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

Joint Study on Restructuring in the “EU15”  
Phase one

Sweden  
Country Report

14<sup>th</sup> May 2008

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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

This report on the role of the Swedish social partners in restructuring was prepared following the discussion of an initial draft by the national social partners at a seminar held in Stockholm on 14<sup>th</sup> May 2008.

The Swedish national seminar was the tenth in a series of similar meetings to be held in ten European Union member states between April 2007 and June 2008, in the framework of the 2nd Integrated Project of the European Social Partners<sup>1</sup>. The report was prepared by the selected external expert for Sweden, Göran Hultin and his associate Ms Kati Heikinheimo of CADEN Corporation SA, working with the expert coordinator for the project, Mr Alan Wild.

The document is presented as an “expert report”. It represents the views of the consultants involved in its preparation and does not purport to represent the views, either individually or collectively, of the Swedish social partners or the Swedish case study company representatives that contributed to it, or those of the European level social partner organisations that were responsible for its commissioning.

The prime purpose of the report is to contribute to the development of a synthesis paper that compares and contrasts the roles of the social partners in restructuring 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. It also informs readers on the role played by the Swedish social partners in the process of economic restructuring at the national, sectoral and enterprise levels. By the end of phase two of the integrated project of the European Social Partners, similar national reports will have been prepared and been discussed by the social partners in all 27 EU member states. It is planned to develop an overall discussion document based on the role of the social partners in restructuring in every country in the European Union for consideration by social partner representatives from throughout the EU.

Frequently, studies of the role of the social partners in restructuring have focussed on well publicised cases where significant numbers of jobs have been lost in “household-name” companies. In this series of reports it is hoped to capture social partner influence on a broader range of restructuring activities that involve not only major job losses in private sector companies, but also what we have chosen to call “silent restructuring”. Silent restructuring includes change processes that have affected significantly the nature of work undertaken within a company or public sector organisation without major job loss. It also describes the changes taking place in small and micro enterprises that typically fall below the radar of official redundancy statistics. In this way the overall study will seek to capture how the social partners have influenced both the quantitative and qualitative effects of anticipating and managing economic restructuring.

The main body of the report is presented in three sections;

- ◇ Section one - A macroeconomic review of restructuring;
- ◇ Section two – The role of the social partners in restructuring;

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<sup>1</sup> The 2<sup>nd</sup> Integrated Project on restructuring of the EU Social Partners is divided in two phases. The first one will concern ten EU member states, notably Republic of Ireland; the Netherlands; Greece; Italy; France; the UK; Spain; Sweden; Austria and Denmark. The second phase will start in 2008 and cover Germany, Belgium, Finland, Portugal, Luxembourg, Romania and Bulgaria. Finally, the EU social partners’ organisations run a similar project which involved the 10 countries that joined EU in 2004.

## ◇ Section three – Case studies.

Each of the sections was briefly presented and discussed at the national seminar. The Swedish social partners were asked to comment on the accuracy of the report; to suggest areas that might be “over” or “under” stated or omitted; and to assist in the drawing of overall conclusions on the effectiveness of the Swedish social partners at all levels in the anticipation and management of restructuring. This final national report takes into account the content of the meeting, but remains nonetheless an “independent expert report”.

Finally, it should be noted that the ultimate audience for this document is “non Swedish” 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 Swedish reader. The inclusion of this material is essential however if the broader objectives of the project described above are to be accomplished.

## Section one – A macroeconomic review and trends of restructuring in Sweden

### Introduction

This section of the report provides a general overview of the Swedish economy and labour market.

Sweden today is widely regarded as one of the world’s most successful and competitive economies. Although Sweden’s recent growth record has been impressive, the improvement in performance follows a period of less competitiveness internationally from the late 1960’s to the late 1990’s.

According to the World Economic Forum Sweden ranks the third most competitive country in the world. In European terms, Sweden’s GDP per capita (at purchasing power parity) is €22,583, behind only Luxembourg, Austria, Ireland and Denmark and significantly higher than both the “EU15” and “EU27” averages. Taking a broader view of current and future competitiveness, Sweden ranks third in the World Economic Forum analysis of performance against the Lisbon indicators.

The Swedish economy is strongly oriented toward international trade and the country is amongst the most open economies in Europe. Sweden’s exports as a percentage of GDP have increased more than 10 percentage points over the last 10 years. At 51% of GDP, Sweden’s export dependency is the third highest in the European Union after Belgium and Luxemburg. The main source of economic activity is the service sector with 70.9% of GDP (2006 est.) and 74% of employment (2000 est.).

Sweden has the largest population of the Nordic countries (Denmark, Finland, Sweden and Norway) with more than 9 million inhabitants and net population growth is based for the most part on a relatively high rate of inward migration. As in other developed countries, over the long-term Sweden will face an increasing dependency ratio (an increasing number of inactive persons for each worker) although this development will

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not be as problematic for the country as it will in many other countries due to high levels of labour market participation and the Swedish “mini baby boom” of the early 1990s.

The Swedish labour market is characterised by a high level of participation by both women and men as well as by low unemployment. Sweden’s labour force in 2007 comprised around 4.5 million people, an increase of 2.6% over the previous year and an “all-time high” in the number of people employed. By a variety of measures, equality between women and men in the workforce and in society in general reflects “best in class” performance in European and global terms.

Sweden invests heavily in education. The country’s spending on education as a proportion of GDP is among the world’s highest. Total public expenditure on education in 2003, including subsidies to households, amounted to 7.5% of GDP, in comparison to an OECD average of 5.5%. Only Denmark, Iceland, and Norway have higher levels of expenditure. When it comes to public spending on tertiary education alone, Sweden is among the top three countries in the world. In 2003, this number stood at 2.2% of GDP, marginally below Norway (2.3%) and Denmark (2.5%). Sweden’s lifelong learning performance for people between the ages of 25 and 64 is the best in Europe.

Swedish private sector productivity is amongst the highest in the world. The major McKinsey report on the country discussed in the body of the paper however points to slow public sector productivity growth which they suggest is due to more limited exposure to competitive pressures.

A second issue facing the Swedish labour market, according to the McKinsey study, is the rate of job creation. It suggests that the country should place priority focus in coming years on job creation. Had Sweden increased its employment rate between 1992 and 2003 as much as the UK, France or Norway, between 30% to 50% more jobs would have been created than in fact were over the period.

In recent years, like industry in most of the developed world, Sweden’s economy has been characterised by rapid restructuring as a response to increased international competition, market deregulation and technological developments. Since the early 1990’s Swedish business has responded to membership of the EU, deregulation of financial, telecommunications, postal and other markets, increased global competition from new competitors in China, and India and technological advances. More recently, Swedish companies have also responded to the opportunities provided by the European expansion that took place in 2004 and 2007.

