ARITAKE-WILD

Joint European Level Social Partners' Work-programme 2006 – 2008

Joint Study on Restructuring in the "EU15" Phase one

Austria National Dossier

Vienna

10th and 11th March 2008

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June 2008

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

Joint European Level Social Partners' Work-programme 2006 - 2008

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Introduction - the purpose of the national report

The report presented here is the product of a two-staged process: A draft version was prepared for discussion by the Austrian national social partners at the seventh in a series of national seminars between April 2007 and June 2008 in ten European Union member states.[1]

The draft version of the report was prepared during January and March 2008 by the selected external expert for Austria, Eckhard Voss, working with the expert coordinator for the project, Mr Alan Wild and presented to the Austrian social partners at a seminar which took place in Vienna on 10 and 11 March 2008.

Following a common framework of contents the main body of the report is structured in three sections:

- Section one – a macroeconomic review of restructuring;
- Section two – the role of social partners in restructuring;
- Section three - case study reports

While the Austrian social partners were asked to comment and contribute to the first two sections of the report in the context of the national seminar, also five individual cases of restructuring were presented by company representatives (both from the management and employee side) directly involved. Based on these presentations but also taking into account other available information case study reports have been prepared and are included in the third section of this report.

This final version of the report has been produced after the seminar in Vienna. Whilst taking into account the content of the meeting, it remains an "independent expert report". It represents the views of the individuals involved in its preparation and does not purport to represent the views, either individually or collectively, of the Austrian social partners or the case study company representatives that contributed to it, or those of the European level social partner organisations that were responsible for its commissioning.

The main purpose of the report is to encourage discussion and debate on the role of the Austrian social partners in the process of economic restructuring at the national, sectoral and enterprise levels. Results will contribute to the development of a synthesis report that compares and contrasts the roles of the social partners in the ten countries studied with a view to drawing lessons for the future and to help shape the activities and priorities of the social partners at the European level in this area. Therefore, it should be noted that the ultimate audience for this document is "non Austrian" and the authors therefore apologise to the national seminar participants for providing elements of detail and background that may appear obvious or superfluous to the Austrian reader. The inclusion of this material is essential however if the broader objectives of the project described above are to be accomplished.

However, by the end of phase two of the project, national dossiers will have been prepared and been discussed by the social partners in 27 European countries. It is planned to develop an overall discussion document based on the role of the social partners in restructuring every country in the European Union for consideration by social partner representatives from throughout the EU.

Alan Wild, Expert Coordinator of the Project

[1] Phase one of the project involves the Republic of Ireland; the Netherlands; Greece; Italy; France; the UK; Spain; Sweden; Austria and Denmark.

Section one – a macroeconomic review and trends of restructuring in Austria

Introduction

Austria occupies a place among the world's top performing economies. EU membership in 1995, the EMU in 1998 and the economic integration process in the context of the eastern enlargement of the European Union has provided a boost for the Austrian economy which is characterised by a rise in foreign trade with Eastern European countries and Austrian enterprises are amongst the largest investors in South-Eastern Europe. Austria's living standards and overall employment rates are high and unemployment is below the European average.

As a recent economic policy paper of the OECD outlined, Austria's sources of economic success are characterised by two important factors:

> "First, the medium-sized but globally-driven enterprises' ability to use and further develop the most productive technologies; and second, the ability of businesses and workers to agree on wage and employment conditions that preserve the economy's competitiveness."[2]

At the beginning of 2007 Austria had a population of around 8.3 million inhabitants of which around one fifth lived in the country's capital of Vienna. Austria anticipates a significant population increase from 8 millions in 2000 to 9.5 millions in 2050. The Austrian population has grown almost exclusively through immigration

The performance of the Austrian economy in GDP growth terms compares well with the OECD average (2.9%). In the period since 1995 Austrian GDP growth exceeded both the EU-15 and EU-25 groups Austria has established a top position among OECD economies through reforms which have helped enterprises and the labour-force to generate high incomes. Based on moderate wage agreements; productivity growth; and reforms which improved competitiveness the manufacturing sector has achieved high productivity growth through the past decade and has not suffered from the relatively small size of the national science and technology base.

The World Economic Forum's global competitiveness index ranking 2007-2008 lists Austria on rank 15 out of 131 countries, i.e. behind the most competitive countries inside and outside the European Union. However, if compared to the 2006-2007 ranking Austria is amongst the countries which improved their position significantly. On the Lisbon indicators, in 2006 Austria achieved 7th position out of the EU25 countries and performed slightly better than the cluster of East Asian countries.

Like other modern economies the economic structure of Austria today is dominated by services. Around two thirds of the gross value added came from the so-called "tertiary" sector in 2006. Over the last 20 years the tertiary sector has grown by an annual average of 5%. The share of the "secondary" sector has been characterised by a steady decline to 31% to the national gross value added in 2006. About 2% of gross value added comes from agriculture and forestry.

With a 70% employment rate in the 15 to 64 year age range, Austria ranks considerably higher than the EU average (65%) and in fifth place among the 27 EU member states (2006). Austria also ranks among the EU member states with the lowest unemployment rate (5th place).

[2] OECD Policy Brief: Economic Survey of Austria, 2007, p. 4

From 2000 to 2006 the average annual increase in Austrian labour productivity was 1.3%, only slightly above the EU-15 average but below the average annual increase rates of countries such as Denmark, the Netherlands or Germany. However, between 2000 and 2006, real unit labour costs in Austria decreased by -7.4% (average annual decrease of –1.1%) which was clearly below the average of both EU-25 and EU-15. This development resulted from a combination of productivity improvement with very moderate increases in employee compensation in the same period.

OECD data illustrate that Austria has a generally sound level of general educational attainment slightly above the OECD average. Austria has already met the European Union's Lisbon strategy target of 12.5% participation in further education among those aged 25 to 64 for male and female adults but the country still lags significantly behind the Scandinavian countries and the UK in further education enrolment rates of adults. Recently, the Austrian government has undertaken a wide-ranging consultation project on the development of a coherent lifelong-learning strategy for Austria until 2010. The strategy will need to address the issues of improving early learning and improving learning support services for students with a migration background.

Austria has been strongly and positively affected by globalization and in particular by the transformation and economic integration process of Central and Eastern Europe; Austria's accession to the EU; and the accession of new member states from the CEEC in 2004. Austria has been able to win market share on global markets and improve its trade balance over the long run. In particular since accession to the EU in 1995, the export of goods and services have nearly doubled and today amount to more than 50% of gross domestic product. There have been important shifts in the direction of Austrian FDI: while investments in the EU-15 decreased, e.g. Austrian investments in Germany decreased from 24% in 1990 to 12.7% in 2005, the share of investments in the CEEC increased sharply. In 2005 a record level of 43.6% of all Austrian outward FDI was in the CEEC. As a "first mover" Austria played a pioneering role in FDIs in the CEEC and still holds an extremely strong position in the region.

The number of employees in Austria increased by more than 260,000 between 1995 and 2007. Beneath the surface of this global change, several differing sectoral and other structural changes took place: between 1995 and 2006 around 65,700 jobs in manufacturing disappeared, many of them in high profile companies and the manufacturing labour force shrunk by some 9.7%. Employment in agriculture and forestry declined as has the workforce in construction during the last decade. However, the shrinking employment base in the primary and secondary sectors have been easily compensated by a boost of employment in services. Between 1995 and 2006 the Austrian service sector created around 280,000 additional jobs and the total workforce in services increased by some 14%. While continuous restructuring and adaptation to change is inevitable for companies in order to stabilize and/or regain competitiveness in open markets, according to Austrian experts working on micro-level restructuring both the frequency and pace of restructuring has increased during the last decade or so. Since the late 1980s, public services in Austria have undergone a process of restructuring which has changed employment relationship and industrial relations. Depending on the type of public services involved, the restructuring process has taken several forms: the opening up of the market for former monopoly public services (i.e. liberalisation); the sale of public businesses (privatisation); and transfer from the status of a public authority to the status of a private-law company

Macro-economic indicators

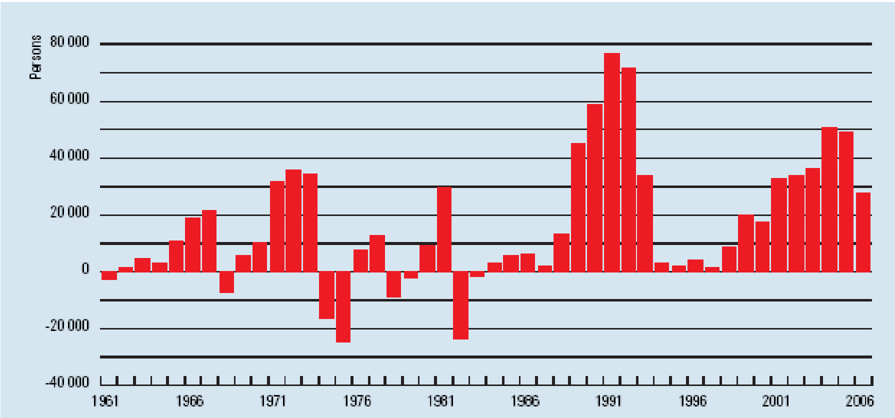
Population

At the beginning of 2007 Austria had a population of around 8.3 million inhabitants of which around one fifth lived in the country's capital of Vienna. Austria anticipates a significant population increase from 8 millions in 2000 to 9.5 millions in 2050. Beside Vienna, Graz, Linz, Salzburg and Innsbruck are the main urban centres. Although the population is ageing, in the EU-wide comparison of age structures Austria is in the middle with approximately two-thirds of the population of working age and around 1.4 million children under 15 years of age.

The Austrian population has grown almost exclusively through immigration. As a consequence, the number of persons with foreign citizenship rose sharply in the early 90s and again in recent years. At the beginning of 2007, there were 826,000 citizens of foreign countries living in Austria accounting for 10% of the overall population. By comparison, in 1981, the share of foreign citizens was only 3.8% of the total.

With more than one third of the total, the largest proportion of the foreign population comes from the countries of former Yugoslavia (excluding the now EU member state Slovenia), in particular Serbia and Montenegro, Bosnia and Herzegovina, Croatia and Macedonia. The largest single national group of immigrants and nearly 14% of all foreigners living in Austria in 2007 are Germans. Immigration from Eastern Germany in particular has risen significantly in recent years. Other important groups are from Turkey, Poland, Romania, Hungary, Slovakia, Italy and the Czech Republic. The proportion of the population not born in Austria will rise from currently 13% to 15.5% by the year 2025.

Figure 1: Net migration data



Source: Statistics Austria

GDP development

From 1995 to 2005, the differences between the EU countries' growth rates were more pronounced than in the preceding decade. The best performance was achieved by the Scandinavian countries, Great Britain, Ireland, and Spain. At 2.2 percent, economic growth in Austria corresponded to the EU average, but exceeded that of the Euro area. Germany and Italy were trailing behind. According to calculations of Statistics Austria, the economy grew by 3.3% in 2006. This development substantially exceeds the average growth of EU member states (3.0%) and that of the 13 Eurozone states (2.8%). The performance of the Austrian economy likewise compares well with the OECD average (2.9%). In the period since 1995 Austrian GDP growth exceeded both the EU-15 and EU-25 groups.

Table 1: Economic growth 1990 – 2006 (change in real GDP, in %)

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Austria	1.9	2.6	1.8	3.6	3.3	3.4	0.8	0.9	1.2	2.3	2.0	3.3
Germany	1.7	0.8	1.4	2.0	2.0	2.9	1.2	0.0	-0.2	1.1	0.8	2.9
Italy	2.9	1.1	2.0	1.8	1.7	3.0	1.8	0.4	0.0	1.2	0.1	1.9
EU-15	2.4	1.7	2.6	2.9	2.8	3.6	1.7	1.1	1.1	2.3	1.6	2.8
OECD	2.5	3.1	3.5	2.8	3.2	3.9	1.1	1.6	1.9	3.2	2.6	3.0
USA	2.7	3.6	4.4	4.3	4.1	3.7	0.8	1.6	2.5	3.6	3.1	2.9

Source: Wirtschaftskammer Österreich: Economic Situation and Outlook, December 2007

In 2006, the gross domestic product at current prices grew by €12.6 billion, or 5.1%, to €257.9 billion. This amounts to €31,140 (+4.5%) on a per capita basis or €30,200 at purchasing power parity (PPP). The EU25 achieved an average GDP per capita of €24,500 (81% of the Austrian). After Luxembourg, Ireland, and the Netherlands, Austria was in fourth place in economic performance compared with all EU countries. Measured in terms of GDP per capita at PPP, Austria is the seventh richest nation among the 30 OECD member states.

In 2006, the Austrian price level (103 as compared to EU-25=100) sat comfortably in the middle range compared to Europe as a whole, about the same as Germany and Italy, but clearly under that of Luxembourg, Denmark, Finland, Ireland, France and Sweden. With an inflation rate of 1.7% in 2006, Austria was also within the 2% stability goal of the European Central Bank and below EU-15, EU-25 and Eurozone figures (all 2.2%).

The ranking of Austria in global and European indicators

Austria has established a top position among OECD economies through reforms which have helped enterprises and the labour-force to generate high incomes. Based on moderate wage agreements; productivity growth; and reforms which improved competitiveness the manufacturing sector has achieved high productivity growth through the past decade and has not suffered from the relatively small size of the national science and technology base. Manufacturing firms are fully exposed to global competition, and this has been an important driver of productivity growth. They also benefited in the 1990s from integration into the EU and closer relationships with Central and Eastern Europe. Since 1995 Austrian manufacturers have benefited from a significant drop in real unit labour costs and consequently gains in competitiveness and profitability.

The World Economic Forum’s global competitiveness index ranking 2007-2008 lists Austria on rank 15 out of 131 countries, i.e. behind the most competitive countries in and outside the European Union. However, if compared to the 2006-2007 ranking Austria is amongst the countries which improved their position.

Table 2: Global competitiveness index rankings and 2006-2007 comparisons

Country	GCI 2007-2008		GCI 2006-2007	Changes in rank 2006/07 – 2007/08	
	Rank (out of 131 countries)	Score	Rank (out of 122 countries)		
United States	1	5.67	1	+ -	0
Singapore	7	5.45	8	+	+ 1
Japan	8	5.43	5	-	- 3
Austria	**15**	**5.23**	**18**	**+**	**+ 3**
Denmark	3	5.55	3	+ -	0
Finland	6	5.49	6	+ -	0
France	18	5.18	15	-	- 3
Germany	5	5.51	7	+	+ 2
Greece	65	4.08	61	- -	- 4
Italy	46	4.36	47	+	+ 1
Netherlands	10	5.40	11	-	- 1
Spain	29	4.66	29	+ -	0
Sweden	4	5.54	9	+ +	+ 5
United Kingdom	9	5.41	2	- -	- 7

Source: World Economic Forum: Global Competitiveness Report 2007-2008

Every year since 1990 the UNDP Human Development Report has calculated a human development index (HDI) that looks beyond economic figures to a broader definition of well-being and quality of life. The HDI provides a composite measure of three dimensions of human development: living a long and healthy life (measured by life expectancy); being educated (measured by adult literacy and enrolment at primary, secondary and tertiary education); and having a decent standard of living (measured by purchasing power parity, PPP, income). The HDI for Austria in 2005 (latest available data) was 0.948, which gives the country a rank of 15th out of 177 countries. Compared to 2000 this reflects a slight deterioration of two places from its position of then rank 13. Among the EU member states Austria achieved around the same level as Spain and Denmark, with a lower HDI value than Sweden, the Netherlands and France, but better than the UK, Italy or Germany.

Table 3: Austria's ranking in the UN Human Development Index 2005

HDI value	Life expectancy at birth (years)	Combined primary, secondary and tertiary gross enrolment ratio (%)	GDP per capita (PPP US$)
1. Iceland (0.968)	1. Japan (82.3)	1. Australia (113.0)	1. Luxembourg (60,228)
13. Spain (0.949)	13. New Zealand (79.8)	20. United Kingdom (93.0)	7. Hong Kong, China SAR (34,833)
14. Denmark (0.949)	14. Singapore (79.4)	21. Estonia (92.4)	8. Denmark (33,973)
15. Austria (0.948)	**15. Austria (79.4)**	**22.Austria (91.9)**	**9. Austria (33,700)**
16. United Kingdom (0.946)	16. Netherlands (79.2)	23. Lithuania (91.4)	10. Canada (33,375)
17. Belgium (0.946)	17. Germany (79.1)	24. Italy (90.6)	11. United Kingdom (33, 238)
177. Sierra Leone (0.336)	177. Zambia (40.5)	172. Niger (22.7)	174. Malawi (667)

Source: UNDP 2008

The HDI measures average achievements in a country, but it does not incorporate the degree of gender imbalance in these achievements. The gender-related development index (GDI), introduced in Human Development Report 1995, measures achievements in the same dimensions using the same indicators as the HDI but captures inequalities in achievement between women and men. It is simply the HDI adjusted downward for gender inequality. The greater the gender disparity in basic human development, the lower is a country's GDI relative to its HDI. Austria's GDI value is 98.5% of its HDI value. Out of the 156 countries with both HDI and GDI values, 109 countries have a better ratio than Austria's. The gender empowerment measure (GEM) reveals whether women take an active part in economic and political life. It tracks the share of seats in parliament held by women; of female legislators, senior officials and managers; and of female professional and technical workers- and the gender disparity in earned income, reflecting economic independence. Differing from the GDI, the GEM exposes inequality in opportunities in selected areas. Austria ranks 13th out of 93 countries in the GEM.

On the Lisbon indicators, in 2006 Austria achieved 7th position out of the EU25 countries and performed slightly better than the cluster of East Asian countries.

