exportable ideas that will function independently of industrial relations systems. Taking two examples from the many included in this report;

- It will not be possible to export the Swedish system of Trygghetsrådet or "Job Security Councils" and described briefly as used by Swedish Mail. It is however possible to contemplate the idea of large enterprise or multi-employer cooperation to establish quasi insurance based transition management or outplacement schemes at reasonable cost;
- The overall system of cluster management to support the development of Austria's small and micro enterprises is difficult to transplant with its particular legal forms and its base in the mandatory "Chamber" system. The notion of shared support centres for small and micro enterprises in key areas based on sectoral and cross sectoral cooperative initiatives and built around national circumstances is however easier to contemplate.

Looking more reflectively at the project, we have to conclude that, in general terms, our view on restructuring is often disappointingly blinkered. This places important limits on our ability to design and implement policy responses and to support enterprises and their workers and representatives in the management of change.

We generally limit our view of restructuring to those events that involve significant job losses in large, often manufacturing based, enterprises. This tendency to look at the restructuring phenomenon through the wrong end of the telescope inhibits our ability to develop responses for three reasons;

- We tend to overlook restructuring in small and micro-enterprises;
- We ignore the kinds of organisational transformation that take place where massive restructuring of employment arrangements takes place without major job losses. The lessons here are particularly important to the kind of restructuring needed in public administration where massive organisational change is needed but the challenge is in the nature rather than the number of jobs involved;
- Putting the current financial and economic crisis aside, by focussing on larger examples of restructuring that take place over a limited time period we tend to look at how poorer management strategies are put into effect. Where there are sudden and massive workforce reduction projects that are not associated with an equally sudden and

dramatic change in an enterprise's performance and prospects, this should be associated with sub optimal managerial practice. Better practice is to anticipate and manage change incrementally over a more extended timescale.

One of the most significant challenges for the social partners going forward is to get better at anticipating future change and developing joint approaches to it. In the national seminars the absence of discussion on what are inevitable long term issues like tightening public finances combined with the impact on services of general interest of demographic change and the job impact of climate change was notable. This is no simple task. Even if the future can be predicted, reaching consensus on how to tackle it in a manner that gains the support of differing constituents and stakeholders is an extremely difficult thing to achieve and requires a high degree of trust and mutual respect between the social partners.

Our closing comments should however be positive. We found consistently that the active engagement of the social partners in the management of change improved performance in restructuring practice. Whatever the national system of employee relations we found practical examples of excellence. Finally, we were able to identify a series of what we believe are universal themes which provide a "road map" upon which practical plans to improve the overall anticipation and management of change at European, national, sectoral and enterprise level can be built.

Finally, thanks should be repeated to the 800 or so representatives of employers and trade unions in the 26 participating countries that took part in the national seminars and the 58 organisations and enterprises that presented the case studies that gave the project its practical grounding. We sincerely hope that this report adequately summarises a very long and comprehensive process of research and discussion. More importantly we hope it opens new areas for discussion and debate that leads to a further improvement in the role played by, and the influence of, social partners at all levels in the process of restructuring.

Alan Wild  
Geneva  
January 2010