Looking at specific sectors, the Swedish public sector has expanded rapidly (by more than 137,000 workers) between 2001 and 2006<sup>2</sup> as a result of policy decisions to invest more in healthcare, education and childcare. Today Sweden’s public services account for a higher share of the working population than in most comparable developed economies. The Swedish manufacturing sector’s share of employment fell from 30% in the mid 1950’s to 18% in 2005. A reduction in employment in manufacturing from 1.1 million in 1960 to 691,000 in 2005 has been accompanied by significant improvements in productivity and employment.

Looking forward, the Alliance for Sweden’s win in the general election in September 2006 ended 12 years of Social Democratic Party (SAP) rule. Its comprehensive policy

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<sup>2</sup> Recent restructuring trends in the EU – European Foundation for the Improvement of Living and working conditions

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programme includes a range of measures designed to make work a more attractive option than welfare dependency.

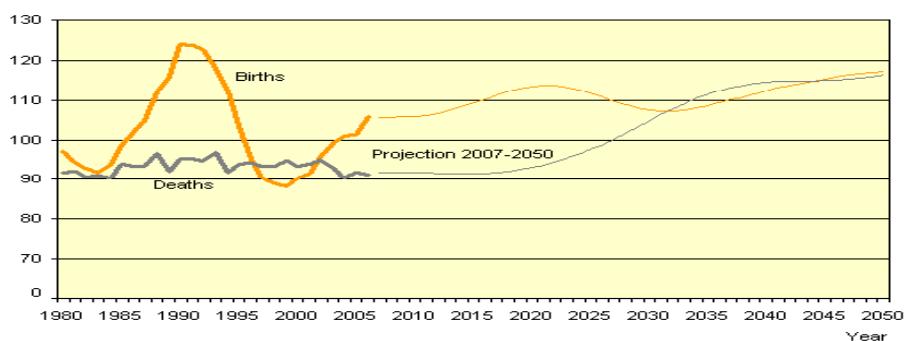
## Macro-economic indicators

### Population

Sweden has the largest population of the Nordic countries with 9'031'088 inhabitants (July 2007 est.<sup>3</sup>) This makes Sweden the 90<sup>th</sup> largest country in the world, and the 16<sup>th</sup> within the European Union. Sweden's population growth rate is positive, an estimated 0.159% for this year. As illustrated below, the yearly number of births and the number of immigrants are predicted to grow in the future.

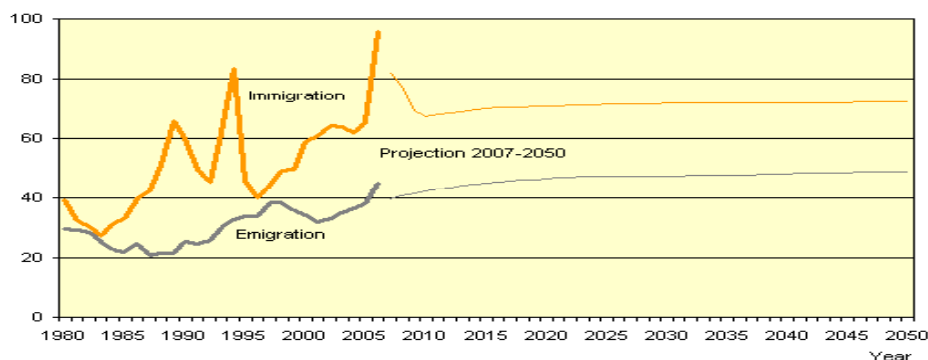
Swedish population growth is based for the most part on a relatively high rate of immigration. In 2006 a record 96,000 people immigrated to Sweden as a result of a temporary asylum law effective from November 2005 to March 2006. A high rate of immigration is however expected to continue in coming years (see below). It is estimated that around 82,000 people immigrated to Sweden during 2007 and the net migration rate was 1.66 migrants/1'000 population (2007 est.)<sup>4</sup>.

### Births and deaths 1980-2006 and projection 2007-2050 (Numbers in thousands)



Source: Statistics Sweden

### Immigration and emigration 1980-2006 and projection 2007-2050 (numbers in thousands).



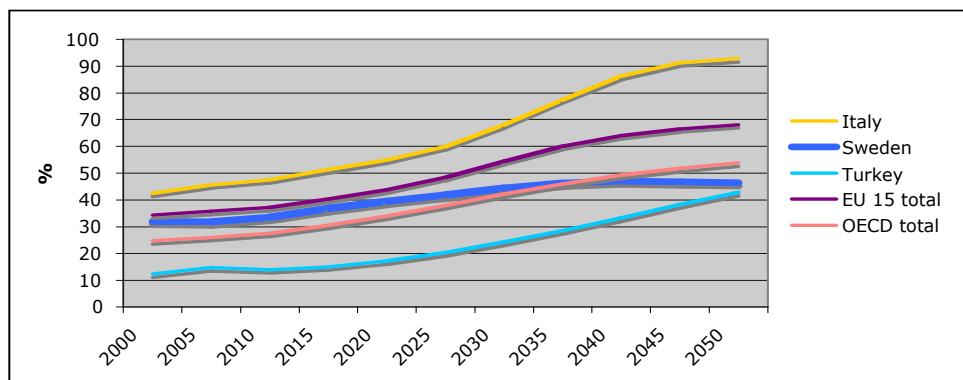
<sup>3</sup> OECD

<sup>4</sup> Statistics Sweden

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As in other developed countries, over the long-term Sweden will face an increasing dependency ratio (an increasing number of inactive persons for each worker). This development will not be as problematic in Sweden as it will be in many other countries (see below). This is partly due to the Swedish “mini baby boom” of the early 1990s as young adults move into the labour market.

**Ratio of inactive population aged 65 and over to the total labour force (selected countries).**



Source: Eurostat database

According to Statistics Sweden, population growth is predicted in two cohorts, young adults and young retirees. The number of young people aged 20 to 24 is expected to increase by around 20,000 per year over the next six years and over the same period the number of 65 to 69 year olds will rise by an average of 25,000 per year. In total, the population available for work will increase by around 60,000 people over the next six years.

In 2004, 12.5% of the Swedish population was foreign-born. Recently refugees have become an important group of entrants into the country. The largest immigrant group into Sweden remain Finns, but migration triggered by political crises include refugee groups of people from the former Yugoslavia, Persians, Kurds, Palestinians, Jews, Vietnamese, Chileans, Baluchis and Hungarians. Since 2004, immigration into the country from Europe’s new member states has been important. When the European Union expanded, only Sweden, the United Kingdom and Ireland, allowed new members unrestricted access to their labour markets. Despite this, Sweden received less entrants from Central and eastern Europe than did Germany with its more restrictive policies. The issue of migration and integration will be addressed in section two of this report.