Table 4: Progress on the Lisbon Indicators 2006

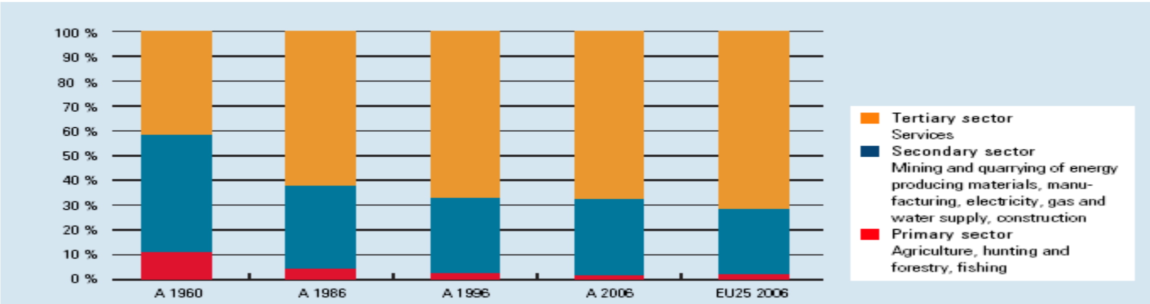
			Sub-indexes							
Country	**Final Index**		Information Society	Innovation and R&D	Liberaliz ation	Network Industries	Financial Services	Enterprise	Social Inclusion	Sustainable Development
	Rank	Score	Rank	Rank	Rank	Rank	Rank	Rank	Rank	Rank
Austria	**7**	**5.3**	**7**	**9**	**7**	**9**	**8**	**15**	**8**	**5**
Denmark	1	5.76	4	4	5	2	5	1	1	3
Finland	2	5.74	6	1	4	8	4	4	2	1
France	9	5.21	11	8	11	3	7	9	15	10
Germany	5	5.53	10	3	1	1	2	12	10	2
Greece	23	4.19	25	18	21	14	16	20	22	23
Italy	24	4.17	16	19	23	20	23	24	24	19
Netherlands	4	5.59	2	5	2	6	6	2	4	6
Spain	15	4.49	20	15	16	11	14	16	23	18
Sweden	3	5.74	1	2	6	5	3	7	3	4
UK	6	5.5	3	6	3	7	1	5	9	8
EU25 aver.		4.84								
United States	--	5.45	--	--	--	--	--	--	--	--

Source: World Economic Forum: Lisbon Review 2006.

Structure of the economy

Like other modern economies the economic structure of Austria today is dominated by services. Around two thirds of the gross value added came from the so-called "tertiary" sector in 2006. Over the last 20 years the tertiary sector has grown by an annual average of 5%. The share of the "secondary" sector has been characterised by a steady decline to 31% to the national gross value added in 2006. About 2% of gross value added comes from agriculture and forestry.

Figure 2: Gross value added by economic sectors



Source: Statistics Austria 2008: Data, figures, facts p. 49

The strong position of small and medium sized companies

As in other EU countries, most enterprises in Austria are small: in 2003, nearly 65% of all employees were employed in the micro, small and medium sized enterprise sector while only 35% worked in companies with more than 250 employees.

In the production sector, over three quarters of firms operate with fewer than 10 employees and only 1% of enterprises in industries and construction (ca. 530 out of 54 600) employ more than 250 people. However, more than one third of all employees in these sectors are employed in medium to large sized enterprises (more than 50 employees). Medium and large sized enterprises in 2005 accounted for more than half of the total turnover. In the service sector micro and small enterprises dominate even more. 90% of all enterprises operate with fewer than 10 employees and only 470 out of more than 225 000 enterprises employ more than 250 employees.

Employment and unemployment

With a 70% employment rate in the 15 to 64 year age range, Austria ranks considerably higher than the EU average (65%) and in fifth place among the 27 EU member states (2006).

At 84%, the employment rate among 25–49 year olds is the highest. It is lower (54%) among youth and young adults (15-24), many of whom are still in education. The percentage of working women in the age group of 25 to 49 is 78%, and is closing in on that of men (91%). In the 50 to 64 years age group, only about half of the population (51%) is employed and many persons of this age are already retired. The employment rate of persons aged 50 to 64 years old declines more sharply for women than for men. This is due to the lower retirement age for women and the fact that fewer of them were employed in the past. Compared to the EU, in 2006 Belgium and Italy had similar low employment rates in the 55 to 64 year age group, and only Poland was substantially lower.

According to WKÖ (Wirtschaftskammer Österreich) figures based on the Austrian social insurance organisation the number of employees in Austria between 1995 and 2007 increased by 262.800 or 8.8% and only in 1996 and 2002 was a decreasing number of employees reported. At the same time there was a sharp increase in the number of foreign workers from 300,000 in 1995 to 412,000 in 2007 (+ 37%).

Figure 3: Employment in Austria 1990 – 2009, number of employees, change in thousand

Source: WKO: Austrian Economic Situation and Outlook 2007

In 2006, more than half of all men (54%) were employed in the service sector, as are more than four out of every five women (81%). Overall, this sector provides two thirds of employment in Austria which totalled 3.9 million in 2006. Only 5.5% of jobs are provided by agriculture and forestry, which were formerly of major significance. 28% of the employed work in the production sector (including construction). 40% of the men, but only 13% of the women, work in this sector.

Table 5: Employment by economic activity, share of sectors in %, 2006

Economic activities Sections of ÖNACE classification	Total	Men	Women
Agriculture, forestry	***5.5***	***5.4***	***5.6***
Industry	***28.2***	***40.4***	***13.4***
D Manufacturing	18.9	25.4	11.0
F Construction	8.2	13.4	2.1
Services	***66.3***	***54.2***	***81.0***
G Wholesale and retail trade, repair	15.5	12.7	19.0
H Hotels and restaurants	6.2	4.0	8.8
I Transport, storage and communication	6.2	8.5	3.3
J Financial intermediation	3.4	3.1	3.7
K Real estate, renting and business activities	8.9	8.3	9.7
L Public administration, social security	6.4	6.7	6.1
M Education	5.7	3.1	6.7
N Health and social work	8.9	3.7	15.0

Source: Statistics Austria, Microcensus data

Part-time work is becoming more and more important. In 2006, 850,000 or 22% of Austrian workers were not full-time employed. 85% of part-time workers are women and 40% of all working women work part-time. Just 6.5% of men work part-time, although this trend is increasing. With this part-time worker contingent, Austria is above the EU average of 19%. Although considerably behind the Netherlands, with an "exceptional" 46%, Austria ranks only slightly behind Germany and the United Kingdom (26% in each case), Sweden (25%) and Denmark (24%) (2006).

Austria ranks among the EU member states with the lowest unemployment rate (5th place). Austria's unemployment rate (the proportion of jobless to the labour force) was 4.7% in 2006. Women are more frequently unemployed than men (5.2% vs. 4.3%), and the figure for 15 to 24 year olds is almost twice the overall average (9.1%).

Table 6: Unemployment rate 2000 – 2006

Country	2000	2002	2002	2003	2004	2005	2006
EU (25 countries)	9.3	9.0	8.6	8.4	8.7	9.0	9.0
EU (15 countries)	8.5	7.6	7.2	7.5	7.9	8.0	7.9
Austria	**3.6**	**3.6**	**4.2**	**4.3**	**4.8**	**5.2**	**4.7**

Source : Eurostat 2008

Development of labour productivity

From 2000 to 2006 the average annual increase in Austrian labour productivity was 1.3%, only slightly above the EU-15 average but below the average annual increase rates of countries such as Denmark, the Netherlands or Germany.

Table 7: Annual Change of labour productivity 2000 - 2006

	2000	2001	2002	2003	2004	2005	2006	Average change per year
EU-25	2,4	1,0	0,9	1,2	1,9	1,0	1,5	1,4
EU-15	1,9	0,6	0,6	1,0	1,8	1,0	1,6	1,2
U.S.	1,6	0,5	2,7	2,7	3,0	1,8	1,4	2,0
Austria	**2,3**	**0,3**	**1,1**	**0,9**	**2,1**	**0,7**	**1,9**	**1,3**
Denmark	3,1	-0,1	0,5	1,7	2,1	2,4	1,3	1,6
Germany	2,3	1,4	1,1	1,5	1,7	1,5	2,5	1,7
Netherlands	2,0	0,3	0,3	1,4	3,4	1,8	1,8	1,6
Ireland	5,3	2,8	4,2	2,3	1,2	0,9	1,7	2,6
France	1,0	-0,3	0,1	1,1	2,4	1,4	1,2	1,0
Italy	1,7	0,0	-0,9	-0,6	0,8	0,3	0,2	0,2
Spain	0,0	0,4	0,4	0,6	0,6	0,4	0,8	0,5
Czech Republic	4,1	2,1	1,6	4,7	4,1	4,7	4,7	3,7
Slovakia	2,6	2,6	4,7	2,3	5,8	4,6	5,8	4,1

Source: EU-Commission: Employment in Europe Report 2007

An analysis of labour productivity developments in various sectors over the period 1995 – 2004 based on OECD data (Bhattacharya 2007) shows significant variations in labour productivity development between sectors: overall labour productivity averaged 1.7% per annum. Production and manufacturing sectors showed particularly strong performance in terms of labour productivity whilst financial and business services and real estate were characterised by a decline in labour productivity.

Table 8: Labour productivity developments in Austria by sector, 1995 - 2004

Sector	Average percentage change per year
Agriculture, hunting and forestry	1.0%
Mining, electricity, gas and water supply	6.6%
Manufacturing	4.7%
Construction	2.7%
Trade, hotels and restaurants, transport and communication	1.9%
Financial and business services and real estate	- 2.9
Total	**1.7%**

Source: Bhattacharya (2007), p. 19, based on OECD data

The study reveals some important underlying trends in sectoral productivity development in the context of Austria's expansion of investment in, and trade with, the Central and Eastern European Countries (CEEC). Within manufacturing, the manufacture of transport equipment experienced a significantly above-average labour productivity growth rate. At the same time the sector shows a substantially higher than average growth of imports from the CEEC during 1995 – 2005. Therefore it seems not to be surprising if expansion of trade with the CEEC had a significant positive effect on productivity at least in manufacturing sectors (Bhattacharya 2007: 20). The financial services sector offers additional empirical evidence for the widely accepted view that Austrian firms' investment helped to significantly improve overall competitiveness and profitability. In the case of the banking sector, the steady expansion of Austrian banks in the CEEC clearly had a positive effect on the profitability of Austria's consolidated banking sector, and the highly profitable CEEC operations also helped Austrian banks to weather the economically difficult years at the beginning of this century (see Breyer 2004).

Labour costs and compensation

Between 2000 and 2006 real unit labour costs in Austria decreased by -7.4% (average annual decrease of –1.1%) which was clearly below the average of both EU-25 and EU-15. This development also resulted from a combination of productivity improvement and very moderate increases in employee compensation in the same period: real compensation (GDP deflator) in Austria between 2000 and 2006 increased by just 1.8% (average annual change of 0.3%) and was significantly below the EU-25 and EU-15 averages.

Table 9: Real unit labour costs, annual change in %

	2000	2001	2002	2003	2004	2005	2006	Average change per year
EU-25	0,1	0,3	-0,4	-0,2	-1,0	-0,5	-0,8	-0,4
EU-15	0,1	0,3	-0,3	-0,1	-0,9	-0,4	-0,8	-0,3
U.S.	1,8	-0,5	-0,9	-0,5	-1,6	-1,2	0,1	-0,4
Austria	**-1,9**	**-0,7**	**-0,4**	**-0,3**	**-2,1**	**-0,9**	**-1,1**	**-1,1**
Denmark	-2,4	1,9	0,9	0,6	-1,4	-2,2	0,2	-0,3
Germany	1,4	-0,3	-0,5	-0,1	-1,1	-1,6	-1,5	-0,5
Netherlands	-1,1	-0,1	1,0	0,5	-0,4	-2,0	-2,3	-0,6
Ireland	-2,8	-0,9	-3,5	0,2	3,5	0,6	0,2	-0,4
France	-0,3	0,3	0,5	-0,1	-0,5	0,0	-0,4	-0,1
Italy	-1,4	0,2	0,3	1,2	-0,4	0,5	0,5	0,1
Spain	-0,6	-1,0	-1,4	-1,1	-1,5	-1,8	-1,1	-1,2
Czech Republic	0,8	1,0	3,1	2,8	-1,9	-1	-1,6	0,5
Slovakia	-0,5	-1,5	-0,2	0,8	-2,7	-1,8	-1,0	-1,0

Source: EU-Commission: Employment in Europe Report 2007

These figures indicate that a moderate wage development during the last decade has contributed significantly to the competitiveness of Austrian companies in the international context.

Table 10: Real compensation per employee (GDP deflator), annual change in %

	2000	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**Average change per year**
EU-25	2,5	1,3	0,5	1,0	0,9	0,5	0,7	1,1
EU-15	2,0	0,9	0,2	0,9	0,9	0,6	0,8	0,9
U.S.	3,4	0,0	1,8	2,1	1,3	0,6	1,5	1,5
Austria	**0,3**	**-0,4**	**0,7**	**0,6**	**0,0**	**-0,2**	**0,8**	**0,3**
Denmark	0,7	1,9	1,4	2,3	0,7	0,1	1,5	1,2
Germany	3,7	1,1	0,5	1,5	0,6	-0,1	1,0	1,2
Netherlands	0,9	0,3	1,3	2,0	3,0	-0,2	-0,5	1,0
Ireland	2,4	1,9	0,5	2,5	4,7	1,5	1,9	2,2
France	0,7	0,0	0,6	0,9	1,9	1,4	0,8	0,9
Italy	0,3	0,2	-0,6	0,6	0,4	0,8	0,7	0,3
Spain	-0,6	-0,6	-1,0	-0,5	-0,9	-1,4	-0,4	-0,8
Czech Republic	4,9	3,2	4,8	7,6	2,2	3,6	3,1	4,2
Slovakia	2,1	1,1	4,5	3,2	3,0	2,7	4,8	3,1

Source: EU-Commission: Employment in Europe Report 2007

Educational attainment and qualification

OECD data illustrate that Austria has a generally sound level of general educational attainment slightly above the OECD average.

Table 11: Educational attainment expressed in average number of years in formal education 2004, 25-to-64-year old population, by gender and age group

Country	Total	Males	Females	Males (age brackets)				Females (age brackets)			
				25-34	35-44	45-54	55-64	25-34	35-44	45-54	55-64
Austria	12,0	12,3	11,7	12,4	12,4	12,2	12,0	12,3	12,0	11,4	10,8
United States	13,3	13,2	13,4	13,1	13,2	13,4	13,2	13,4	13,4	13,5	13,1
Japan*	12,4	12,6	12,1	13,3	13,3	12,4	11,2	13,2	12,9	11,9	10,5
OECD aver.	11,9	11,9	11,8	12,5	12,2	11,7	11,0	12,8	12,1	11,4	10,3

** Year of reference 2003. Source: OECD 2007 (www.oecd.org/edu/eag2006)*

Austria also occupies a high-ranking position with respect to education spending as a percentage of GDP, with a 5.7% (public and private spending) share of the GDP. This figure was below countries like the U.S. (7%), Denmark and Sweden (6.7 and 6.5%) but slightly above countries like Finland (5.6%), the United Kingdom and Germany (both 5.3%).[3]

Table 12: Further education of adults 2006
Participation of 24-64 aged in further education, percentage share

	Total	Male	Female
EU-25	10.1	9.2	11.0
EU-15	11.1	10.2	12.1
Austria	13.1	12.2	14.0
Denmark	29.2	24.6	33.8
Germany	7.5	7.8	7.3
Netherlands	15.6	15.3	15.9
France	7.5	7.2	7.8
Italy	6.1	5.7	6.1
Spain	10.4	9.3	11.5
Czech Republic	5.6	5.4	5.9
Slovakia	4.3	4.0	4.6

Source: EU-Commission: Employment in Europe Report 2007

Austria has already met the European Union's Lisbon strategy target of 12.5% participation in further education among those aged 25 to 64 for male and female adults. Nonetheless, Austria still lags behind the Scandinavian countries in further education enrolment rates of adults. Further education has played only a minor role in collective bargaining agreements and a legal entitlement of employees to release from work for education and training (*Bildungsfreistellung*) has been established in only a few collective agreements. Austrian trade unions are currently demanding more public initiatives and funds to further increase training activities for adults in order to meet new workforce qualification challenges. From their point of view, Austria's target participation rates should be closer to those in the Scandinavian countries.

3 Figures from UN Development Programme for the years 2000-2002. See: Nationmaster.com 2008, (http: http://www.nationmaster.com/graph/edu_edu_spe-education-spending-of-gdp).

Against this, the Austrian social partners have agreed on changing the legal basis of further vocational training, i.e. "*Bildungskarenz*", and a reform law has been passed by Parliament at the beginning of 2008: after one year of work within a company (previously three years) it is possible to apply for "*Bildungskarenz*". Still and in contrast to release from work for education and training purpose, there is no legal entitlement to unpaid training leave in the context of "*Bildungskarenz*" – the employer has to agree.

The reform was carried out in the context of a wide-ranging consultation project on a coherent lifelong-learning strategy for Austria until 2010 initiated by the Austrian government in 2006.[4] This strategy must also address the issues of improving early learning and improving learning support services for students with a migration background. The percentage of students leaving school prematurely and without subsequently continuing their education remains very low in Austria. With 9.6% Austria ranks 5th in the EU league. However, there are also points of criticism in particular with regard to the selective nature of the Austrian educational system:

> "The Austrian education system is characterised by a strong differentiation of school attendance by social background and the regional educational infrastructure. Social selection is particularly evident in the transition from the four-year primary school to secondary education at "*Hauptschule*" (secondary school) or at the more academically oriented junior level of *AHS*" (upper secondary school), and after the completion of the years of compulsory school education. Socially selective access to education affects most of all children from educationally underprivileged groups of the population and children with a migration background. This inequality in educational opportunities is largely maintained as second-chance education path is rarely taken to obtain qualifications later on." (Aiginger et.al. 2006, p. 149/159)

In this context it should be noted that major recommendations of the European Commission regarding the implementation of the Austrian National Reform Programme in the Context of the Lisbon Strategy for Growth and Jobs refer to the issues of labour market participation of older workers and the integration of vulnerable youth (see textbox).

> "The policy areas in the Austrian National Reform Programme where challenges need to be tackled with the highest priority are: increasing labour supply of older workers and improving the skills and employability of disadvantaged young people. Against this background it is recommended that Austria:
>
> - further improve incentives for older workers to continue working by implementing a comprehensive strategy including enhanced job-related training,
> - adaptation of working conditions and tightening the conditions for early retirement;
> - improve education outcomes for vulnerable youth.
>
> In addition, it will be important for Austria to focus over the period of the National Reform Programme on the following challenges: strengthening the fiscal adjustment in order to achieve a balanced budget before 2010; increasing competition in services, in particular in professional services; strengthening entrepreneurship education; identifying further emission reduction policies and measures; tackling the gender segregation of the labour market, including by further improving the availability of childcare."
>
> (EU Commission: Lisbon Strategy for Growth and Jobs: 2007 Strategic Report Country – Assessment of the National Reform Programmes (MEMO/07/569), 11 Dec 2007)

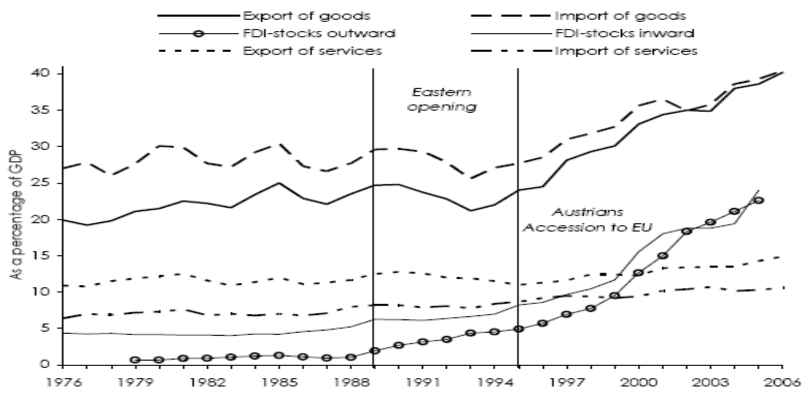
The development of foreign trade and direct investment

Austria has been strongly and positively affected by globalization and in particular by the transformation and economic integration process of Central and Eastern Europe; Austria's accession to the EU; and the accession of new member states from the CEEC in 2004. Austria has been able to win market share on global markets and improve its trade balance over the long run. In particular since accession to the EU in 1995, the export of goods and services have nearly doubled and today amount to more than 50% of gross domestic product. According to the Austrian statistical office the export rate (products and services) rose strongly from 35.1% (1995) to nearly 56.1% (2006) and is

[4] See: "Austrian Reform Programme for Growth and Jobs, 2nd Implementation Report 2007", p. 38

now considerably above the EU average of 39.7%. In general, over the past few decades Austria has experienced and benefited from a greater increase in its degree of openness to the world economy than many other economically advanced countries.

Figure 4: Development of Austrian export, import and foreign direct investment



Source: WIFO: Austria's External Economic Relations 2007, p. 20

Austria's top foreign trade partner is Germany. More than 41.5% of all imported products (ca. €43.3 billion) come from Germany and almost a third (30.3%) of all products exported from Austria (almost €31.5 billion) were sent there. Other major trading partners are Italy, the USA, Switzerland and France. Austria in particular took advantage of the opening up of Central and Eastern Europe to expand its trade and investment ties with the region. Over the period 1991 – 2005 Austria's export of goods to the CEEC countries grew by around 11% a year. As a consequence the CEEC share of Austria's total exports has risen sharply: in 2005 nearly 13% of Austrian export went into the ten new EU member states (Breuss 2006, p. 41). The top trading partners for Austria in the CEEC region are neighbours: Czech Republic, Hungary and Slovenia. According to Statistics Austria, the Czech Republic and Hungary were the 6th and 7th most important trading partners in 2006 by total export/import volume.

The import side shows a similar pattern, with CEEC imports also growing by around 11% per year since the early 1990s – substantially higher than the growth of total imports of goods (5% per year). As a consequence the CEEC share of Austria's total imports has increased sharply.

The composition of goods traded between Austria and the CEEC countries has not shown dramatic shifts over the past decade. What is noticeable, however, is that the share in exports of what may be regarded as low value-added products, such as agriculture and forestry, food products and beverages, textiles and apparel has declined, while the share of higher value-added products has increased correspondingly. The same is true of imports. This shift in the composition of trade is consistent with the expansion of outsourcing activities in the manufacturing sector and the growth of intra-industry trade with Central and Eastern Europe.

Table 13: Composition of exports and imports of goods to the CEEC countries 1996 - 2005

	% change in exports	Export share 2005	% change in imports	Import share 2005
Agriculture	44.9	0.6	125.5	4.3
Manufacturing	**148.8**	**97.7**	**185.1**	**90.9**
food products and beverages	131.2	4.4	274.9	4.7
textiles	57.7	2.3	54.3	1.8
wood and wood products	265.8	2.1	60.9	2.9
coke, refined petroleum and nuclear fuel	305.6	6.1	319.7	11.8
Chemicals and chemical products	131.9	10.0	93.7	4.1
Basic metals and metal products	206.3	12.5	168.4	12.8
Machinery and equipment	119.8	12.9	223.1	9.4
Electrical machinery and apparatus	195.0	7.1	263.7	9.5
Radio, television and communication equipment	170.6	7.4	- 9.1	2.2
Motor vehicles and transport equipment	147.6	9.1	501.0	10.5
Furniture	213.2	2.6	201.0	5.1
TOTAL	**148.8**	**100**	**171.5**	**100**

Source: based on Battacharya 2007, p. 10/11

As the table illustrates, Austria's trade shows a tendency towards the export of more technology intensive products. The share of exports of machinery and vehicles has increased consistently and the increasing share of technology oriented chemical exports, especially pharmaceutical products, should be noted.

While the growth in Austria’s trade links with Central and Eastern Europe is significant, even more striking has been the expansion of direct investment activities in the region. By the end of 2005, a stock of outward FDI amounting to €55.5 billion was reported, while the stock of inward FDI amounted to €58.9 billion. Austria’s outward investment quota – measured as FDI investment stock in percent of GDP rose from 2.9% in 1990 to 24% in 2006 (Austrian Institute of Economic Research WIFO 2007: “Austria’s External Economic Relations 2007”, p. 29). An important role was played in this context by acquisitions of businesses in Eastern Europe, particularly by Austrian banks and insurance companies, retailers and service enterprises. A significant contribution was also made by the regional headquarters of large multinational companies which, as Austrian enterprises developed the eastern markets, also invested there. Thanks to Austria's attractiveness as a business location, foreign direct investment in Austria also grew substantially.

There have been important shifts in the direction of Austrian FDI: while investments in the EU-15 decreased, e.g. Austrian investments in Germany decreased from 24% in 1990 to 12.7% in 2005, the share of investments in the CEEC increased sharply. In 2005 a record level of 43.6% of all Austrian outward FDI was in the CEEC. As a “first mover” Austria played a pioneering role in FDIs in the CEEC and still holds an extremely strong position in the region.

This is also illustrated by figures on the development of the number of employees of Austrian companies in foreign countries as compared to the number of employees in Austrian companies controlled by foreign investors: while the latter has been broadly stable, there has been a sharp increase in the number of employees working of Austrian controlled countries abroad, more than 70% of the increase is accounted for by Central and Eastern European Countries.

Table 14: Number of employees in the context of foreign direct investments

	1991	2000	2004
Employees at Austrian companies abroad	63,083	248,628	370,525
thereof in Austrian companies in the CEEC	24,681	162,406	266,178
Employees at companies of foreign direct investors in Austria	212,850	251,234	232,802

Source: Lang 2006, p. 23

According to WIFO figures, in 2005, the number of persons employed in Austrian affiliates abroad totalled 431,744. This means that employment figures have more than tripled in comparison to 1996 and are nearly ten times higher in 1990. In 2001, for the first time, the number of employees in Austrian affiliates abroad was higher than the number of employees of foreign direct investment enterprises in Austria (WIFO 2007).

Regarding the sectoral structure of FDI it should be noted that investments in the service sector clearly prevail over investments in the manufacturing sector; this holds true for both directions, inward and outward FDI. In 2006, the share of investment in the service sector attributable to total outward FDI stocks reached 76.1 percent, the same share attributable to inward FDI stocks came to 78.3 percent.

Within the Austrian outward FDI stock in the service sector, the highest shares were taken by financial and insurance services, business services and merchandising and other trade-related services. Within the manufacturing sector, the highest share in both Austrian outward and inward FDI was achieved by the chemical industry.

The Austrian government is actively encouraging the internationalisation of the economy, trying to increase business competences and address some of the structural problems of Austrian exporters[5].

[5] In 2003 an internationalisation initiative "Go International" was jointly launched by the Federal Ministry for Economy and Labour (BMWA) and the Austrian Federal Economic Chamber (WKÖ), in order to increase the competitiveness of Austrian businesses. Beside additional finance "Strategy Unit for Foreign Trade and Investment" was set up at the BMWA. The internationalisation initiative includes a comprehensive package of more than 30 measures - across departments and institutions designed to raise awareness, transfer knowledge and promote the creation of business networks. The WKÖ handles the implementation of the bulk of these measures. *"Go International"* and similar earlier initiatives seem to have been successful in addressing some of the structural problems of Austrian exporters and have, for example, contributed to a threefold increase in the number of Austrian exporting companies over the past decade. Originally planned to expire in 2006, *"Go International"* has been extended until the end of 2007, and a further extension until 2008 is under consideration. (Battacharya 2007, p. 9).

The nature and extent of restructuring in Austria

Restructuring is an economic, social and political process that is not new. It takes place at different paces in different times and places, taking some forward on the wave and leaving others behind the wake. Globalisation, fast-growing technological change, domination of liberal ideologies and the driving role played by financial markets have all contributed to making today's economy one of accelerating change. Corporate restructuring is a permanent feature of this change and can take different forms:

- Plant/branch/office closure
- Internal reorganisation
- Outsourcing of goods or services
- Reorganisation following merger or acquisition
- Relocation to another region or country

These different forms of restructuring may occur in combination (e.g. internal reorganisation, outsourcing and relocation) and follow different rationales and objectives. Initiatives like rationalising production, reducing costs, increasing efficiency, modernising production methods and shifting activities into other areas shape the form and extent of restructuring as well as the scope for outside intervention.

Structural change and macro-economic restructuring in Austria

The number of employees in Austria increased by more than 260,000 between 1995 and 2007. Beneath the surface of this global change, several differing sectoral and other structural changes took place: between 1995 and 2006 around 65,700 jobs in manufacturing disappeared, many of them in high profile companies and the manufacturing labour force shrunk by some 9.7%. Employment in agriculture and forestry declined as has the workforce in construction during the last decade. However, the shrinking employment base in the primary and secondary sectors have been easily compensated by a boost of employment in services. Between 1995 and 2006 the Austrian service sector created around 280,000 additional jobs and the total workforce in services increased by some 14%. Perhaps the most interesting changes have occurred at the sub-sectoral level:

- Employment in business services nearly doubled, providing 116,500 additional jobs;
- The retail sector was one of the main job creation machines providing around 63,000 new jobs (many of them part-time) in the last decade;
- In 2005, there were around 45,000 more jobs in the health and social work sector as than in 1995 (increase of nearly 35%).
- The workforce in the education sector increased by nearly 30% or around 34,000 jobs.
- Finally, significant job creation occurred in the hotel and restaurant sector: in 2005 there were around 25,000 or nearly 18% more jobs than existed a decade ago.
- On the other side, there are also service sector branches which experienced a significant decline in the total number of jobs: nearly 1/3 of the workforce or 20,000 jobs were lost in post and telecommunication, and in the insurance sector around 1/5 of the workforce was lost between 1995 and 2006

A further trend of long-term structural change is the growing share of small and medium sized companies in total employment: while the number of employees in large companies with more than 250 employees between 1995 and 2003 increased by 4.6% and number of employees in the SME sector increased by 8.1% with the strongest increase in the medium sized enterprises group (9.2%).[6]

Table 15: Employment by selected economic activities 1995, 2000, 2006
(by division of ÖNACE)

		1995	2000	2006	Change %
A – B	**Agriculture and Forestry**	**26.054**	**25.631**	**27.049**	**3,82**
C – F	**Manufacturing and Construction**	**945.673**	**913.095**	**852.234**	**-9,88**
D 15	Manufacture of food products and beverages	82.465	74.425	71.281	-13,56
D 17	Manufacture of textile products	23.396	19.224	13.558	-42,05
D 18	Manufacture of clothing products	20.581	13.542	8.929	-56,62
D 20	Manufacture of wood and of products of wood and cork, except furniture	36.933	35.798	34.602	-6,31
D 24	Manufacture of chemicals and chemical products	30.271	30.069	31.559	4,25
D 27	Manufacture of basic metals	24.334	32.545	34.666	42,46
D 28	Manufacture of fabricated metal products, except machinery and equipment	71.878	73.255	72.791	1,27
D 29	Manufacture of machinery and equipment n.e.c	62.797	65.063	67.999	8,28
D 34	Manufacture of motor vehicles, trailers and semi-trailers	16.012	25.013	27.885	74,15
D 35	Manufacture of other transport equipment	15.789	15.696	8.055	-48,98
E 40	Electricity, gas, steam and hot water supply	31.045	28.685	25.076	-19,23
F	Construction	267.701	257.754	239.987	-10,35
G – Q	**Services**	**2.001.589**	**2.125.131**	**2.280.186**	**13,92**
G 52	Retail trade, except of motor vehicles and motorcycles; repair of personal and household goods	225.683	233.402	244.169	8,19
H 55	Hotels and restaurants	143.033	149.115	167.990	17,45
I 60	Land transport; transport via pipelines	127.122	122.814	127.773	0,51
I 62	Air transport	7.174	9.758	10.905	52,01
I 64	Post and telecommunications	66.554	66.084	45.367	-31,83
J 65	Financial intermediation, except insurance and pension funding	76.075	74.963	75.375	-0,92
J 66	Insurance and pension funding, except compulsory social security	33.139	30.675	26.623	-19,66
K 74	Other business activities	119.863	169.949	236.320	97,16
M 80	Education	115.366	124.358	149.005	29,16
N 85	Health and social work	130.044	147.740	174.449	34,15
Total		**4.700.571**	**4.863.784**	**5.053.833**	**7,52**

Source: Statistics Austria, Statistisches Jahrbuch 2008

In this context, it should also be noted that most cases of new business creation in Austria takes the form of ownership companies with a single employee/owner - according to the Vienna Chamber of Labour 80% of all business-start-ups fall into this category. Only 7% were partnerships ("*Personengesellschaften*") and 10% were established as private limited companies. In many sectors it is reported that employees are pushed into "bogus self-employment" situations in the context of cost reduction strategies and/or because of restrictive rules for the free movement of workers from the new member states, e.g. in the construction sector, marketing services.[7]

[6] Bundesministerium für Wirtschaft und Arbeit: Mittelstandsbericht 2002/03. Bericht über die Situation der kleinen und mittleren Unternehmungen der gewerblichen Wirtschaft, Wien, p. 71

[7] Source: Wirtschaftsblatt, 24.3.2004

Forms of micro-economic restructuring in Austria

In 2005, the Vienna Chamber of Labour (*Arbeiterkammer Wien*) carried out a survey on the practice of restructuring in Austria which is based on information of 200 works council representatives in companies of different size, sector and geographic location. The survey reveals some interesting insights into current trends and patterns of micro-economic restructuring in Austria (Hornung et. al 2005).

The survey is quite clear on the major forms of restructuring in Austrian companies: by far the most important forms of restructuring were "internal restructuring" (80% of all cases) and "outsourcing of auxiliary work" (70% of all cases). This is an unremarkable result as both forms refer to a wide variety of activities and change processes at company level (e.g. change in wage and working time systems, work organisation, new divisional structures, quality improvement projects etc.). However, the survey also indicates that other and more special forms of restructuring at the company level have been implemented by an increasing number of companies:

- In nearly 45% of all companies of the sample, outsourcing of parts of the firm, services or production lines was reported
- Around one third of all companies have been involved in mergers
- More than 30% of all companies reported about a change of ownership and/or take-over by a new owner
- Interestingly, in around 18% of the companies it was reported that formerly outsourced work has been "insourced" again

The relevance of these forms of restructuring in the current economic environment in Austria is reported in the study of "Arbeiterkammer Wien" can be summarised as follows:

- Outsourcing of auxiliary works seems to be less important today, since many companies have carried out major outsourcing project already in the past.
- In contrast outsourcing of part of the production and outsourcing of rather high quality work in particular in manufacturing still is increasing, in particular in the context of relocation projects towards the Central and Eastern European countries. For many Austrian companies relocation and offshoring have provided important ways to improve profitability, productivity and competitiveness.
- Change of ownership in the context of mergers and take-overs has been an important form of restructuring in the past but seems to be less relevant today. At the same time, the issue of business-transfer in the context of retirement of the owner in small companies has become more and more important in recent years.
- It has been reported that restructuring in public services has become more and more frequent in recent years. While private companies for example carried out outsourcing projects already some years ago, many public service providers in Austria have started such restructuring project quite recently. Typical cases in this context are postal services and railways.
- It should also be noted that the service sector seems to "catch up" with regard to major forms of restructuring operation. While outsourcing, relocation, offshoring and other forms of restructuring in manufacturing has been carried out for a long time now, such forms have only recently been implemented in services, for example in the finance sector. Whilst many services remain "location fixed" (e.g. retail and hospitality) advances in ICT have made outsourcing and offshoring possible.

Reasons for and motives behind restructuring

There is a continuous need for enterprises to adapt and/or to restructure, including to adapt to new market conditions, customer interests and innovation requirements. Reasons for restructuring therefore could be (Cibulka 2008):

- Changes in the market, e.g. growth, saturation, segmentation of customers
- Changes in the legal framework conditions, e.g. regulation, legal reforms, collective bargaining agreements
- Changes in the ownership structure, e.g. in the context of globalisation
- Innovations and new technologies

It is also important to note, that each change in the strategy of an enterprise results in effects and the need to adjust in the structure and culture of the organisation.

While continuous restructuring and adaptation to change is inevitable for companies in order to stabilize and/or regain competitiveness in open markets, according to Austrian experts working on micro-level restructuring both the frequency and pace of restructuring has increased during the last decade or so. In particular in the context of large scale restructuring operations also certain features and problems of the implementation of restructuring projects are reported which in many cases contribute to something like a "restructuring circle" as described by an expert (Cibulka 2008):

- Restructuring operations in general are becoming more and more complex
- In many cases, high time pressure retards an effective "change management"
- Often, restructuring operations are not leading to the expected results
- Such a failure of restructuring operations are resulting in a new restructuring process …

This is also confirmed by the survey of the Vienna Chamber of Labour amongst works councils shows that cost reduction (often associated with a reduction in personnel costs) is the most important motive of restructuring. Other important objectives are: improving competitiveness, reduction of double-work, strengthening of core-competencies and stabilisation of the mother company. The 200 employee representatives who replied to the questionnaire presume also some "unofficial" motives behind restructuring operations which are not generally mentioned by management: beside reduction of personnel costs, weakening the position of the works council and "escape" from collective bargaining agreements ("Tarifflucht") were mentioned (Hornung 2005, p. 26).