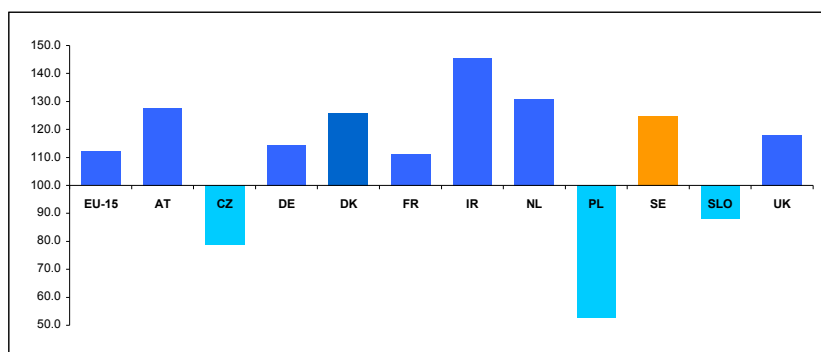
## Key national economic data

Sweden became an advanced industrial economy only relatively recently compared with other mature European economies. The country’s entire recent history has been based on trading and constant restructuring.

The Swedish economy can be described as combining “high-tech capitalism” with extensive welfare benefits. GDP per capita (PPP) is €22,583 (2006 est.), behind only Luxembourg, Austria, Finland, Ireland and Denmark and significantly higher than either the “EU15” or “EU27” averages.

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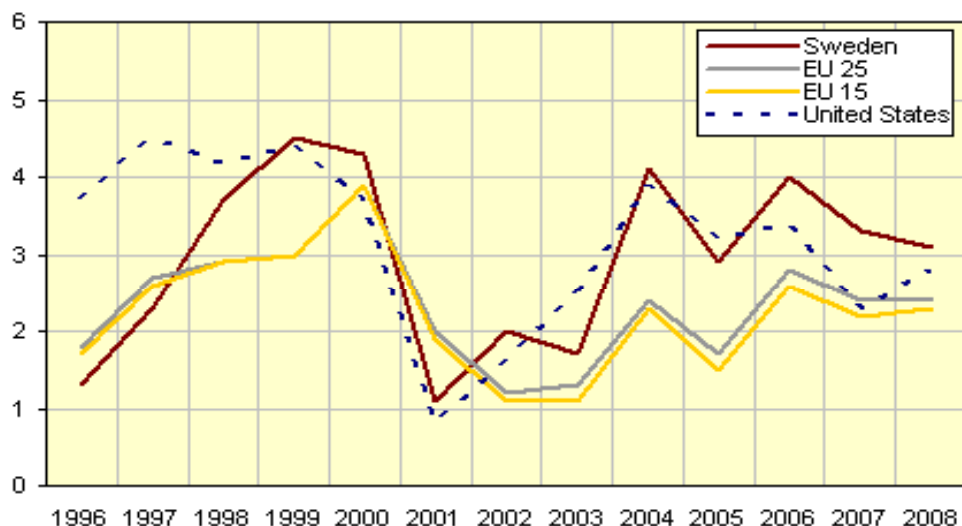
## GDP per capita in PPS 2006 (EU-27=100)



Source: Eurostat database

After a period of relative decline, Sweden's GDP growth from 1990 to 2004 was around the OECD average. Since 2004 GDP growth has improved significantly (see below). GDP growth estimates for 2007 and 2008 are 3.3% and 3.1% respectively.

## Gross Domestic Product – selected international comparisons



Source: Eurostat

Data up to and including 2008

The Swedish government's commitment to fiscal discipline resulted in a substantial budgetary surplus in 2001, although this was cut by more than half in 2002 due to the global economic slowdown, declining tax revenues, and increased government spending. Public debt is 46.4% of GDP (2006 est.<sup>5</sup>).

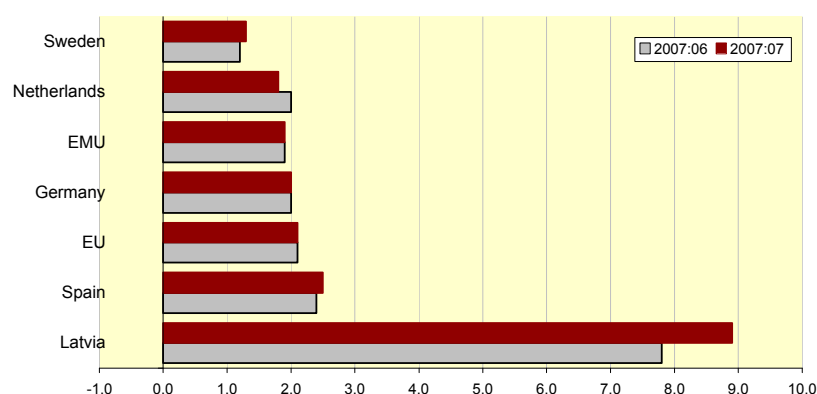
The Swedish central bank (the Riksbank) has succeeded in its policy of placing a strong emphasis on securing price stability with an inflation target of 2%. The inflation rate was 1.9% in July 2007 compared with 1.7% in July 2006. The Net Price Index had increased by 2.4% compared to July 2006. Like its neighbour Denmark and the UK, Sweden is not a member of the European monetary union.

<sup>5</sup> OECD



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## Inflation in selected countries



Household disposable income in Sweden has increased every year since 1995. Within this overall context of increasing wealth, income differentials between the strata of Swedish society have grown as the benefits of growth have favoured those in employment rather than those outside the labour market. The stated policies of the ruling Alliance for Sweden party is likely to increase these differentials.

### The Swedish economy

The Swedish economy is strongly oriented toward international trade. Sweden's exports as a percentage of GDP have increased more than 10 percentage points over the last 10 years. At 51% of GDP, Sweden's export dependency is the third highest in the European Union after Belgium and Luxemburg. Timber, hydropower, and iron ore constitute the natural resource base of the economy. Privately owned firms account for about 90% of industrial output, of which the engineering sector accounts for 50% of output and exports. Agriculture accounts for only 1% of GDP and 2% of employment. The main source of economic activity is the service sector with 74% of employment (2000 est.).<sup>6</sup> The profile of sectoral contribution to GDP is reflected in the table below. It should be noted that the Economist data classes electricity, gas and water as "manufacturing" rather than "services".