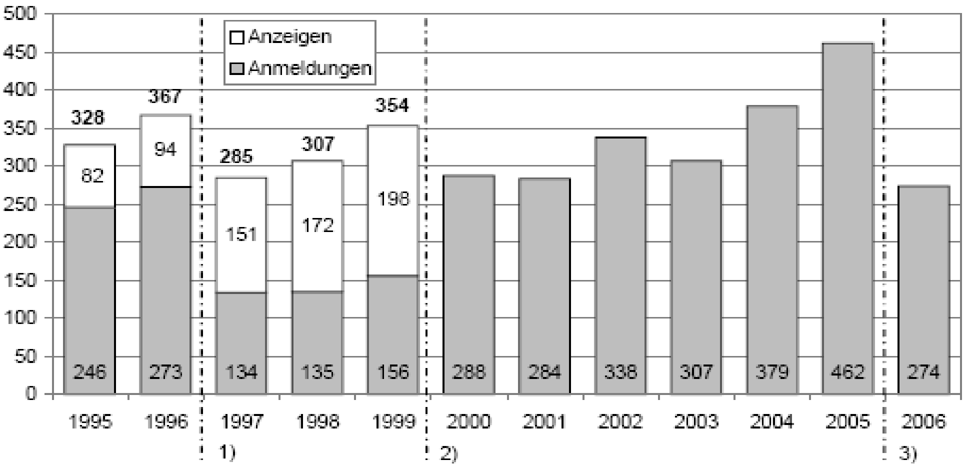
Mergers and Acquisitions

According to figures of the Austrian antitrust court (*Österreichisches Kartellgericht*) Austria has experienced a stable increase in the number of mergers since 2000. In 2004 the number of mergers amounted to 379, an increase of 24% over 2003.

As an analysis of 430 transactions in 2006 (cited in Lacina 2007, p. 95) shows, the main economic sectors involved in merger activities are information and communication technology, high tech and electronics which made up around one fifth of all mergers in 2006. Also important was the service sector (transport, logistics, personnel services, facility management, consultancies) with 18% of all merger cases. The metal sector including the production of machinery in 2006 was the third most important sector involved in mergers (13% of all cases) followed by banks and financial services (12%) and the construction sector (10%).

In 2006, and in contrast to the general European trend, Austria experienced a decline in the total number of mergers. However, this was due to a reform of the Austrian antitrust legislation and in particular a significant raise in the thresholds according to which a merger has to be announced/confirmed. According to the Austrian Chamber of Commerce this is the main reason for the decrease in numbers.

Figure 5: Development of mergers in Austria 1995 – 2006



Remarks on changes in calculation basis:
1) foreign sales no longer taken into account; 2) anti-trust-law reform – increase in financial thresholds for notifications; 3) anti-trust-law reform – increase in thresholds for notification

Source: AK Wien 2007, p. 94 based on figures of Österreichisches Kartellgericht*,*

Relocation and off-shoring

Relocations of company sites have been quite spectacular in the media (e.g. the closure of the Semperit tyre plant, see below) but less spectacular in reality. Relocations or closures that affect thousands of employees as reported by other countries are rare in Austria. This is due to the predominance of small firms and the fact that in contrast with other small countries such as Switzerland, Finland and Sweden there are virtually no large multinationals with their headquarters in Austria.

Normally the relocation and offshoring activities of small and medium sized companies are not documented in databases such as the European Monitoring Centre for Change in Dublin. However, according to a written survey among 1,706 medium-sized enterprises in Austria, conducted by the "*Creditreform Wirtschafts- und Konjunkturforschung*" in spring 2005, 8.4% of the companies plan to relocate their production or parts of their production to Eastern Europe.

Against the background of a lack of reliable data, the Vienna Chamber of Labour in 2005 established a company monitoring system in order to improve knowledge on relocation and different aspects of the issue (Lang 2006). An evaluation of 22 relocation/offshoring cases in 2006 (only cases were analysed where a relocation process resulted in a reduction of domestic company activities and the exportation of these activities to a foreign country) shows that the following sectors were particularly involved in cross-border relocation (Lang 2007):

- All relocation cases were from the industry sectors
- 60% (13 out of 22) of all cases were from the metal, machinery and motor vehicle sector
- other sectors (two cases each) were electronics, construction, chemicals and clothing industry

The analysis shows that in more than half of all cases (14 out of 22) the relocation process resulted in a reduction of the workforce in Austria. The range of redundancies varied from around a dozen to 250 jobs. Other characteristics of the case sample were:

- Most of the cases were those of large companies which already had reduced their workforces on prior occasions;
- In nearly 70% of cases company activities were relocated into the new member states (including Bulgaria and Romania), in two cases a relocation to China took place
- Around 60% of the companies involved in the cross-border relocation process were companies with a foreign owner

In general, there seems to be a trend of increased relocation activity in Austrian companies during recent years: according to the Austrian Federal Ministry of Economy and Labour, the average annual number of trans-border relocations prior to 2005 was eight cases resulting in the redundancy of 1,500 employees. The Chamber of Labour figures for 2006 indicate a significant increase (22 cases and 1,600 redundancies, see: Lang 2007, p. 99). It is interesting to compare these figures with the effects of workplace creation in the context of foreign investments in Austria: for 2006 the Austrian Business Agency (ABA) reported that around 1,400 new workplaces were created as a result of new foreign investments in the country attracted by ABA.

Public sector restructuring

Since the late 1980s, public services in Austria have undergone a process of restructuring which has changed employment relationship and industrial relations. Depending on the type of public services involved, the restructuring process has taken several forms: the opening up of the market for former monopoly public services (i.e. liberalisation); the sale of public businesses (privatisation); and transfer from the status of a public authority to the status of a private-law company (known as *Ausgliederung*). A key actor in this context is the *Austrian Public Holding Agency, Österreisches Industrieholding AG* (see textbox on the following page).

Major restructuring programmes also occurred in the telecommunication and postal services sector: until the end of the nineties, both services were provided by a state-owned company, the Austrian Postal Services (Österreichische Post- und Telegraphenverwaltung, ÖPTV). In 1997, the telecommunications sector was opened to private investors by law. To date, a great variety of suppliers of telecommunications services appeared (and some have already disappeared). After Telkom Austria went public in autumn 2000 fundamental restructuring programmes took place including significant personnel cutbacks. In October 2000, the works council and the employers of Telekom Austrian agreed on a social plan. This social plan included retraining of personnel to be laid off, the opening of new business areas, establishment of a works foundation, and arranging employment within the company. As Telekom started to dismiss employees early in 2001 and no other measures of the social plan followed, trade unions took industrial action.

In the context of the liberalisation of postal services, the Austrian Postal Service (*Österreichische Post*) also announced significant job cuts. In 2007 it was announced that due to the need to become more competitive in a liberalised post and courier service sector around 1,500 out of 10,500 postal delivery jobs had to be cut. The total number of employees of Austrian Postal Service in 2007 was around 25,000.

The public transport sector has experienced major restructuring programmes resulting in significant job reductions in recent years: in 2003, Austria's largest bus operator, the state-owned post-bus company, Postbus, was sold to the Austrian Federal Railways (Österreischische Bundesbahnen, ÖBB), which runs its own bus fleet (Bahnbus). Due to statutory commitments, ÖBB has been obliged to conclude a merger of the two bus operators concerned and then to dispose of one-third of the new Post-/Bahnbus company to private competitors. According to management, this will endanger 1,000 of 4,400 jobs. Only 400 jobs are expected to be absorbed in the course of the privatisation.

The privatisation agency IÖAG

OIAG was already formed in 1946 with the passing of the first Nationalization Act when the Austrian parliament decided to nationalize all Nazi companies. It was not only industrial enterprises founded by the Nazis - such as the Hermann Göring Works in Linz (which subsequently became VÖEST). The definition also applied to all the former Austrian nationalized companies that had been taken over by the German Reich, such as the Danube shipping company. All in all, German property accounted for one fifth of Austrian value added including the three largest banks, the entire coal and metal mining industry, all mineral oil extraction and processing facilities, and all the important companies in the heavy industry sector. In 1967 administration of the majority of nationalised companies was transferred to the newly founded *Österreichische Industrieverwaltungs GesmbH* (ÖIG), and initial restructuring of the companies resulted in the cutting of around 20,000 jobs. In 1970 ÖIG was transformed into a public limited company (OIAG), and in subsequent years the group was restructured. A large conglomerate was formed around VÖEST as a reaction to the revenues lost due to the oil price shock and the international steel crisis. This conglomerate was designed to absorb other nationalised companies that had got into difficulties. At the same time, nationalised industry also had to function as an employment policy instrument in the recession of the late 1970s. From the beginning of the 1980s OIAG companies started to report growing losses and by 1985 VÖEST was virtually insolvent, and the subsidies required by individual companies already exceeded their employment costs. In 1986 OIAG (now *Österreichische Industrieholding AG*) was restructured once again. After massive economic problems and job losses in the nationalized companies, the industry holdings in 1993 were dissolved again, and OIAG was now obliged by an amendment to the OIAG Act to sell, within a reasonable period of time, a majority interest in its directly owned holdings to industrial enterprises. Where economically expedient, individual companies or direct holdings, especially those not belonging to the companies' core business areas, could be disposed of separately. At the same time, due consideration had to be given to ensuring that, as far as economically feasible, Austrian industrial enterprises and industrial value added should be maintained. With the OIAG Act in 2000, OIAG began to chart its course as the principal Austrian Republic's privatisation agency with two basic tasks: on the one hand, to increase the value of the investments entrusted to it, and on the other to monitor its investments for exit scenarios and to partially or fully privatize its companies. Today the OIAG still holds significant shares in five formerly state owned companies: *Austrian Postal Service* (51%), *Austrian Airlines* (42.75%), *OMV* (31.5%), *Telekom Austria* (27.4%) and *GKB Mining* (100%).

Source: www.oiag.at

Despite ongoing company restructuring for several years, the Austrian Federal Railways ÖBB, owned by the state, is still facing dramatic financial problems which make further significant personnel reductions necessary. According to Martin Huber, the CEO of the ÖBB holding company, 4,700 employees were made redundant or took early retirement in 2006. Thus, ÖBB's total workforce decreased from about 53,000 in 2003 to 43,000 by the end-2006. Of the current 43,000 employees it is planned that around 5,000 will be either shifted to another workplace within the ÖBB group or made redundant by 2010.

A comparative study on public sector restructuring (Atzmüller/Herman 2004) indicates that there are both common features and impacts of public sector restructuring in Austria as compared to other European countries. They also identify certain specific characteristics of Austrian public sector restructuring in particular with regard to employment effects: while the impact of liberalisation and privatisation of public services on employment, working conditions and labour relations are quite similar (e.g. job cuts, reduction in pay, deterioration of working conditions and greater flexibility in working-time and employee relations), actual job cuts and the implementation of restructuring processes seemed to have been undertaken in a more moderate way in Austria as compared with other countries (perhaps also due to the later start of the liberalisation and privatisation process). In Austria, employment cuts were generally managed in 'socially acceptable' ways, such as offering early retirement, redundancy payments above the legal requirement (golden handshakes), and training for a new job. According to the authors, the voluntary nature of these measures must partly be questioned. Internal restructuring is suggested to pressure employees to leave an organisation due to lack of personal mobility or problems in coping with rising insecurity and stress levels.

Section two – The role of the Austrian social partners in restructuring

Introduction and summary

Austria is distinct from other EU countries in the scope and influence of its specific form of social partnership. In contrast to other countries, social partnership is not just a system of labour management relations or of wage bargaining, but one of institutionalised cooperation between labour, business, and government that covers all important aspects of economic and social policy.

The Austrian Federation of Trade Unions (*Österreichischer Gewerkschaftsbund*, ÖGB) was founded in 1945. ÖGB is affiliated to ETUC. It is the only trade union federation founded to overcome the political divisions between unions that existed before the fascist takeover in 1938. It is a legal entity and an incorporated association of workers based on the principles of solidarity and effective representation of workers' interests. The ÖGB has nine affiliated trade unions, which are organised according to sector and occupational demarcations. There are approximately 1.3m trade union members in Austria (2007) which relates to a union density of around 33%.

Austria's Federal Economic Chamber (WKÖ, *Wirtschaftskammer Österreich*) covers nearly all private companies, i.e. around 300,000 single company members. WKÖ is affiliated to UEAPME. Because the Economic Chambers are based on the principle of statutory membership all firms in the WKÖ's domain are legally required to become members. Another key actor on the employer side is the Federation of Austrian Industry (*Vereinigung der Österreichischen Industrie* – VÖI), founded in 1941. VÖI is affiliated to BUSINESSEUROPE. In 2002, it had 1,200 member companies that employed about 425,000 workers. The VÖI is organised as a voluntary association and is also closely involved in the policy making that characterises the social partnership.

Austria's model of employee interest representation is based on the dual model of works councils and trade union representation at the company level. At workplaces with at least five employees a works council (*Betriebsrat*) can be elected, if the employees decide so. Austrian labour law significantly privileges multi-employer bargaining in that it attributes the right to bargain to individual firms in only a few exceptional cases. In line with this, almost all collective agreements are concluded at sectoral or industry level. In principle, collective bargaining in Austria is limited to the private sector. The public sector is excluded from formal bargaining, but negotiations between public sector trade unions and government representatives take place, with parliament eventually determining the terms of employment. Collective bargaining coverage is almost universal for two reasons. First, is the statutory membership of employers in Chambers. Because these Chambers mostly reach agreements with the unions, every employer is bound by a collective agreement. Second, the so called 'outsider effect' makes collective agreements binding on all workers, regardless of whether they are members of the union(s) that negotiated it with the relevant employer. The result is that agreements have a very wide application, covering 98% of the workforce.

Labour foundations ("*Arbeitsstiftungen*") are an instrument used successfully in Austria for almost 20 years now for deploying "surplus" labour potential in a flexible and meaningful way. They also aim to develop solutions for regional structural change and labour market adjustments. The foundations are used when there is a threat of redundancies (outplacement foundations) or when particular staffing bottlenecks occur (inplacement foundations). The aim is the development and implementation of individualised (re-) integration processes by offering a broad package of supportive measures. The possibility of a longer-term entitlement to such measures, ranging up to three years (or four years for those aged 50 or over) also means that training programmes lasting several years can be completed while benefiting from this support.

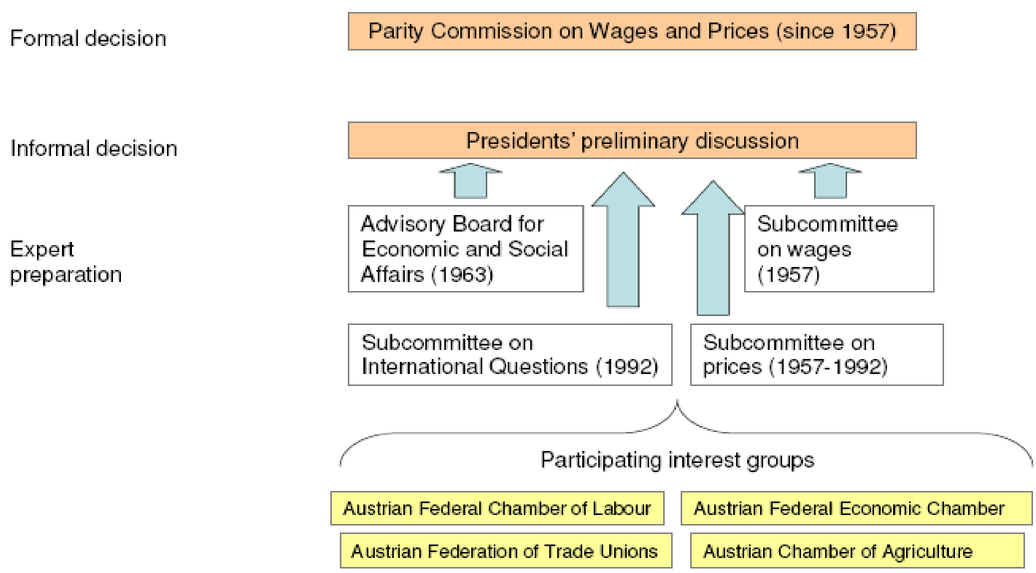
In October 2006, the Austrian Institute of Economic Research (*Österreichisches Institut für Wirtschaftsforschung*, WIFO) presented a 'white paper' on long-term national employment strategies. The paper entitled "Towards higher employment via economic growth based on innovation and qualification" had been commissioned by four major Austrian social partners and sponsored by the Austrian National Bank (*Österreichische Nationalbank*, ÖNB) and other public and private institutions. During 2005–2006, several dozens of WIFO experts drafted this strategy paper, which is based on 22 partial studies on growth, the labour market and economic policy. In early October 2007, Austria's social partners presented a joint programme aimed at improving employment opportunities for unskilled, unemployed and young people. The proposals aim to replace the current, generalised system of apprenticeships with individualised qualification programmes for young and unemployed people, and to introduce a special programme for unemployed older workers.

Social Partners and Social Partnership in Austria

The Austrian notion of Social Partnership

Austria is distinct from other EU countries in the scope and influence of its specific form of social partnership. In contrast to other countries, social partnership is not just a system of labour management relations or of wage bargaining, but one of institutionalised cooperation between labour, business, and government that covers all important aspects of economic and social policy.

Figure 6: The Austrian model of policy concertation



Source: EIRO Dublin: Austria Industrial Relations Profile

The social partnership was formed on a voluntary and informal basis to control post-war economic problems in the early 1950s. It developed later into a comprehensive system of influence in the fields of economic and social policy. The system has long been widely recognised as uniquely Austrian, creating political stability and social peace. Social partnership in Austria does not refer to social pacts as it does elsewhere in Europe. It stands for a durable and rather robust pattern of day-to-day policy making which is capable of solving political conflicts by a routine of policy cooperation. As an institutionalised system of social concertation and partnership the Austrian model is based on a network of autonomous interaction between unions and employer organisations on income policy, and close participation of interest groups in political decision making, including drafting legislation. Typical policy areas covered by the social dialogue system are social policy, fiscal policy, monetary policy, investment policy, industrial policy, social welfare, labour law, job creation and training, employment and EU issues.

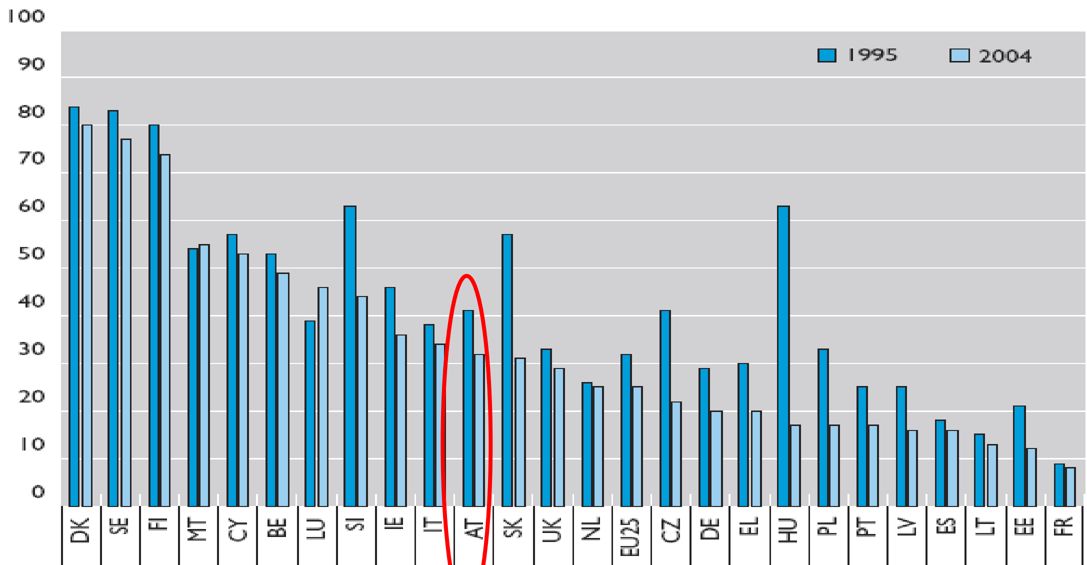
Trade unions

The Austrian Federation of Trade Unions (*Österreichischer Gewerkschaftsbund*, ÖGB) was founded in 1945. ÖGB is affiliated to ETUC. It is the only trade union federation founded to overcome the political divisions between unions that existed before the fascist takeover in 1938. It is a legal entity and an incorporated association of workers based on the principles of solidarity and effective representation of workers' interests.

Today, the ÖGB has nine affiliated trade unions, which are organised according to sector and occupational demarcations. The white collar union, GPA, is the most important and is gaining influence as a result of privatisations. The second largest trade union is gmtn which is also the major union in the manufacturing sector with approx. 236,000 members. After the merger of three trade unions, the service sector union "Vida" was established at the end of 2007 being now the fourth largest ÖGB affiliate.

Figures from the unions indicate that there are approx. 1.3m trade union members in Austria (2007) which equals a union density of approx. 33%. In 1995, trade union coverage was around 41%.

Table 7: Trade union density, EU-25, 1995-2004



	DK	SE	FI	MT	CY	BE	LU	SI	IE	IT	AT	SK	UK	NL	EU25	CZ	DE	EL	HU	PL	PT	LV	ES	LT	EE	FR
1995	84	83	80	54	57	53	39	63	46	38	41	57	33	26	32	41	29	30	63	33	25	25	18	15	21	9
2004	80	77	74	55	53	49	46	44	36	34	32	31	29	25	25	22	20	20	17	17	17	16	16	13	12	8

Source: European Commission: Industrial Relations in Europe 2006, p. 25.

Against this background of decreasing membership rates (it should be noted that around 20% of Austrian trade union members are pensioners) mergers and other forms of cooperation between Austrian trade unions intensified during recent last years.

Table 16: Trade Union Structure and membership in Austria in 2007

Union	Sector	Membership*	Recent merger activities
GPA-DJP	White collar workers, print and journalists	294,000	November 2006 merger of GPA with print/journalist union
gmtn	Metal, textile and food industry	236,000	May 2006 merger of metalworkers union with agriculture and food trade union
GöD	Public sector	229,000	
Vida	Public and private service sectors	172,000	Established in December 2006 by merger of railway union and trade unions GHTV (retail, transport, traffic) and GHPD (hotels and restaurants)
GdG	Employees of local authorities	163,000	
GBH	Construction and wood	141,000	
GPF	Post and telecommunication	64,000	
GdC	Chemical industry	31,000	
GKMsfB	Arts, media, sports and freelancers	11,000	2007: Cooperation with GöD

*Source: own. *Estimations*

Employers

Austria's Federal Economic Chamber (WKÖ, *Wirtschaftskammer Österreich*) covers nearly all private companies, i.e. around 300,000 single company members. WKÖ is affiliated to UEAPME. Because the Economic Chambers are based on the principle of statutory membership all firms in the WKÖ's domain are legally required to become members. Apart from government services, agriculture, and the (liberal) professions (e.g. doctors and architects), all branches of the economy are organised within the Economic Chambers under the umbrella of the WKÖ. This is now a unique arrangement in Europe. In other countries employer organisations are voluntary and chambers of business act as pure trade associations.

WKÖ is characterised by a dual membership structure. For each of the nine regions (*Länder*), a special territorial chamber exists. In addition, companies are grouped by branches and sectors into structures which are incorporated into both the Länder chambers as well as into the national WKÖ itself. Within WKÖ nationally, there are 129 sectoral subunits (which, in turn, are grouped into seven broader sections), and more than 1,200 sectoral subunits exist within the framework of the Länder chambers.

Another important actor on the employer side is the Federation of Austrian Industry (*Vereinigung der Österreichischen Industrie* – VÖI), founded in 1941. VÖI is affiliated to BUSINESSEUROPE. In 2002, it had 1,200 member companies that employed about 425,000 workers. The VÖI is organised as a voluntary association and is also closely involved in the policy making that characterises the social partnership. Because the VÖI represents the interests of most big industrial companies, it has an important influence in the industry related sector of the Federal Economic Chamber. However, despite being entitled to conclude collective bargaining agreements, in practice it has never used this power.

In Austria, the very few employers' organisations which are not under the umbrella of the Chamber of the Economy specialise in conducting collective bargaining on behalf of such groups as printing, newspapers and electricity enterprises.

Administrations and enterprises delivering services of General Interest are regrouped in VÖWG (Verband der öffentlichen Wirtschaft und Gemeinwirtschaft Österreichs) which coordinates the view of public sector employers operating at national, regional and local level. VÖW is affiliated to CEEP.

The Austrian system of chambers

Following recent legal changes in Slovenia, Austria remains the only EU country where there is a compulsory membership of some employers' bodies. As well as private voluntary organisations, which exist in most other European countries, Austria has a system of chambers, the most important of which are the Economic Chamber (*Wirtschaftskammer*), the Chambers of Agriculture (*Landwirtschaftskammer*) and the Chambers of Labour (*Arbeiterkammer*). The chambers function as semi-public bodies, legally responsible for representing the interests of their constituent groups. Because of their legal and official status, membership in the chambers is compulsory for all companies, farmers, and wage and salary earners. Their principal governmental function is to advise on draft legislation and administrative regulations affecting their constituencies. In the system of collective bargaining the Economic Chambers are the main players on the employer side. On the employee side this bargaining task is performed by the trade unions, not the Chambers of Labour. Although there is a strong personnel connection between the Chambers of Labour and the trade unions, the relationship is based not on competition but on a mostly informal division of tasks. The Chambers of Labour are important actors within the social partnership. Their main task is to represent employee interests vis-à-vis the government, whereas the task of collective bargaining lies with the trade unions.

Employee participation and co-determination at different levels

Works councils

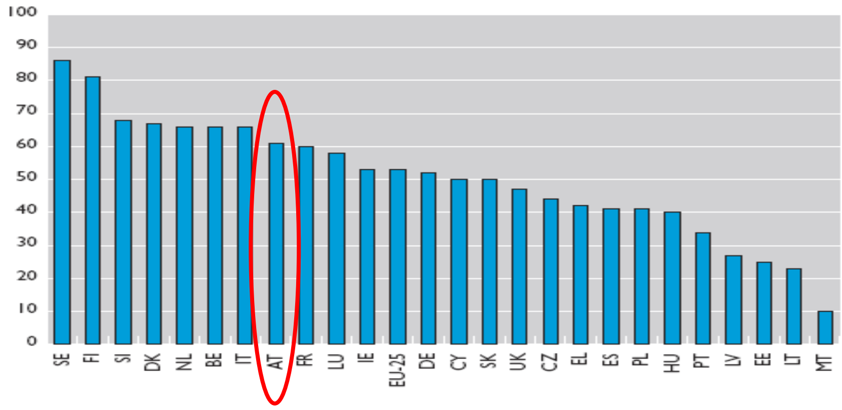
Austria's model of employee interest representation is based on the dual model of works councils and trade union representation at the company level. At workplaces with at least five employees a works council (*Betriebsrat*) can be elected, if the employees decide so. The members serve for four years. The works council represents the interests of employees and is closely involved in social, staff, and economic matters. It is not a trade union and is elected by all employees and non-trade unionists can become members on an equal basis. However, more than three-quarters of works council members are trade union members. Although they are legally independent from trade unions, works councils act most of the time in close collaboration with them.

With regard to works councils' information, consultation, and codetermination rights, employers are required to hold regular discussions with them and keep them informed on matters that are important for the workforce. Such consultation meetings must take place quarterly or, at a council's request, monthly.

The most important instrument for the expression of works councils' codetermination rights over a specific range of social matters is the conclusion of a works agreement (*Betriebsvereinbarung*) between an employer and a works council. The permitted scope of formal works agreements is restricted to certain matters outlined by law. In principle, pay-related issues are excluded from the scope of works agreements. Other matters regarding the employment relationship are also subject to collective bargaining agreements.

At least once a year a works council must organise a workers' assembly (*Betriebsversammlung*). On request the employer and/or the trade union can participate. Reports by the works council and other important issues are discussed. The election for the members of the works council is organised within this assembly.

Figure 8: Trade union or similar present at the workplace % of employees (private and public sector)



Source: European Commission, European Industrial Relations Report, p. 71.

Board-level participation

Employees have the right to be represented on the supervisory boards of certain companies such as public limited companies (*Aktiengesellschaften*) as well as certain types of companies as specified by law (the law stipulates seven types). The works council can delegate one member to the supervisory board for every two members representing the owners or shareholders. Essentially, the employee representatives have – with very limited exceptions – the same rights and duties as the shareholding representatives. It is estimated that 1,500 companies now have supervisory boards on which representatives of a works council have seats. As many as 400,000 workers are employed in those companies. This amounts to 15 % of the workforce (Fulton 2007).

Collective bargaining

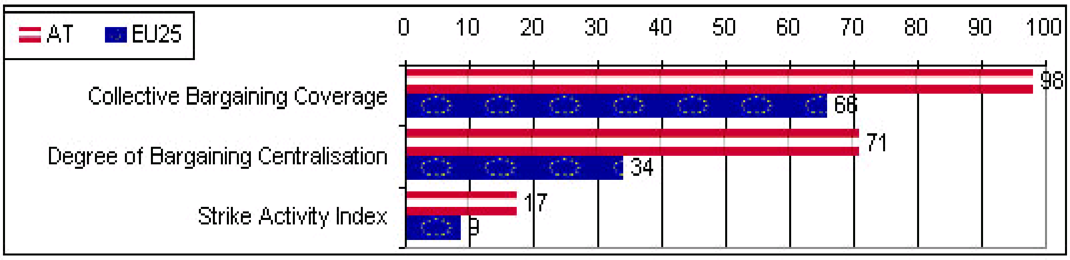
Austrian labour law significantly privileges multi-employer bargaining in that it attributes the right to bargain to individual firms in only a few exceptional cases. In line with this, almost all collective agreements are concluded at sectoral or industry level. In principle, collective bargaining in Austria is limited to the private sector. The public sector is excluded from formal bargaining, but negotiations between public sector trade unions and government representatives take place, with parliament eventually determining the terms of employment.

In general, Austrian law does not allow the conclusion of company agreements, because a company cannot take on the role of a partner for negotiations or the conclusion of a collective agreement. In the course of privatisation some companies (for example, the railway and postal companies) were awarded the capacity to conclude collective agreements by themselves. The introduction of delegation clauses or option clauses in (sector) collective agreements, suggest a small decentralisation of collective bargaining. In these cases, works councils are allowed to negotiate part of the wage increase at company level.

According to statistics provided by the Austrian Trade Union Federation, about 400 collective agreements are concluded each year. In addition, there are a few dozen agreements which have duration longer than one year, and consequently some 450 collective agreements are estimated to be in force each year. Unfortunately, more exact figures are not available.

Collective bargaining coverage is almost universal for two reasons. First, is the statutory membership of employers in Chambers. Because these Chambers mostly reach agreements with the unions, every employer is bound by a collective agreement. Second, the so called ‘outsider effect’ makes collective agreements binding on all workers, regardless of whether they are members of the union(s) that negotiated it with the relevant employer. The result is that agreements have a very wide application, covering 98% of the workforce.

Figure 9: Collective bargaining and industrial action in Austria and EU-25



Source: EIRO 2008 (Austria Industrial relations profile). http://www.eurofound.europa.eu/eiro/country/austria_1.html)

During recent years, the social partners have reported on two contrary tendencies, which are hard to assess accurately. On the one hand, the signing parties to collective agreements tend to negotiate for narrower branches and sub-sectors, and some formerly state-regulated business areas have been opened up to collective bargaining. Moreover, collective bargaining coverage has partially been extended to as yet uncovered sectors and sub-sectors. On the other hand, since the early 1990s the collective bargaining parties have tended to centralise bargaining, concluding sectoral agreements for the whole national territory instead of conducting separate, parallel bargaining for each province. Whereas the net effect of these contrary tendencies in terms of the number of collective agreements is hard to assess, the overall collective bargaining coverage – despite its already extraordinarily high level of about 99% - has continued to rise slightly.

Aside from pay and working time, a few collective agreements adopted provisions on special further training schemes. The agreement on behalf of temporary agency workers, for instance, concluded on 27 November 2006, now contains a provision which obliges the employers to set up a certain re-training fund devised to finance certain further training measures, in particular on behalf of more vulnerable employee groups.

Micro and macro economic restructuring as an issue of social dialogue and collective bargaining

The legal framework of employee involvement in company based restructuring operations

If a collective redundancy occurs, the employer has to send written notification of the fact to the relevant local office of the Labour Market Service (*Arbeitsmarktservice*, AMS) at least 30 days prior to the planned first dismissals. A collective redundancy is defined as a workforce reduction ranging from at least five employees in establishments with 21-99 employees to at least 30 employees in establishments with more than 600 employees or, irrespective of the size of the establishments' workforce, at least five employees aged over 50.

Even before the employer has notified the planned collective dismissal to the AMS, it has to inform the works council about the intention in advance. This is because, according to the Labour Constitution Act (*Arbeitsverfassungsgesetz*, ArbVG), collective dismissals are qualified as a major change to the establishment (*Betriebsänderung*). Therefore, the employer is obliged to supply the works council with relevant information in particular about all social matters concerned.

According to its consultation and co-determination rights, the works council is entitled to call in an expert and to present proposals to the employer in order to prevent, eliminate or mitigate unfavourable consequences for the employees. If the planned workforce reduction affects a significant proportion of the workforce, the works council can demand the conclusion of a social plan in the form of an enforceable works council agreement. In general, such social plans mainly cover financial arrangements for attending or organising retraining schemes and special severance payments for employees to be dismissed that go beyond the general provisions. They provide for extra payments, in particular for vulnerable employee groups such as older and disabled people, who have been included in a collective redundancy.

Practical experience of employee representatives in involvement in restructuring

Documenting the results of an inquiry into the experience of 200 employee representatives in Austrian companies of all size groups and sectors a report of the Austrian Chamber of Labour summarizes the results with regard to employee involvement as follows:

"In more than three out of four cases the works councils were informed about the planned restructuring measure. Objectives were explained in more than two thirds of all cases. However, only 46% of the works councils classified this information as "timely". In nearly two thirds of all cases the restructuring activities were carried out "behind closed doors" and only in 22% the works councils were actively involved in project teams. Therefore, in most cases restructuring projects are carried out top down. "Behind closed doors" a small project team jointly with the managers are preparing restructuring measures and normally the workforce will be informed very late. In most cases employees are not involved and only in one out of five cases the works council would receive a concept or was involved in the project team." (Hornung et al. 2005, p. 35, own translation)

Initiatives and demands of social partners with regard to restructuring

Labour Foundations in Austria as an instrument to cushion the effects of restructuring

Labour foundations ("*Arbeitsstiftungen*") are an instrument used successfully in Austria for almost 20 years now for deploying "surplus" labour potential in a flexible and meaningful way. They also aim to develop solutions for regional structural change and labour market adjustments.

The foundations are used when there is a threat of redundancies (outplacement foundations) or when particular staffing bottlenecks occur (inplacement foundations). The aim is the development and implementation of individualised (re-) integration processes by offering a broad package of supportive measures. The possibility of a longer-term entitlement to such measures, ranging up to three years (or four years for those aged 50 or over) also means that training programmes lasting several years can be completed while benefiting from this support.

In Austria, this instrument, which is based on initiatives of the Austrian trade unions and carried out as a joint programme of trade unions, employer organisations and public authorities, was first used in the framework of the VOEST-Alpine Steel Foundation (1987). Positive experiences with this scheme led to its spread throughout Austria, and it also served as a model in other countries. It proved to be an extraordinary instrument, serving equally the interests of companies, employees and the regions. Austria's accession to the EU in 1995 brought with it a need for adjustments in economic structures, and this was accompanied by workforce reductions within larger enterprises. To cushion the effects of EU entry, and of structural change in the food and haulage sectors, the social partners took initiatives leading to the creation in 1995, after a brief preparatory period, of the two sectoral foundations AUFLEB in the food sector *("Ausbildungs- und Unterstützungsverein für Arbeitslose in der Lebensmittelbranche")* and AUSPED in the road transport sector ("*Ausbildungs- und Unterstützungsverein*

Spedition”). These were active across the whole of Austria, and up to October 1996, 2,600 people took part in them.

The nature of the foundations has evolved further over the years. The circumstances in which outsourcing takes place mean that four types of foundation can be distinguished: enterprise foundations; insolvency foundations; sectoral foundations; and regional foundations. Procedurally, as far as the implementation of the measures for the participants is concerned, there are no differences between them. Alongside these foundation types, there are what are known as *foundation-style measures.* Again, these are procedurally identical to the labour foundations, the difference is, that they are implemented by the Austrian Employment Service.