Make up of GDP 2006	% of total
Services	59.8
Manufacturing, mining, electricity, gas & water	32.8
Construction	5.2
Agriculture, forestry & fishing	2.3

Source The Economist Sweden report 23 April 2008

In line with the structure of the economy, Sweden relies heavily on the export of machinery (35% of total), motor vehicles, paper products, pulp and wood, iron and steel products, and chemicals. The country's main export partners are diverse. Its major partners are Germany, the United States, and Norway which each import around 9% of Sweden's exports.

<sup>6</sup> CIA factbook – Sweden country profile – extract November 2007

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## Profile of the Swedish economy <sup>7</sup>

<b>Agriculture - products</b>	Barley, wheat, sugar beet; meat, milk
<b>Industries</b>	Iron and steel, precision equipment (bearings, radio and telephone parts, armaments), wood pulp and paper products, processed foods, motor vehicles
<b>Industrial production growth rate:</b>	4.3% (2006 est.)
<b>Exports:</b>	\$173.9 billion f.o.b. (2006 est.)
<b>Exports - commodities</b>	Machinery 35%, motor vehicles, paper products, pulp and wood, iron and steel products, chemicals
<b>Exports - partners</b>	Germany 9.7%, US 9.2%, Norway 9.1%, UK 7.1%, Denmark 6.8%, Finland 5.9%, France 4.9%, Netherlands 4.7%, Belgium 4.5% (2006)
<b>Imports:</b>	\$151.8 billion f.o.b. (2006 est.)
<b>Imports - commodities:</b>	Machinery, petroleum and petroleum products, chemicals, motor vehicles, iron and steel; foodstuffs, clothing
<b>Imports - partners:</b>	Germany 17.2%, Denmark 9%, Norway 8.1%, UK 5.9%, Netherlands 5.7%, Finland 5.6%, France 4.5%, Belgium 4% (2006)

Although the Swedish economy is dominated by major multinational corporations, more than 99% of Swedish business are defined as “small and medium sized enterprises” i.e. enterprises employing less than 250 people. The vast majority of SMEs (94%) employ less than 9 people and 5% employ between 9 and 49 workers. Two thirds of small enterprises have no employees at all. 45% of Sweden’s manufacturing companies employ less than 250 workers and generate 35% of the country’s output. SMEs in manufacturing that employ less than 50 workers represent 23% of companies and generate 17% of manufacturing output.

In common with a number of EU countries, whilst it is relatively easy in Sweden to create a new enterprise, very few small enterprises grow into larger, “job creating” companies. This is often described as being related to the country’s strict labour code (see later). It is an important issue for the economy and a variety of agencies have been set up to foster enterprise development and innovation. These include the Swedish Business Development Agency NUTEK; the Swedish Agency for Innovation Systems – Vinnova; and the Swedish Institute for Growth Policy Studies – ITPDS.

### Competitiveness

According to the World Economic Forum Competitiveness ranking, Sweden is one of the most competitive countries in the world (third ranked behind Switzerland and Finland). Sweden’s 2006 placing is four ranks higher than in 2005. In the International Institute for Management Development’s 2007 World Competitiveness Scorecard, Sweden ranks 9<sup>th</sup> (14<sup>th</sup> in 2006).

The Nordic countries have always scored very highly in competitiveness indexes. Prudent fiscal policies have enabled governments to invest heavily in education, infrastructure and the maintenance of a broad array of social services. Sweden, Finland

<sup>7</sup> CIA factbook – Sweden country profile – extract November 2007

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and Denmark hold “top ten” rankings for health and primary education and occupy the top three positions in higher education and training.<sup>8</sup>

A broader view of competitiveness can be measured using the so-called “Lisbon indicator rankings” prepared by the World Economic Forum. They are based on the European Union’s “Lisbon Strategy”, adopted in 2000 which aims to make the EU “the most competitive and dynamic knowledge-based economy in the world, capable of sustainable economic growth with more and better jobs and greater social cohesion” by year 2010. Sweden occupies third place in the overall Lisbon rankings with a particularly strong performance in “information society” and “innovation”.

## Lisbon Review 2006 ranking (top 15) and Sweden’s sub-index rankings

Country	Final Index		Sub-indexes	Rank/Sweden
	Rank	Score		
Denmark	1	5.76	Information Society	1
Finland	2	5.74	Innovation and R&D	2
<b>Sweden</b>	<b>3</b>	<b>5.74</b>	Liberalisation	6
Netherlands	4	5.59	Network Industries	5
Germany	5	5.53	Financial Services	3
United Kingdom	6	5.5	Enterprise	7
Austria	7	5.3	Social Inclusion	3
Luxembourg	8	5.29	Sustainable Development	4
France	9	5.21		
Belgium	10	5.15		
Ireland	11	5.09		
Estonia	12	4.93		
Portugal	13	4.64		
Czech Republic	14	4.53		
Spain	15	4.49		

Source: World Economic Forum (2007 competitiveness index scores)

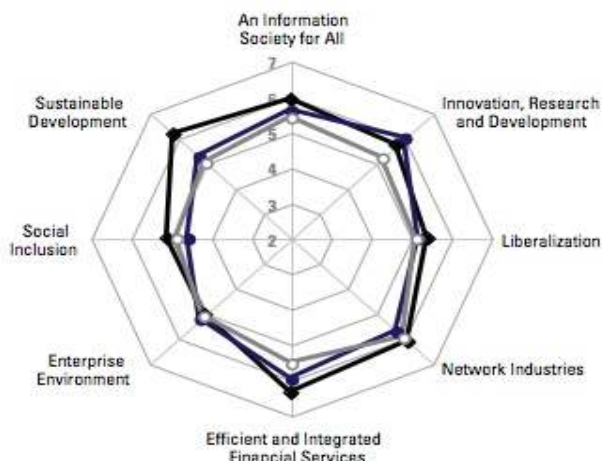
The sub-index rankings can also be presented in the form of “Lisbon Diamond” charts. The competitive performance of both Sweden and the EU25 compared with the United States and the “East Asian cluster” is illustrated below. In each illustration, the comparator’s performance is represented by the black line; the US is in dark blue; and the East Asian cluster is in grey. Dimensions in which the comparator’s line extends further than that of the US or East Asia indicates areas where the country outperforms them.

It can be seen that Sweden ranks very highly on the sustainable development index and the index for developed financial services. The only factor where Sweden is marginally outperformed by the United States is in research and development. In stark contrast, the EU comparator illustration shows the EU faring significantly worse than Sweden against American and Asian competitor economies.