In 2005, 1,800 people were supported by outplacement foundations, while 4,900 were approved for participation in an inplacement foundation (Holzer 2006). The clear increase in this field (2,100 people more than in the previous year) is in particular attributable to training in the health and care sectors. A labour foundation contains a range of instruments whose concentrated use can produce synergies in the promotion of employment. Central elements within the labour foundations are career guidance, various training measures (qualification), active job searches, work experience programmes and (in the case of outplacement foundations) assistance with business start-ups. This comprehensive approach by the labour foundations, through the use of combined packages of measures, has proved particularly effective. Setting up a labour foundation entails cooperation and financing by a very diverse group of actors at different levels.

The Vienna Employment Promotion Fund – WAFF

The WAFF (“*Wiener ArbeitnehmerInnen Förderungsfonds*”), established in 1995, was the first institution of active employment policy which was created by an Austrian province. Activities of the WAFF are primarily funded by the Municipality of Vienna and developed on the basis of a close cooperation of all key actors in the field of labour market policy: apart from the Vienna Municipality, the regional trade union federation ÖGB, the Vienna Chamber of Labour, the Economic Chamber WKÖ, the Federation of Industry and the Vienna labour market service AMS are all represented on the WAFF board. As the main instrument of active labour market policy the WAFF focuses on:

- Improving the opportunities for employees in Vienna to develop their careers by continuing training and education
- Remove disadvantages in the labour market and support equal opportunities for women and men
- Strengthen Vienna’s appeal as a business location.

The work programme for 2008 which has been approved by a board of trustees is aiming at the improvement of the labour market situation of more than 20,000 persons in Vienna and support for more than 800 local enterprises mainly in three target areas:

- Practical support for nearly 10,000 unemployed persons in close cooperation with the Vienna AMS
- Support measures in the field of qualification and further training by counselling, information and financial resources for around 13,400 persons
- Support for individual enterprises in the context of recruiting of qualified staff and further training measure for employees.

Source and further information: www.waff.at

General demands and positions of social partners

Trade unions

For trade unions, relocation is of high relevance in their agenda. The ÖGB stresses that it is essential for Austria’s status as business location to create and keep Austrian head quarters and thus to safeguard jobs. Referring to the highly controversial case of Semperit in 2002 (making 1,300 employees redundant and relocation of production) trade unionists say that outward relocation of companies does not only affect the company’s workforce but also the supplier industry and related services.

The ÖGB has given top priority to the introduction of a European taxation regulation since 1994. They consider the current system in Europe a severe constructional flaw that enables EU net receiver countries with high growth rates to fuel tax dumping.

Trade unionists claim that a paradigm shift has taken place. While 15 years ago the closure of a profitable company was unthinkable, today it is common to relocate profit-making companies in order to increase the share-holder value.

The ÖGB criticises the practice of many companies to plan relocations several months in advance but publicise their decision overnight, depriving trade unions of the chance to react. Organised labour demands an early warning system that allows for retraining and qualification measures and that improves the chance of avoidance of relocation. The GPA strives for the extension of the information, intervention and consultation rights of the works council in the case of any kind of restructuring. They argue that it is important that the works council is consulted before the management's final decision is made.

Some further demands are as follows:

- Introduction of social compatibility audits;
- Independence of social plans of the company's size; and
- Extension of the right to veto.

Addressing public authorities, the trade unions have called for the prevention of subsidy tourism (i.e. the relocation of companies to those countries where subsidies are available). Furthermore, the ÖGB accuses the government of neglecting Austria's infrastructure, in particular the connection to Bratislava. This provides an incentive to supplier companies of the car manufacturers in the north of Bratislava to relocate to Slovakia.

Employers

There is an ongoing public debate on the reduction of company taxes and non-wage labour costs in Austria. The WKÖ calls for substantial cuts in company taxes in order to prevent relocations of companies from Austria to the new EU Member States. The lower company tax rates of the new Member States (which are relatively close to Austria geographically) are regarded as a strong incentive for Austrian firms to move their operations to one of these countries by business representatives. Therefore employer organisations are arguing that Austrian enterprises, for reasons of international competitiveness, should be substantially relieved of the current burden of levies and taxes, in particular with respect to non-wage labour costs and the corporate profits tax.

The Austrian system of severance pay ("*Mitarbeitervorsorgekassen*")

Austria already has introduced a legally defined system of severance pay after the First World War in order to cushion the social effects of redundancy in the case of firm closures or other forms of restructuring. In 2002, the severance pay legislation was reformed in order to improve the eligibility and other aspects of the system (e.g. possibility to transfer the individual saving account in the case of moving to another employer). The system is funded by employers via a monthly untaxed payment of 1.53% of gross wages. These payments are made into individual savings accounts are managed by so-called employee provision funds ("*Mitarbeitervorsorgekassen*"). Accumulated entitlements rest in the employee's account until retirement, unless the work contract has been terminated by the employer, which makes cash payments possible. Upon retirement, employees can claim a cash payment or convert their entitlements into an annuity. The 2002 reform was also aiming at eliminating obstacles for worker mobility, and for the firms it converts the unpredictable dismissal costs (at the time of hiring) into predictable costs. Therefore, the reform strengthens the "flexicurity" features of the Austrian labour market. Eligibility for severance pay is extended to almost all employees. The reallocation of funds via the capital market strengthens the funded pillar of the pension system. However, the possibility to claim cash payments after job termination and the relatively low contribution rate imply that the new system does not generate a sufficient second pillar retirement income.

The introduction of a minimum wage

In July 2007, the national-level social partner organisations agreed on the introduction of a monthly minimum pay rate of €1,000 across all sectors, to be implemented by the sectoral bargaining parties by 1 January 2009 at the latest. If the latter fail to establish these minimum wage standards, the national social partners intend to enforce the new pay provision through a national cross-sectoral agreement ("*Generalkollektivvertrag"*).

Sectors affected by the agreement will include textiles and leather, food manufacturing and several branches of the private services sector, such as hairdressers, pedicurists, cosmeticians and taxi drivers. It is estimated that between 20,000 and 30,000 employees will be affected by the agreement.

In line with the general collective bargaining pattern in Austria, the implementation of the minimum wage provision will remain the responsibility of the bargaining parties at branch and sectoral level. According to the joint ÖGB-WKÖ agreement, minimum pay levels currently set at between €900 and €1,000 should be raised to at least €1,000 by 1 January 2008, or – if the last bargaining round took place in the first half of 2007 – by 1 July 2008. Those few branches and sectors where the lowest pay grades are currently set below €900 a month will be allowed a longer pay adjustment deadline of 1 January 2009.

By introducing a minimum pay rate, the social partners are pursuing three main objectives:

- tackling the incidence of the working poor, in particular among women, and attempting to counteract the trend of growing pay inequalities;
- creating incentives for employees to work in the lowest wage segment of the economy, thereby curbing undeclared work;
- demonstrating their capacity to use their powers appropriately in pay-related matters to thwart any advances of statutory pay regulation.

Innovation and training as a key to Austrian competitiveness and employment creation

In October 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" had been commissioned by four major Austrian social partners and sponsored by the Austrian National Bank (*Österreichische Nationalbank*, ÖNB) and other public and private institutions. During 2005–2006, several dozens of WIFO experts drafted this strategy paper, which is based on 22 partial studies on growth, the labour market and economic policy.

According to the WIFO researchers, the pace of economic growth currently envisaged for Austria will not be sufficient to reduce unemployment levels in the long term. Higher economic growth will remain the key leverage to increase employment levels and to reduce the number of unemployed people. The WIFO studies reveal that technological progress and higher quality of production should be the guiding principles, rather than higher production rates supported by low wages.

The paper identifies 11 key elements for driving change, with a focus on redesigning the Austrian innovation system from a technology receiver to a technology supplier as well as a thorough reform of the national education and training system. These strategic elements are translated into eight target-oriented packages of measures. The paper recommends an implementation of the overall strategy in three stages:

- A *'kick-off period'* during which any further increase in the unemployment rate should be prevented, notably by bringing young and older unemployed people into gainful employment. During this limited transition period, a low-wage sector should also be set up, partly in order to encourage people who find themselves in the informal sector of the labour market to work in the regular economy. Furthermore, further training should be available to these people with the aim of eventually moving them into regular full-time employment.
- A *'reform stage'* from 2009 to 2015, when Austria's ranking within the top quality group of countries for the production of goods and services should be achieved. In order to reach this objective, Austria must attract qualified labour, in particular through the active integration of immigrants and the promotion of their education and by upgrading the qualifications of low-wage workers.
- From 2015 onwards, during the *'high-tech stage'*, technological progress and quality improvement, based on an overall upgrading of qualifications, are expected to be the main sources of economic growth.

Initially, the social partners from both sides of industry approved the presentation of the white paper as an important strategic document for the future design of Austria's economic policy. Both the Chamber of the Economy and the Austrian Trade Union Federation expressed their willingness to examine all proposals put forward by WIFO. However, a closer inspection of the white paper's contents suggests that the trade unions may find it more difficult than employers to accept many of the proposed strategies, in particular those focusing on major tax exemptions and social contribution reductions for employers and those aiming at the further privatisation of companies. With respect to the proposed greater emphasis on 'high-tech' production at the expense of the low-wage segment of the economy, the social partners' approval of the white paper seems to be nonetheless unanimous.

Joint social partner initiatives to tackle unemployment and skills deficits

In early October 2007, Austria's social partners presented a joint programme aimed at improving employment opportunities for unskilled, unemployed and young people. The proposals aim to replace the current, generalised system of apprenticeships with individualised qualification programmes for young and unemployed people, and to introduce a special programme for unemployed older workers.

The social partners are proposing an employment programme which is designed to substantially reform the country's vocational training and qualification system. Based on negotiations between the Austrian Trade Union Federation (*Österreichischer Gewerkschaftsbund*, ÖGB) and the Chamber of Labour (*Arbeiterkammer*, AK) on the employees' side and the Austrian Federal Economic Chamber (*Wirtschaftskammer Österreich*, WKÖ) and the Standing Committee of the Presidents of the Chambers of Agriculture (*Präsidentenkonferenz der Landwirtschaftskammern*, PKLWK) on the employers' side. The employment programme, entitled "Labour market – Future 2010" contains a variety of proposals for meeting the business demand for skilled labour on the one hand and securing a high level of youth employment on the other hand.

The measures proposed by the social partners focus on a number of main provisions.

- The current promotional scheme providing employers with a lump sum of €1,000 for each apprentice employed will be replaced by a more tailor-made and flexible scheme for promoting apprenticeships. This means that state subsidies payable to employers who take on apprentices will directly depend on the amount of the apprenticeship allowance paid and on the apprentice's actual completion of the entire training year. Moreover, additional subsidies will be granted to those employers offering apprenticeships for the first time or for young people with special needs.

- Those young people who have failed to find an apprenticeship, as well as socially underprivileged and disabled persons younger than 18 years of age will be entitled to attend special ‘qualification centres’. These centres aim to provide special vocational training programmes, culminating in a final examination entitling each participant to perform a formally recognised occupation. Furthermore, special job placement schemes originally introduced for older employees shall also apply to young employees older than 17 years of age who may have left the education system early. The same applies in relation to the special ‘crash qualification course’ on skilled labour. These schemes will also conclude with a final examination.
- With respect to older employees, the country’s Public Employment Service (*Arbeitsmarktservice*, AMS) will be commissioned to implement a special qualification programme, the so-called ‘Project 10,000’. Under this programme, at least 10,000 unemployed people will be retrained for metalworking-related occupations by mid 2008. Workers for these occupations are considered to be mostly in demand by businesses. In addition to this programme, the existing subsidised wage scheme (*Kombilohn*) introduced in 2005) will be amended, thereby extending coverage to workers older than 45 years of age who are currently excluded from the scheme. Moreover, under the extended scheme, the threshold of wages eligible to subsidies will be increased from the current amount of €1,000 to €1,700 a month.
- For those sectors suffering from a chronic shortfall of skilled domestic workers, the partial opening of the labour market to workers from the new EU Member States (NMS), which began in May 2007, will continue. Around 50 occupations which currently record a shortfall of skilled labour are opened up to foreign workers by ministerial decree since January, 1st 2008. According to AMS, a current need exists for at least 6,000–7,000 skilled workers throughout the country which could be satisfied by the employment of well-trained NMS citizens.

The social-democratic and conservative coalition government has expressed its satisfaction with the joint social partner programme. The government has also appraised the social partners’ proposals regarding the funding of the planned measures. The social partners’ proposal suggests reintroducing unemployment insurance contributions to be paid in respect of all employees up to the age of 60 years as well as appropriately using part of the surplus means of the Insolvency Payment Insurance Fund (*Insolvenzentgeltsicherungsfonds*). Overall, the “Labour market – Future 2010” employment and qualification programme is expected to cause additional costs of €1.3 billion over the period 2008–2010. Nevertheless, the government has shown its willingness to largely fulfil the social partners’ proposals.

Section three – Case studies

ÖBB Holding

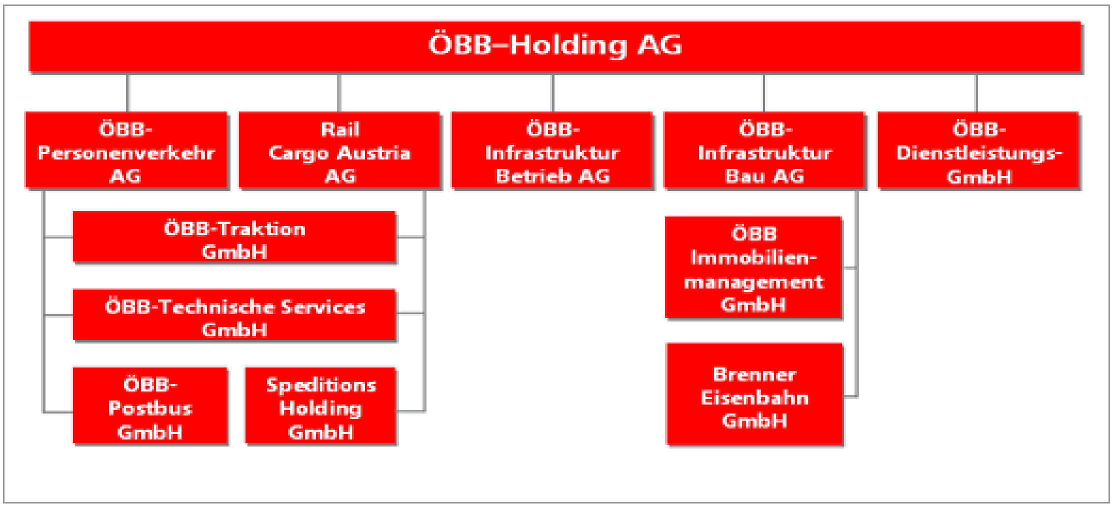
Company profile

The ÖBB (*Österreichische Bundesbahnen*) Holding is the national railway company of Austria employing approximately 43.400 employees in 2006 as one of the most important and largest employers in Austria. Currently, the ÖBB accounts for the annual transportation of 436,000,000 passengers, 1,230 locomotives, 3,136 passenger vehicles and a railway system covering 5,700 km.

With the implementation of the Federal Railway Structure Act (*Bundesbahnstrukturgesetz 2003*) in 2004, the Republic of Austria was legally entitled to foster a reestablishment process of the ÖBB into the ÖBB-Holding AG. The newly founded Holding company of the ÖBB Group is fully owned by the Republic of Austria. The Austrian Federal Ministry of Transport, Innovation and Technology is completely in charge of managing the holding's share rights. Given the impact of the European liberalisation process on the EU transport and railway sector, the Republic of Austria was thus able to comply to this development with the creation of a market-oriented structure of its railway company.

The main tasks of ÖBB-Holding AG, which holds all shares in the subsidiary companies of the ÖBB Group, include exercise of the share rights and uniform strategic alignment of the ÖBB Group. The ÖBB Group has started to operate on 1 January 2005. The previous ÖBB Company was replaced by a Group structure with ÖBB-Holding AG at the very top of the Group and individual stock corporations (AG) and limited liability corporations (GmbH) which are responsible for their own business results. Today, the ÖBB Holding is made up of around 180 single companies in Austria and other countries.

Figure 10: Structure of ÖBB Holding



Source: Nigl 2008.

Background and driving forces of restructuring

Before the ÖBB group was established the Austrian railways sector has already gone through several phases of restructuring and a decade of reorganisation including the biggest ever change management process in Austrian economic history.[8]

[8] This report is based on desk research and available information but in particular the presentation of the ÖBB case at the seminar on restructuring in Austria, held in Vienna on 10/11 March 2008. See Nigl 2008.

With the Federal Railway Act put in force on 14 June 1969, the economic entity "*Österreichische Bundesbahnen*" run by the Austrian Federal Republic as part of its economic activities was established. This ushered in a period of rather short-lived legal structures of ÖBB which was characterized by numerous organizational changes. Adopted both on the political and legislative level in 1989 the "New Railway" program aimed at enabling ÖBB to operate as a modern transport system.

In 1992, however, yet another major restructuring followed suit with the coming into force of the Federal Railways Act 1992, which provided for the economic entity ÖBB to be transformed into a company endowed with legal personality. To reduce the need for state funding by improving the efficiency and competitiveness of ÖBB on the one hand and meeting the EU requirement for non-discriminatory access to rail infrastructure for third parties on the other hand, the 1992 provided for a thorough restructuring of the company including the separation of the infrastructure and transport operations sectors and the appointment of a Board of Management and a Supervisory Board.

Finally, based on the Federal Railway Structure Act 2003, put in force on 1 January 2004, ÖBB was restructured to receive its present legal structure – the ÖBB Group, operational since 1 January 2005.

Character and form of the restructuring process

> “2004 marked the greatest change ever experienced in the history of the ÖBB Company. Besides its ongoing business operations as Austria's greatest transport provider, the company relentlessly worked towards implementing the new corporate structure.” (ÖBB web portal).

Since 2004, the ÖBB group went through a massive process of restructuring and reorganisation which included a significant downsizing of the workforce by around 10,000 employees.