<sup>8</sup> World Economic Forum (2007 national competitiveness index)

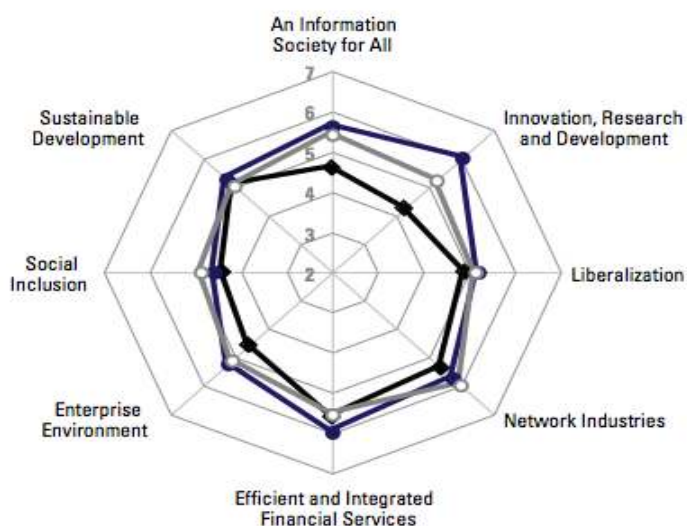
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## Country Performance on Lisbon Indicators: Sweden



Source: World Economic Forum

## Country Performance on Lisbon Indicators: EU25 Average



Source: World Economic Forum

Sweden's poorest performance indicator in the Lisbon Indicators was 7<sup>th</sup> place in the "Enterprise" dimension. This related weakness is reinforced in the World Bank's "Doing Business ranking" where Sweden's 14<sup>th</sup> place ranking falls below a number of other European countries. Top three enterprise rankings are taken by Singapore, New Zealand and the United States and neighbors Norway and Denmark score higher than Sweden. Sweden's lowest ranking "employing workers" at 107<sup>th</sup> in the world will be discussed in section two of this report.

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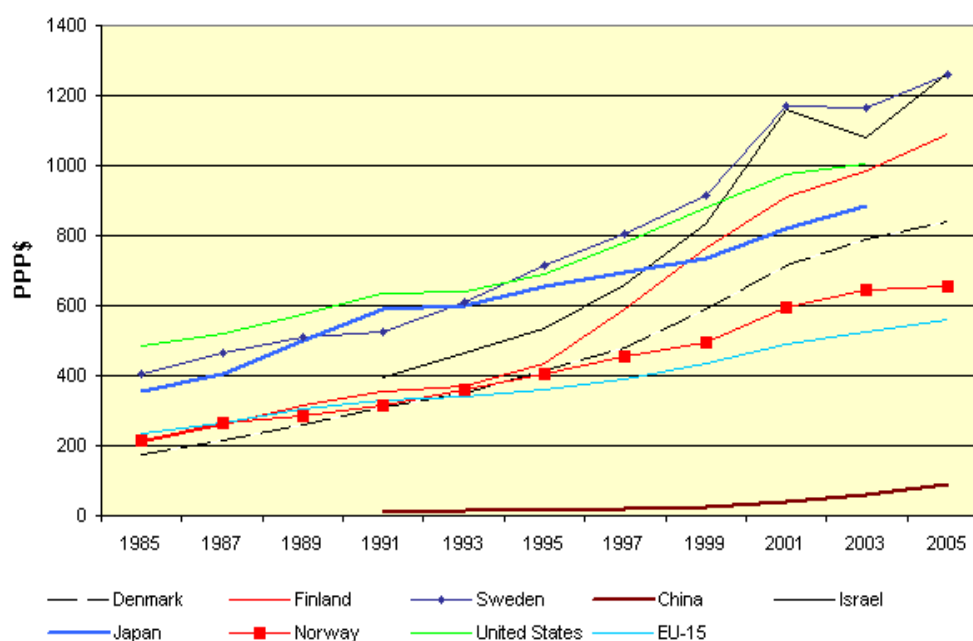
## World Bank “Doing Business” Indicators for Sweden<sup>9</sup>

Ease of...	Doing Business 2008 rank	Doing Business 2007 rank	Change in rank
<b>Doing Business</b>	<b>14</b>	<b>13</b>	<b>-1</b>
Starting a Business	22	21	-1
Dealing with Licenses	17	16	-1
<b>Employing Workers</b>	<b>107</b>	<b>111</b>	<b>+4</b>
Registering Property	7	8	+1
Getting Credit	36	32	-4
Protecting Investors	51	49	-2
Paying Taxes	42	41	-1
Trading Across Borders	6	6	0
Enforcing Contracts	53	51	-2
Closing a Business	19	18	-1

Source: World Economic Forum

Sweden is among the world’s leaders in the proportion of GDP invested in research and development activities (see below).

### Gross domestic expenditure on R&D per capita population (current PPP \$) 1985-2005



Source: OECD science and technology indicators

### Human development and gender-related indices

Each year since 1990 the UNDP Human Development Report has published the human development index (HDI) that looks beyond GDP to a broader definition of well-being. 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 the primary, secondary and tertiary level) and having a decent standard of living (measured by purchasing power parity, PPP, income). The

<sup>9</sup> <http://www.doingbusiness.org>

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HDI for Sweden is 0.951, which gives Sweden a rank of 5th out of 177 countries with data (see below).

## Sweden's human development index 2004

HDI value	Life expectancy at birth (years)	Combined primary, secondary and tertiary gross enrolment ratio (%)	GDP per capita (PPP US\$)
1. Norway (0.965)	1. Japan (82.2)	1. Australia (113.2)	1. Luxembourg (69,961)
3. Australia (0.957)	4. Switzerland (80.7)	6. Ireland (99.0)	14. Australia (30,331)
4. Ireland (0.956)	5. Australia (80.5)	7. Netherlands (98.2)	15. Finland (29,951)
<b>5. Sweden (0.951)</b>	<b>6. Sweden (80.3)</b>	<b>8. Sweden (96.5)</b>	<b>16. Sweden (29,541)</b>
6. Canada (0.950)	7. Italy (80.2)	9. Iceland (96.3)	17. France (29,300)
7. Japan (0.949)	8. Canada (80.2)	10. Spain (96.1)	18. Japan (29,251)
177. Niger (0.311)	177. Swaziland (31.3)	172. Niger (21.5)	172. Sierra Leone (561)

Source UNDP

Sweden is one of the world "best in class" countries in all generally accepted measures of gender equality.

The generic HDI measures average achievements in a country, but it does not assess any gender imbalance in outcomes. 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. Sweden's GDI value, 0.949 should be compared to its HDI value of 0.951. Its GDI value is 99.8% of its HDI value. Out of the 136 countries with both HDI and GDI values, only seven countries have a better ratio than Sweden'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. It also tracks the gender disparity in earned income, reflecting economic independence. Differing from the GDI, the GEM exposes inequality in opportunities in selected areas. Sweden ranks second out of 75 countries in the GEM, with a value of 0.883.

## Employment

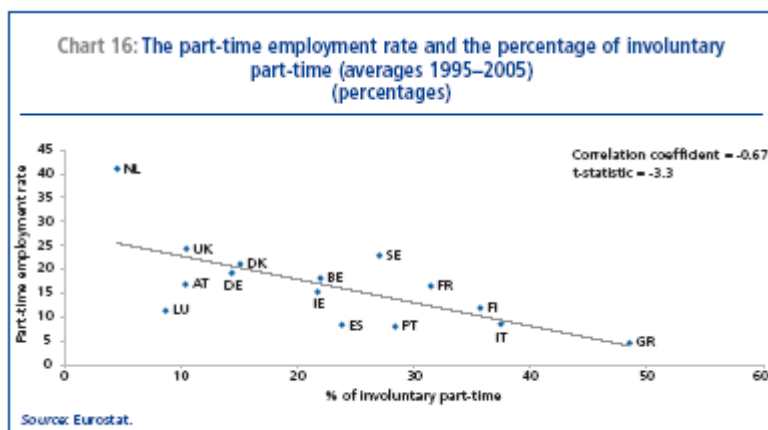
The Swedish labour market is characterised by a high level of participation by both women and men as well as by low unemployment. Sweden's labour force comprises around 4,660,000 persons (July 2007), an increase of 116,000, or 2.6 % compared to the previous year and an "all-time high" in the number of people employed. The entire increase was in "permanent" jobs and it took place in the business services industry and in construction. In July 2007, 243,000 persons were unemployed, a decrease of 45,000 compared to July 2006.<sup>10</sup>

The illustration below shows Sweden has the second highest rate of part time working in the European Union, after the Netherlands and around the same level as the UK and Denmark. The incidence of part time working amongst workers who would prefer to

<sup>10</sup> [www.scb.se/templates/pressinfo](http://www.scb.se/templates/pressinfo)

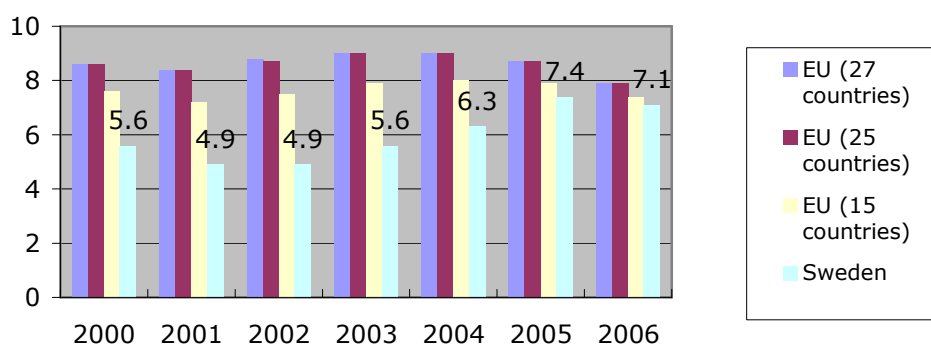
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work full time is however distinctly higher than in the Netherlands the UK and Denmark and only lower than in France as a country with a similarly high level of part time working.



As illustrated in the figure below, Sweden's unemployment rate has not exceeded the average of the EU in this millennium. A gently increasing trend in unemployment reflected in the illustration below appears to have curbed recently. By June 2007 Sweden's unemployment rate had fallen to 5.0 %.

## Unemployment rate, Sweden vs. EU 2000-2006



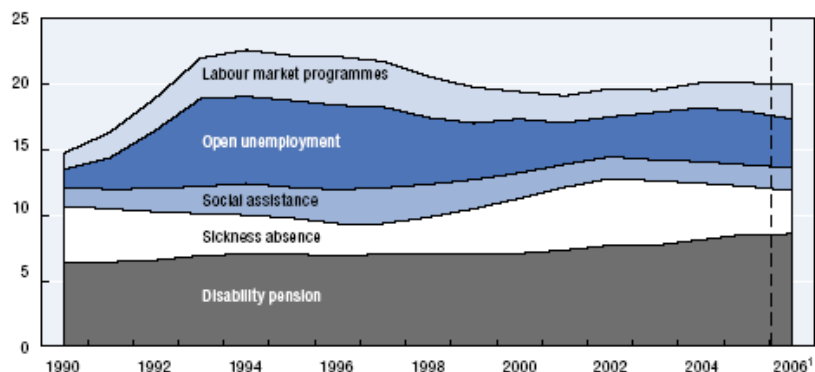
Source: Eurostat

One of Sweden's labour market challenges is the number of people not in productive work, including those participating in job transition schemes, rather than officially unemployed. The 2006 McKinsey report on Sweden's economic performance suggests somewhat controversially that Sweden's real unemployment rate is between 15% and 17%.<sup>11</sup> The illustration below, taken from the OECD economic survey of Sweden 2007, tracks the proportion of the working age population in receipt of some form of income support.

<sup>11</sup> McKinsey & Company: Sweden's Economic Performance: Recent Development, Current priorities (2006)

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**Figure 2.**  
**EXCLUSION GENERATED**  
**IN THE 1990s REMAINS**  
**Persons (full-time**  
**equivalents) receiving**  
**income support as**  
**percentage of population**  
**aged 20-64**

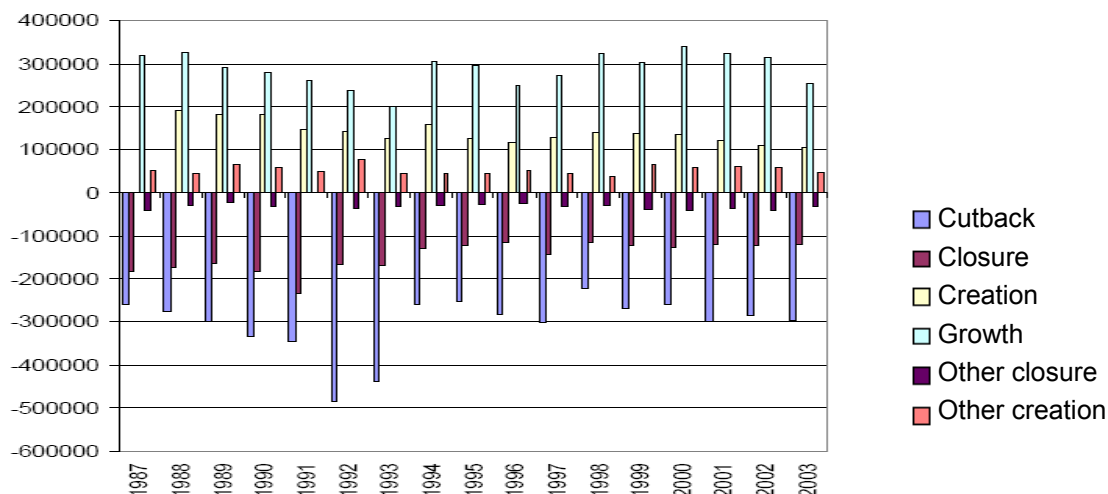


1. Estimate by the National Institute for Economic Research.  
 Source: Statistics Sweden and the National Institute for Economic Research.