According to a management representative (Nigl 2008) this change process very much was determined by the starting position of ÖBB being a state owned company having a monopoly characterised amongst others by the following features in particular:

- High proportion of employees with life tenure (80% civil servants)
- inflexible labour contracts
- low customer orientation
- weak cost efficiency
- instruments of corporate management (controlling, operating figures etc.) not or only partly existing

Based on this, a change process was initiated which was based on the following methodical steps and cornerstones:

- Definition of strategic targets and expected results
- Analysis of required changes in order to meet the targets
- Definition of structures and process are needed in order to achieve the targets
- Defining a new corporate culture and employee attitudes supporting the targets
- Developing a concept of change including an overall strategy of change and priorities
- Defining concrete change projects
- Change controlling

The restructuring process, which was carried out on this basis also addressed structural deficits in the ÖBB workforce such as a rather old workforce, high numbers of staff away sick, very low proportion of female employees and a rather low proportion of highly qualified staff. Therefore also in the field of human resources development strategic targets were defined apart from the general task to reduce personnel costs.

The measures applied in order to meet the strategic targets with regard to the ÖBB workforce were a whole bundle of instruments and actions carried out between 2005 and 2007, including changes in labour contracts, new holiday regulations, measures to improve the mobility of employees, performance management, new regulations on working time and pay, reorganisation of career paths, human resource planning, new programmes in the field of further training, qualification and initial vocational training as well as measure of occupational health and prevention of health risks.

The most spectacular measure of cause was a significant reduction of the ÖBB workforce by around 10,000 employees between 2004 and 2006 (at the same time around 2,000 new employees were recruited). Workforce reduction was implemented and management in a social responsible way by nearly all instruments available in the regulatory framework of Austrian labour law, in particular such as:

- Around one third of the employees who left the company voluntary (approx. 3,500 persons) received rather generous severance payments in the context of a social plan agreement. The idea of establishing a labour foundation functioning as an outplacement agency was not supported by the employee representation bodies who favoured the social plan option.
- Around 1,000 jobs disappeared due to temporary contracts not renewed
- Only in few cases employees had to leave the company because functional sections were closed (e.g. print offices, carpentries)
- The majority, i.e. between 5,000 and 6,000 employees dropped out of the company on the basis of early retirement agreements and occupational disability

The role of social dialogue and partnership in the restructuring process

For the ÖBB management a crucial factor of a successful change management and reorganization process is the active involvement of employees in the whole process just from the start. Here, the overall principle is: "*Transforming persons affected into persons involved*".

This participative approach also includes a number of different instruments of direct participation, information and communication of employees such as employee newspapers, information sheets, intranet, road shows, discussion sessions, direct management-employee talks, employee days etc.

However, the most important actor in this context according to the ÖBB management is the works council. The works council not only should be involved in change processes and restructuring operations due to legal requirements. Above that, active involvement and the support of the works council is needed to make the whole change process successful and meet the expected targets. Therefore and according to the ÖBB management representatives, early, authentic and open-minded communication with employee representation bodies is regarded as an essential cornerstone of a successful restructuring process. According to the management, important aspects and factors of success in this context are in particular the following:

- Early communication and information and creating transparency in order to reduce the feeling of insecurity and frustration
- Open communication on targets, expected results and the method applied
- Developing a common understanding and a joint view of problems and objectives
- Involving employees and their interest representation bodies as early as possible in the process in order to reduce opposition and receive support

Austrian Airlines Group

Company profile

The Austrian Airlines Group (AUA) is the leading company in the Austrian airline sector with more than 8,500 employees in 2006. The former national air carrier was founded in 1958, resulting from the merger of Air Austria and Austrian Airways.

Beginning in 1997, Austrian Airlines gradually acquired the most important airlines. After a rebranding in 2003 the group today is made up of Austrian (formerly Austrian Airlines), Lauda Air and Austrian arrows (formerly Tyrolean Airways). In 2002, the airline Rheintalflug was integrated into Austrian arrows at 100%.

Table 18: Employment at the Austrian Airlines Group by companies and divisions in 2006

Employees by company[1]	**2006**	**2005**	**+ / - %**
Austrian Airlines[2]	6,849	6,848	-
Tyrolean Airways	1,458	1,355	7.6
Slovak Airlines[3]	147	152	- 3.3
Other Group employees	128	113	- 13.3
Austrian Airlines Group	**8,582**	**8,468**	**1.3**
Employees by division			
Marketing, Sales, Administration	2,012	2,010	0.1
Technical Services	1,361	1,333	2.1
Ground Services	1,088	1,070	1.7
Cargo	226	215	5.1
Flight Attendants	2,354	2,296	2.5
Pilots	1,200	1,197	0.3
Flight Operations Support	341	348	-2.0
Total	**8,582**	**8,468**	**1.3**

[1] Average on full-time basis, including employees in training and similar
[2] Including Lauda Air
[3] Including Technique Bratislava

Source: Austrian Airlines Group Annual Report 2006, p. 56

Austrian Arrows, formerly Tyrolean Airways, specialises in regional business and was fully acquired by the Austrian Airlines in 1999 and employs 1,250 persons, of which 800 are flight staff. 1997 Lauda Air came into the AUA fold and in 2002, Austrian Airlines raised their interest in Lauda to 100%. Lauda Air completes the group programme with its activities in the charter flight segment. The airline was founded by the Austrian Formula-one world champion Niki Lauda in 1979.

There are only three other Austrian Airlines beside AUA today: Niki Luftfahrt which was founded in 2003.[9] Air Alps which was founded in 1998 and employs 157 persons (85 flight staff) and Styrian Spirit, a small airline mainly operating from Graz that was founded in 2003. These companies are not covered by collective agreements and Niki Luftfahrt doesn't even have a works council.

[9] The airline with the trade name Niki was taken over by Niki Lauda after the insolvency of the parent group Aero Lloyd. The low-cost airline entered into an alliance with Air Berlin that holds 24 percent of Niki. Niki employs 150 persons (130 pilots and cabin crew, 20 administrative staff).

The ownership structure of AUA is characterised by a majority position of the Austrian public holding company (*Österreichische Industrieholding AG*, ÖIAG). However, in the context increases of capital stocks (December 2006) in order to consolidate the group and to avoid a takeover by foreign competitors, the ÖIAG share have been reduced subsequently in recent years. The ÖIAG share will be further reduced in 2008 when a 20% share of the group will be sold to a Saudi-Arabian investor.

Background and driving forces of restructuring

The acquisition of Lauda Air and Tyrolean Airways after 1997 resulted in several needs for further restructuring within Austrian Airways in order to develop a sound financial situation and integrate different business cultures and organizations into an integrated company. At the beginning of this decade the company had to face significant problems such as:[10]

- Burden of debt as a result of the Lauda acquisition
- Too many long-haul destinations, some of them high-loss making
- Double structures (e.g. with regard to Tyrolean Aisways)
- No integrated corporate profile and culture

When as a result of the Gulf war the oil price increased drastically the company entered a situation of financial crisis since Austrian Airways was one of the only airline companies in the world which had not hedged against suddenly increasing prices.

Faced with these problems an in order to launch a substantial process of consolidation and modernization the IÖG approved a 350 billion Euro increase in capital stocks in 2006. The fresh capital funds were used to improve quality for customers, focus on high yield markets in Eastern Asia (“Focus East”), re-dimensioning of long-haul destinations and fleet and other measures.

The measures applied in this context also included a reduction of staff by 800 persons in the context of the “Go for Profit” plan in 2006.

Character and form of the restructuring process and the role of social dialogue and partnerships

Since it was quite clear that the restructuring programme in 2006 would also result in staff reduction, management and employee representatives at Austrian Airlines negotiated a social programme which should cushion and shadow the restructuring plan. Around one third of the total increase in capital was reserved for social measures which were defined in a social plan negotiated with the white collar trade union federation GPA (“*Gewerkschaft der Privatangestellten*”) and a social package agreed with the works council.

The whole package included:

- A social plan and redundancy payments for those leaving the company
- Cooperation with the Steyr labour foundation
- Early retirement measures and “natural”
- Part-time models and lease of personnel (crew staff) to other airlines

The social plan included rather generous redundancy payments well above the minimum legal requirements based on a set of common criteria like period of affiliation to the company, age, family background and social situation. The social plan had a rather long duration of twelve months (from 1st January 2007 until 31.12.2007, which means that the

[10] This report is based on desk research and available information but in particular the presentation of the Austrian Airlines case at the seminar on restructuring in Austria, held in Vienna on 10/11 March 2008. See Junghans 2008.

some employees might stay in the company until the end of June 2008). The social plan also included the possibility of internal reorganizations, i.e. transfer of employees from one department to the other accompanied with qualification processes.

Apart from the social plan and redundancy payment package the interest representation bodies and the management of Austrian Airways also agreed to join the so called “open” labour foundation of Steyr (“*Offene Arbeitsstiftung Steyr*”) in order to support individual employees in looking for a new job and professional perspective. It should be noted here that in contrast to many other companies the option of an employee to join the labour foundation was not designed as an ‘either – or’ option but as an additional option: joining the labour foundation did not result in a reduced claim of redundancy payments arising from the social plan.

The labour foundation Steyr is functioning as an “open” institution used by more than a dozen companies (including BMW, Case New Holland and Steyr tractors) and was established already 15 years ago. Persons who join the foundation are receiving so called “foundation-unemployment” benefits from the local AMS or a scholarship grant from Austrian Airlines. The maximum period of training at the foundation is four years.

Former Austrian Airlines employees joining the labour foundation will go through an individualized programme which is made up of the following stages:

- Participation in a seminar on vocational orientation (3-6 weeks) in order to develop new career objectives and define the necessary qualification needs
- Decentralized provision of vocational training in a company
- Recruitment either by the company which provided the training or by another company (in fact, around 80% of all trainees remained in the company)

Against high placement rates the labour foundation model is quite successful and in many cases contributed to a new occupational career from the point of former Austrian Airline employees.

At the same time the social partners also stress another positive and broad socio-economic effect of the labour foundation model: as many persons joining the foundation programme are already older employees they tend to stay longer in their working life after having received further training and qualification as other employees which not have changed their employment position.

From the point of view of the social partners involved in the development and implementation of these different aspects of a comprehensive package of active employment measures in order to cushion the effects of staff reductions at Austrian Airlines, the model was quite successful, in particular with regard to:

- Improving the competitiveness of the company as a whole
- Supporting individual employees made redundant in this process searching for new jobs and professional orientations
- Delivering new qualifications and vocational experience

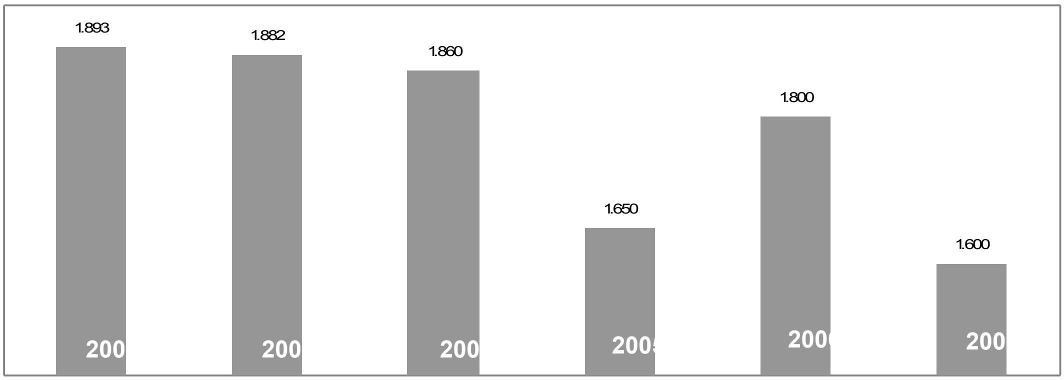
As some kind of “Flexicurity” model on a micro-base it should be noted that the active involvement of both management, owners and employee interest representations as well as trade unions together with key actors of the local/regional labour market policy is regarded as a crucial precondition of success.

T-Mobile Austria

Company profile

T-Mobile Austria is a 100% subsidiary of the German based Deutsche Telekom. The company in the past was known in Austria as "*max.mobil*" which was established in 1996 before it was acquired by German Telekom in 2001 and renamed in T-Mobile Austria in 2002.[11] Today, T-Mobile Austria is the second largest provider of mobile communication services in Austria with approx. 3.2m customers and a market share of approx. 35% in 2006. At the end of 2007, the company employs a workforce of around 1,600 employees.

Figure 11: Number of employees (full-time employees) at T-Mobile Austria 2002 - 2007



The Austrian telecommunication market is characterised by a saturated market, high pressure on prices and intensive competition due to the existence of many providers and operators and by the migration of new communication technologies (such as VoIP). During the last years some significant mergers and acquisitions took place on the Austrian market and it is expected that in medium terms, three major mobile providers will survive. The main competitors of T-Mobile at the moment are: *Mobilkom Austria* which is own by the former state owned Telekom Austria is now owned by Orange (France Telecom) and the financial investor Mid European Partners and currently ranking on the third place on the Austrian Market. Finally there is "*Drei*" which is owned by the HongKong based multinational Hutschinson Whampoa. In 2006, a main competitor in the low-price sector was taken over by T-Mobile was acquired, when "*tele.ring*" (at that time the fourth largest provider in Austria).

Background and driving forces of restructuring

Against the background of an intensive competition and a rapidly changing technological as well as changes in the regulatory environment, T-Mobile Austria as other providers of mobile communication has carried out several major restructuring and consolidating programmes during the last years.

Apart from restructuring pressures arising from the difficulties of the Austrian market for telecommunication also other factors have contributed to restructuring provesses at T-Mobile Austria, e.g. the integration into the German Telekom company and the consolidation of T-Mobile Austria after the acquisition of *tele.ring*. Against this T-Mobile Austria has experiences several waves and nearly all possible forms of restructuring, i.e. business expansion, outsourcing, different internal restructuring processes, downsizing of the workforce etc.

[11] This report is based on desk research and available information but in particular the presentation of the T-Mobile Austria case at the seminar on restructuring in Austria, held in Vienna on 10/11 March 2008. See Hofmeister 2008.

In general the following main phases of restructuring could be identified:

Expansion and internal restructuring projects

A period between 1996 and 2001 which is characterised by a strong growth of the workforce and various internal restructuring projects due to the overall growth of the company from zero employees in 1996 to 1,900 full-time equivalents in 2001.

Starting with the acquisition of T-Mobile Austria by the German Telekom a second phase of restructuring started, characterised by a stronger control and influence on company policy by the German headquarter. This phase was also characterised by various outsourcing projects (e.g. of service employees which were moved to T-Systems, facility management or logistics) pushed forward by the central management in Germany. This phase also was characterised by internal restructuring projects aiming at the integration of T-Mobile into the Telekom group and the introduction of a group-wide matrix organisation (“One Company”) which also included significant changes in management structures and personnel. Though this restructuring phase was not characterised by a worsening in the character of individual employee’s labour contracts or pay, it resulted in a general feeling of uncertainty about the future amongst large proportions of the T-Mobile Austria staff.

Restructuring and downsizing of the workforce

After 2003 and still lasting, the further phase of restructuring took place which is characterised by a downsizing in the number of staff. Between 2003 and 2007 four social plans have been negotiated between management and employee interest representations in order to cushion the social effects of redundancies.

In 2003, the first social plan had to be negotiated when the Telekom management decided to close the Vienna call centre and relocate it to Graz (hereby also benefiting from AMS labour market funds available in the Styria region).

Also in 2004, a restructuring project at T-Mobile Austria was triggered by a group wide programme of cost reduction in the context of a general worsening of market conditions: in the context of the Telekom “Save for Growth” programme, around 1bn Euros had to be reduced in costs by the European companies. In Austria this resulted in a reduction of 120 workplaces, most of them in marketing and administration. This restructuring programme was sidelined by a social plan which was negotiated with the works council.

After 2006 T-Mobile carried out restructuring processes which were caused by the acquisition of *tele.ring*. With the acquisition of *tele.ring* the number of employees at T-Mobile initially increased by approx. 500 but more than hundred of them had been made redundant by the end of 2006 shadowed by a third social plan: in July 50 employees were made redundant and in autumn a second wave of 60 employees followed.

Finally and resulting again from the merger but also a further worsening of the market environment, T-Mobile in November 2007 had to announce the fourth social plan and a job reduction package 250 employees – around 135 lost their jobs and 120 jobs will be lost by non-filling of vacancies within the next years. The staff reductions will in particular affect the headquarters in Vienna, whereas the sales department will partially be extended.

Although these restructuring processes seemed to be necessary and may have contributed to the competition base of the company, the representatives of the T-Mobile works council also stress major negative effects of the continuous restructuring process during the last decade:

- Strong feelings of insecurity resulting in high number of staff away sick and high fluctuation (between 12-15% per year in 2007);
- High pressure of work resulting in mobbing and cases of burn-out syndrome;

- Lack in motivation and decreasing loyalty with the company.

Character and form of the restructuring process and the role of social dialogue and partnerships

Employee representation bodies, i.e. the works council have been always involved in the restructuring processes described above and in particular in the implementation of social plan packages.

Social dialogue, information and consultation as well as negotiation of social plans at T-Mobile Austria is following the defined rules of the Austrian Labour Law ("Arbeitsverfassungsgesetz) in particular the law on collective redundancies, and transfer of undertakings ("AVRAG *Arbeitsvertragsrecht-Anpassungsgesetz*").

As representatives of the works councils are reporting also in the case of the outsourcing projects mentioned above the works council have been involved and consulted by the management.

The social plans negotiated in the context of staff reductions always included certain components and options for the affected employees:

- In general the employee had the option to take a financial compensation (redundancy payment according to the Austrian law) or paid leave for a certain period of time;
- employees which were facing social hardships above that had the opportunity to join the Vienna labour fund (*Wiener ArbeitnehmerInnen Förderungsfonds,* WAFF) and receive further support and training up to a period of three years. With placement rates of more than 80% this instrument of improving individual employability is reported to be very successful.

Though the general framework of dealing with the social effects of restructuring from the point of view of the works council seems to be quite sufficient there are also points of critique, in particular with regard to the anticipation of restructuring and the transnational dimension.

As works council representatives report there is in general little prior information on planned restructuring measures and no information and consultation at all in those cases not resulting in a "worsening of labour conditions" (this according to the Austrian labour law requires co-determination processes and consultation of employees).

Secondly, and since most decisions regarding restructuring projects today are not taken at the Austrian level but in Germany at the headquarter of the Telekom group, employee representatives in Austria also regard the weak legal framework of information and consultation at the European level as a major problem. In this context the European Works Council both as an instrument of employee involvement as well as a forum of interest representation and social dialogue seems to be clearly too weak and a stronger instrument would be necessary.

SHT Group

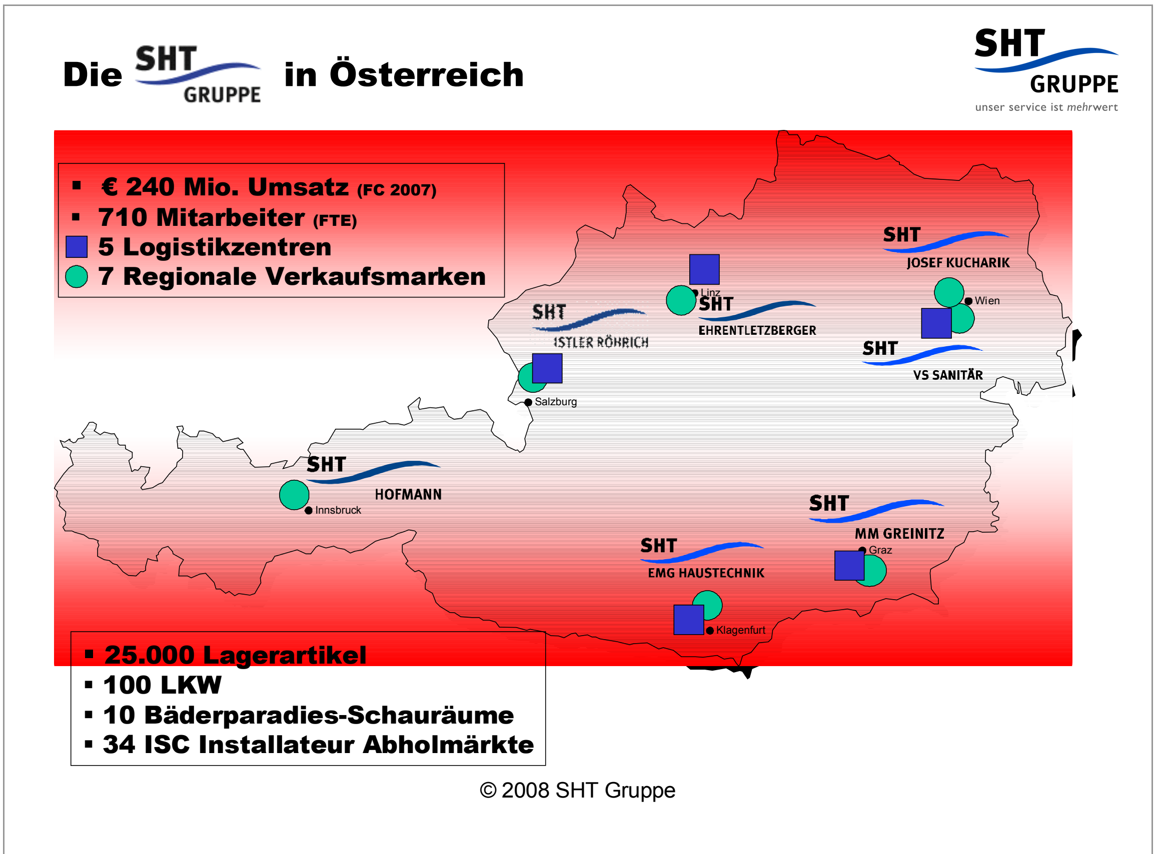
Company profile

SHT Haustechnik AG is one of the leading sanitary, heating and plumbing supplies wholesalers in Austria and is the market leader in Eastern Austria where the headquarter of the company is located. At the beginning of 2008 the number of employees was around 700 with a turnover of around 200m. The sanitary, heating and plumbing products each contribute about one-third of the group's revenue.[12]

SHT distributes leading brands of sanitary, heating and pluming equipment and supplies in Austria, as well as own brands. Serving more than 3,500 plumbers and private customers throughout Austria, SHT has a decentralised network of distributors, logistic centres and sales branches. Beside the company headquarter and sales centre in Vienna, there are sites of the company in Lower Austria, Upper Austria, Salzburg, Styria, Carinthia and Tyrol. At the local level there are more than thirty service and distribution centres for plumbers ("Plumber's Service Centres").

As a subsidiary of SHT Group the "*1a-Installateur Marketingberatungsgesellschaft m.b.H*" offers marketing services that promote around 200 plumbers under a common umbrella brand name throughout Austria. The services offered include advertising campaigns, trade show appearance and training events.

Figure 12: The SHT Group in Austria



Source: Knezek 2008.

[12] This report is based on desk research and available information but in particular the presentation of the case of the SHT-Group at the seminar on restructuring in Austria, held in Vienna on 10/11 March 2008. See Knezek 2008.

The SHT group is part of the Austrian Frauenthal Group which has bought SHT in 2005. Frauenthal is a group of industrial companies specialised on the manufacturing of industrial ceramics and the manufacturing of springs for heavy utility vehicles. In 2007 the Frauenthal Group had around 170 employees in the ceramics section ("*Porzellanfabrik Frauenthal*") and nearly 2,000 employees in two companies of the automotive component division.

Background and driving forces of restructuring

SHT has a rather changeful history which in particular during the last decade is characterised by significant processes of restructuring:

Established in the 1960s as a typical family owned medium sized company in Vienna as "Hild Haustechnik AG" the business was characterised by strong growth due to acquisitions in the 1990s with turnover figures more than doubling during the decade. However, there were also structural problems, in particular with regard to a decreasing equity-to-assets ratio and at the end of the century the company was in need for dept capital in order to finance growth and later on also operational costs.

Eventually, in 2001 the company was sold to a Dutch investor which had developed the vision of a European-wide group/network of sanitary wholesale companies that might use it's market power as a sourcing advantage against suppliers. The company was renamed in "Pinguin Haustechnik AG".

Only two years later the company went into a serious crisis when the business plan of the Dutch investor failed. When the owner suddenly disappeared and a German subsidiary of the Dutch mother went into insolvency, the Austrian company also was facing a severe financial crisis and likely insolvency in 2004.

However, thanks to the strong engagement of the Austrian management and the active support of the works council the company survived the crisis in 2004 and was sold to an Austrian investor group first and after that in 2005 to the Frauenthal Group.

Since then, the company was consolidated and has returned to the growth path: in 2007 the SHT group took over to other Austrian companies in Tyrol and Salzburg becoming market leader in Austria. Until 2012 the company has the aim to enter markets in Central and Eastern Europe and double its workforce and increase turnover significantly.

Character and form of the restructuring process and the role of social dialogue and partnerships

When the company faced insolvency in 2003, there was also the risk that 660 employees would become redundant. In this situation the management decided to take the initiative and start a turn-around process. This decision was taken since there had been good reasons against the closure and insolvency of the company, in particular:

- A sufficient operative situation of sales and market shares
- A highly motivated workforce
- Investors interested in the company and banks which were in favour of continuing the business

In this situation the management together with the Austrian investor started a restructuring and turn-around process in order to strengthen the competition basis of the company, improve customer orientation and overall efficiency and profitability. During this critical phase the basis of an organic and healthy growth was built which then started when the new owner came in at the beginning of 2006.

The restructuring process aiming at consolidating the company was characterised by a comprehensive set of measures and sub-projects, such as:

- Reduction of personnel costs (-10%) in close cooperation with the works council

- Reduction of other operational costs and improving efficiency by change management projects
- Initiating a process of strategic business orientation
- Introduction of a new software system
- Reorganisation of management structures and functions
- More efficient and cheaper sourcing practice
- Improving the image and corporate profile of the company (“One Company”)

Both from the point of view of the SHT group’s management and the employee interest representation body the prevention of insolvency and closure and the successful turn-around of the company would not have been possible without the active involvement of the employees which are regarded as a key actor in the whole process.

In fact, from the point of view of the management the support of the works council for the whole process was essential. Therefore the central works council (there are eight local works councils, a central works council and two employee representatives in the company board).

The works council had been informed about the crisis situation at an early stage of the whole process by the local management and was deeply involved in the turn-around process. Described by the works council chairman as a “dance on the volcano” the process also included far-reaching decisions and agreements with the management in order to prevent a closure. For example, the works council agreed that the reduction of employees would be carried out without negotiating a social plan in order to avoid signals of alert to the public. The staff reduction was carried out in close cooperation between works council and management over a longer process of around three quarters of a year.

Against the success of the restructuring process the SHT case clearly demonstrates the positive effects of intensive social dialogue, the importance of open minded cooperation and mutual trust between employees and management in difficult situations. From the position of both management and employee representatives there are three main lessons to be learnt from this case:

- Openness and clear communication within the company is motivating
- A functioning social dialogue at the company level is essential for managing restructuring processes successfully
- Restructuring means more than downsizing of personnel

This positive experience of social dialogue and cooperation at the SHT group has also had an impact on the industrial relations development and corporate culture of the new mother company, i.e. the Frauenthal group: After the acquisition of the SHT group a group-wide works council was established and in 2008 discussions have started to install also a European Works Council.

Plastics Cluster Upper Austria

Profile and context

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 companies in the sector which overwhelmingly are small and medium sized companies.

The plastics cluster is part of Clusterland Upper Austria (*Clusterland Oberösterreich GmbH*) which is an umbrella organisation organising five different clusters and three networks in Upper Austria with more than 1,300 individual firms and 217,000 employees.

Since 1998, clusters were gradually developed in important economic branches in Upper Austria:

- About 255 partners are members of the *Automotive Cluster*, the biggest network in the automotive supplier industry in Austria. Since 1998, the Automotive-Cluster is working with manufacturing and service companies as well as research & development facilities in the area of street-bound vehicles (passenger cars, trucks, special vehicles, motorcycles).
- In 1999, Upper Austria established a *Plastics-Cluster*, which concentrates on combining 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 are cooperating in the *Furniture & Timber Construction Cluster* and form a network of carpenters, furniture-, wood- and component producers, their suppliers and education and research facilities.
- About 160 partners are cooperating in the *Health Technology Cluster* – a network for medical technology and for companies in the industry of medical technology, their suppliers, relevant education- and technology facilities, and health facilities.
- About 220 partners are cooperating in the *Mechachtronics Cluster* - the biggest network in the mechatronic industry in Austria. Since 2003, the Mechatronics-Cluster is working with companies 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-branch information, communication and competence development. In cooperation also with competent 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, which were directed by Upper Austria's location and innovation agency (TMG) till the end of 2005, are now part of the Clusterland Oberösterreich GmbH which was formed in January 2006. Legitimate 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.

Table 19: Profile and structure of "Clusterland Upper Austria"

		Start	Partner	Sales (bn) €	Employees (in thds.)
Automotive	AC	07/1998	255	16,5	85,9
Plastics	KC	04/1999	410	13,7	55,0
Furniture & Timber Construction	MHC	01/2000	231	2,3	19,3
Health Technology	GC	03/2002	169	3,1	22,5
Mechatronics	MC	01/2003	234	4,6	27,1
Networks Design & Media, Human Resources and Environmental Technology		2004 and 2006	57	1,6	7,8
Total (cum.)			**1.356***	**41,8***	**217,6***

Source: www.*clusterland.at; *as per 2007-12-31*

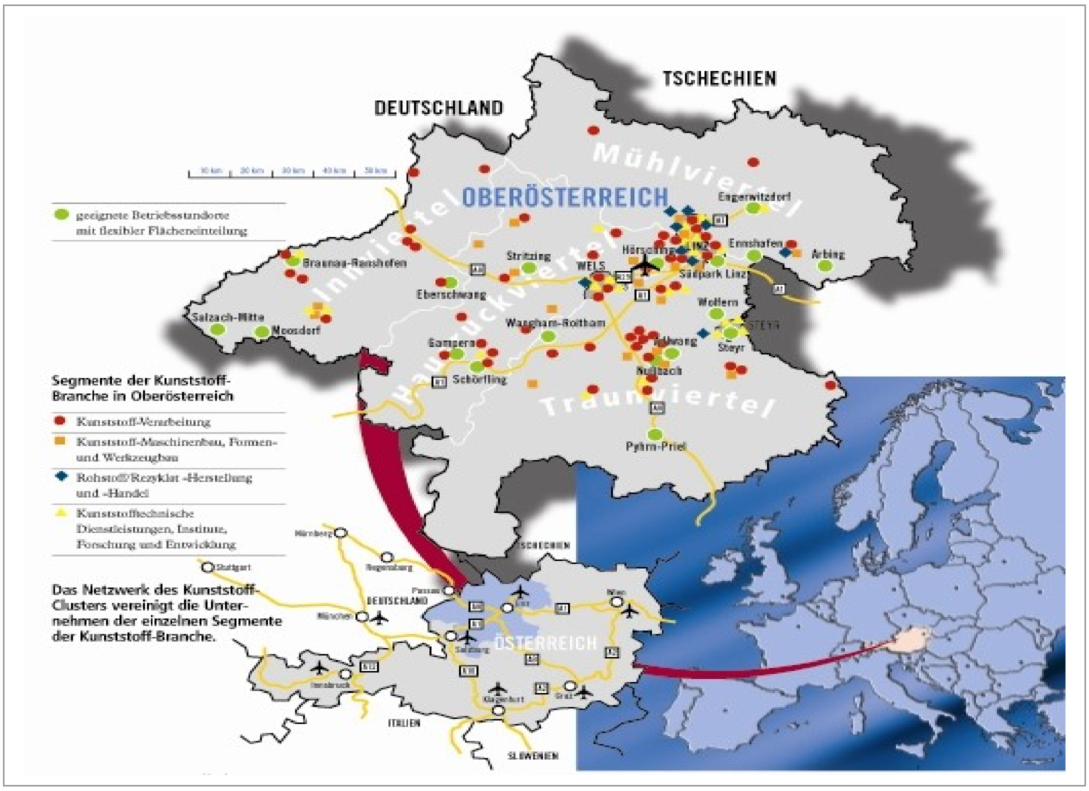
Background and driving forces of restructuring

The situation of the plastics industry in Upper Austria at the end of the 1980s/beginning of the 1990s was characterised by the following structural problems:

- Strong medium-sized structure of enterprises but only few bigger companies
- Privatisation of former public companies (e.g. "Chemie Linz") had negative effects on the enterprises as suppliers and customers
- No regional research and training institutions – existing institutions are focussed on big chemical companies

At the same time, Upper Austria is characterised by strong industrial traditions in the chemical and plastics production sector with both innovative manufacturing firms and companies in the chemical industry.

Figure 13: The plastics industry in Upper Austria



Source: Pamminger 2008

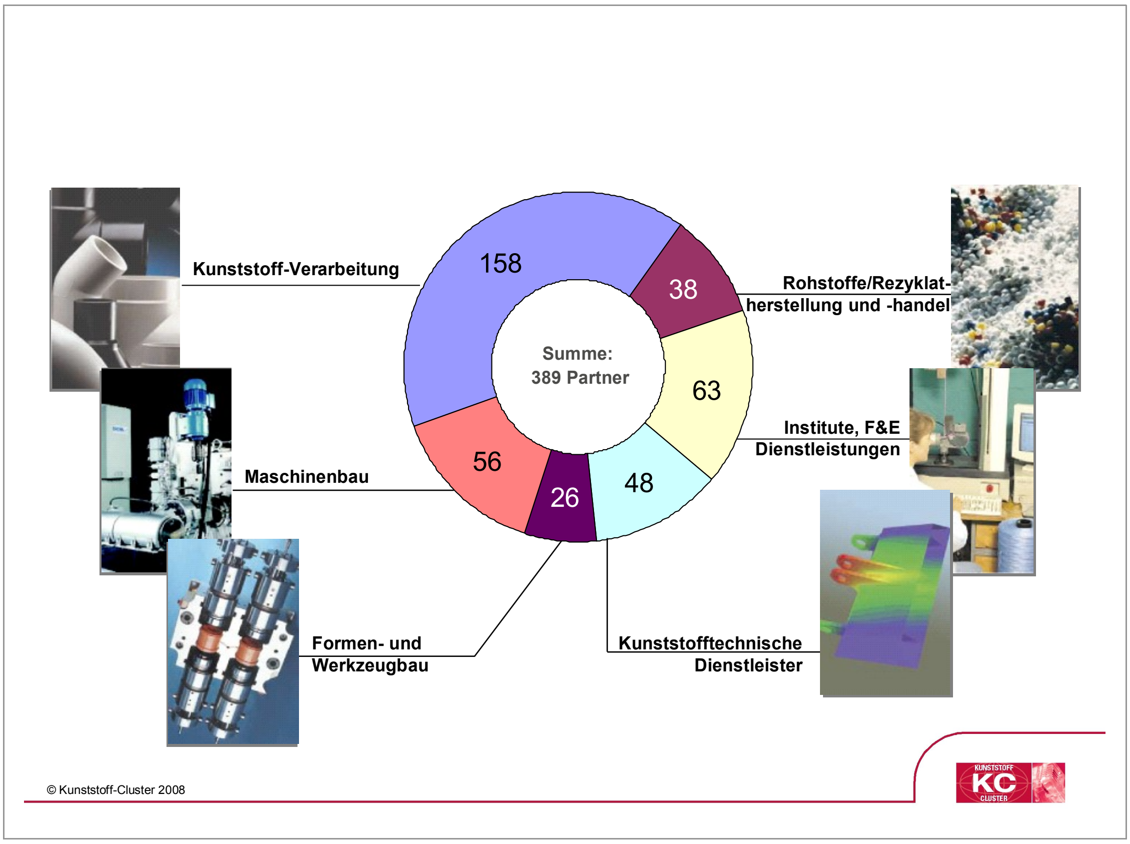
Against this, the Upper Austrian government together with business partners established the plastics cluster initiative in 1999 as a part of the wider Upper Austrian Cluster Initiative. The basic idea of the cluster initiative has been to strengthen the competitiveness and innovation potentials of enterprises in this industry by cooperation and various services which are provided by the Clusterland iniative. The overarching philosophy is that strengthening the competition base of the companies 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
- Support for entering international markets and stronger export orientation

Today, there are around 400 companies cooperating under the umbrella of the plastics cluster initiative with nearly 60,000 employees. The cluster is including 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.

Figure 14: Integration of all segments of the value chain



Source: Pamminger 2008.

Results and outcome of the initiative

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

- More than 330 companies 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 companies involved in the cooperation projects have 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

This success illustrates also the added value of cooperation and networking in particular for small and medium sized companies in managing change, improving the competition basis and developing innovation potentials.

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