Employment grew by 353,000 people between 1995 and 2006. Of the jobs created in this period, 145,000 were public sector jobs and 208,000 were in the private sector. This put public sector employment growth in the period at 9.8% while employment in the private sector grew by 7.3%. In comparative terms, Sweden's ability to create new jobs has not achieved the levels of some other European countries. If Sweden had increased its employment rate (as defined by OECD) between 1992 and 2003 as much as the UK, France or Norway, between 400,000 and 500,000 jobs would have been created. A recent report by the consulting company McKinsey suggests that a focus on job creation should be a priority for the Swedish economy.

Restructuring associated with job loss in Sweden is as a result of employment "cutbacks" rather than closures. Jobs are created by business expansion rather than business creation (see below). McKinsey suggest that over the next decade, as a result of restructuring, between 100,000 and 200,000 Swedish jobs will disappear (between 2% and 4% of the workforce) and these jobs will have to be replaced.

## Changes in employment by type of change in the enterprise, 1987-2003<sup>12</sup>



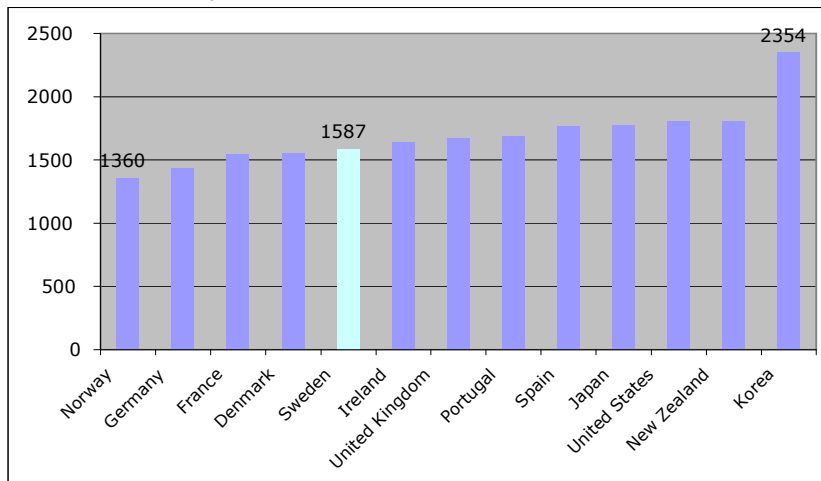
<sup>12</sup> TCO granskar 92005, Fler och bättre jobb



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The number of hours worked by Swedish workers in 2007 was on average 90.9 million hours per week, an increase of 5.7% compared to July 2006. If measured by hours per year per person, Sweden is positioned at average level in the international comparison illustration below. This data is driven by the relatively high level of part time working in the country rather than the length of the full time working week.

**Average hours actually worked. Hours per year per person in employment, 2005 or latest available year**

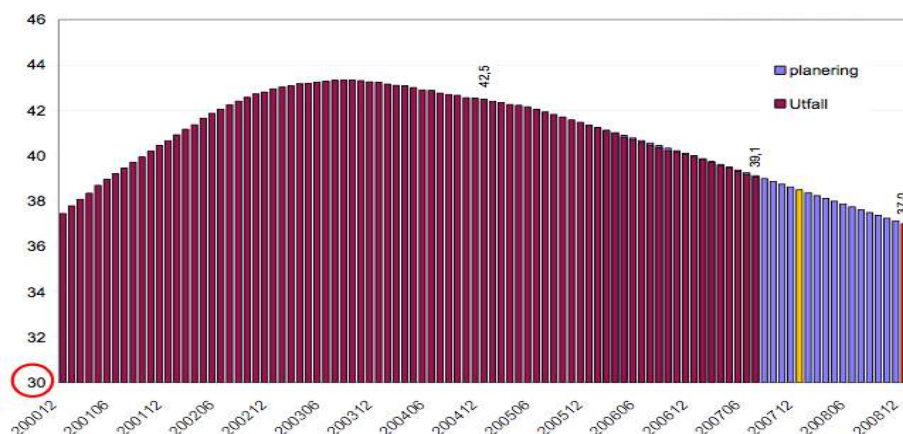


Source: OECD

Research by the European Foundation for the Improvement of Living and Working Conditions (Eurofound) shows that Swedes enjoy more paid holidays than any other Europeans. They have 42 days of annual leave and public holidays combined, in contrast to workers in Estonia, who have just 26 days<sup>13</sup>.

Sweden is known for having some of the highest sick leave rates in the world. However, since September 2003 the average number of days paid out in sick benefits for every Swede has been falling. The target of the Swedish Social Insurance Administration is to reduce the overall figure, currently 39.1 days per year, to 37 by the end of 2008 (see below).

## The number of sick leave days - high but decreasing



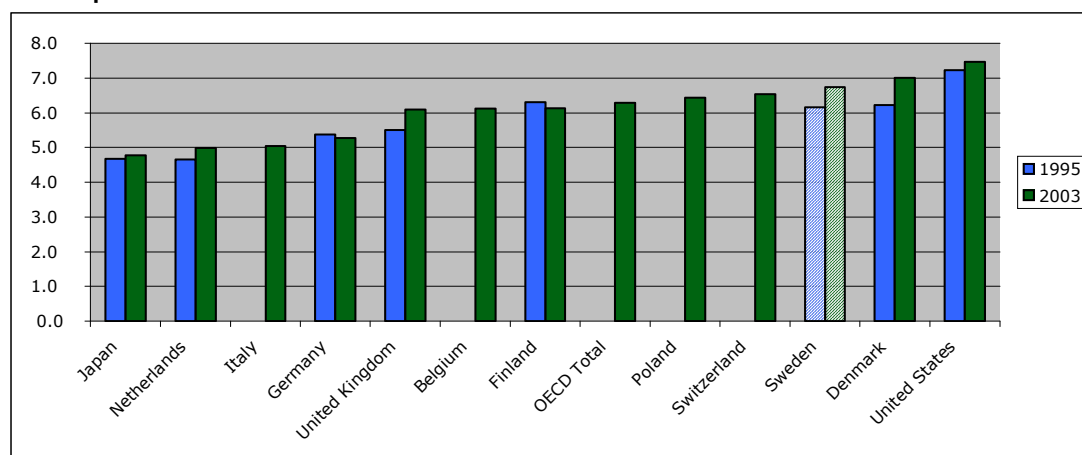
Source: Swedish Social Insurance Administration

<sup>13</sup> European Foundation – Employment in Europe 2007

## Education

Sweden invests heavily in education. The country's spending on education as a proportion of GDP is among the worlds highest. Total public expenditure on education in 2003, including subsidies to households, amounted to 7.5% of GDP, in comparison with an OECD average of 5.5%. Only Denmark, Iceland, and Norway have higher levels of expenditure.<sup>14</sup> When it comes to public spending on tertiary education, Sweden is among the top three countries in the world. In 2003, this number stood at 2.2% of GDP, marginally below Norway (2.3%) and Denmark (2.5%).

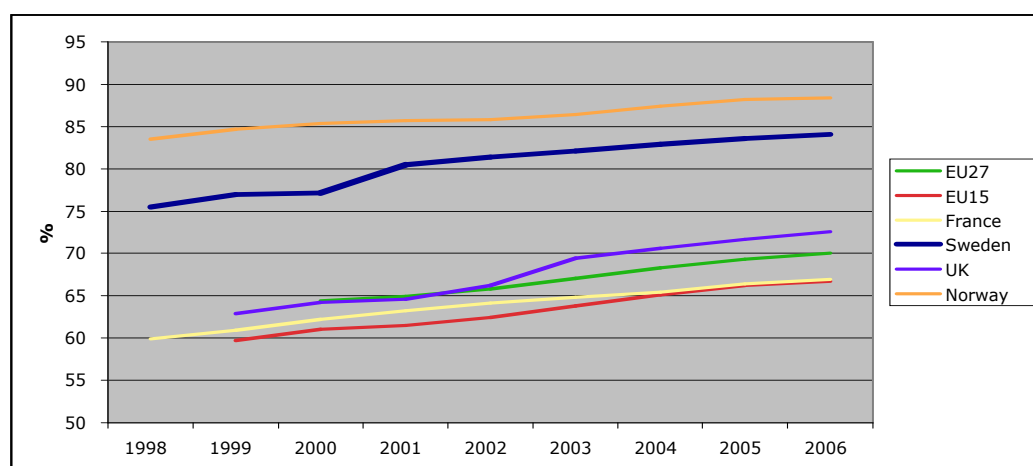
**Total expenditure on educational institutions for all levels of education**



Source: OECD 2003

According to Statistics Sweden, there are now more Swedes who are highly educated than who are not. 21% of the population aged 25–64 has at least three years of post-secondary education, while 16 % have compulsory school education.

**Share of the population aged 25 to 64 having completed at least upper secondary education; Selected European comparisons (1998-2006)**



Source: Eurostat 2007

At the beginning of the 1990s, one third of the Swedish population had only compulsory school education, and about one in ten had extensive post-secondary education. This means that the educational level of Swedish people has risen significantly in recent

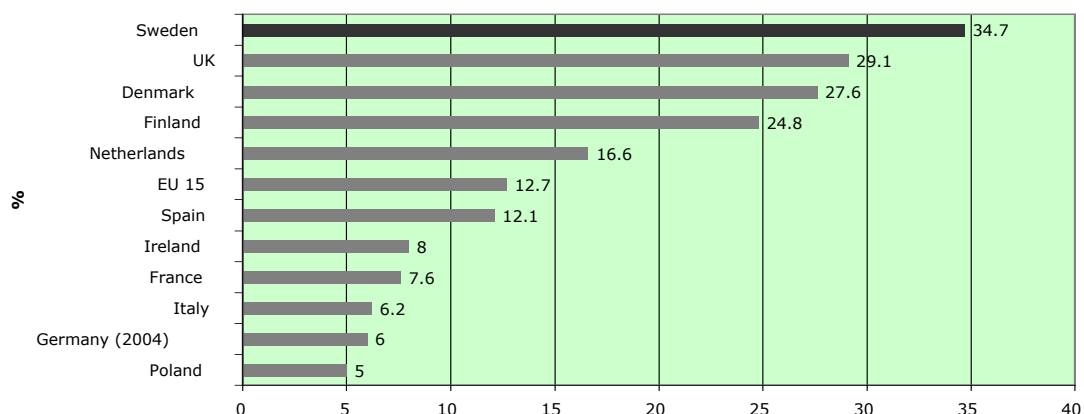
<sup>14</sup> OECD – education at a glance

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years. This is mainly due to growth in the educational system combined with demographic developments. Technology, social sciences, and health and social care are the most common fields of education for those who have upper secondary or post-secondary education. For a country with such high accomplishments in gender equality, the differences between men and women in post secondary education are considerable. Every other man, or 48% of men aged 25–64 have their highest education in the fields of technology and manufacturing, while the corresponding figure for women is only 6%. To a large extent, women's education is directed towards the fields of health and social care, social sciences and teaching professions.

Lifelong learning encompasses learning for personal, civic and social purposes as well as for employment-related purposes. In June 2002, the European Union's Education Council adopted a Resolution on lifelong learning to support the implementation of the Lisbon targets. As can be seen below, Sweden has the highest percentage of persons aged 25 to 64 in receipt of a "learning experience" in the previous month, including both formal and non formal education.

**The %age of persons aged 25 to 64 in receipt of a "learning experience" in the previous month. Lisbon target: 12.5%<sup>1</sup>**



In common with other Nordic countries, the integration of non economic migrants is a problem for the Swedish labour market. The government has adopted a policy of accepting refugees from a variety of states in difficulty in Africa, the Middle East and Asia and these "non economic" migrants (as opposed to job seekers, or economic migrants, from Central and Eastern Europe) are proving difficult to bring into learning programmes and into employment.

Sweden invests around 4% of GDP on research. Whilst most research and development activities take place in industry, nearly all publicly funded research takes place in higher education institutions. Autonomous research institutes exist to only a limited extent. This means that in addition to carrying out their own research and offering postgraduate programmes, the higher education institutions also undertake commissioned research and enquiries.<sup>15</sup>

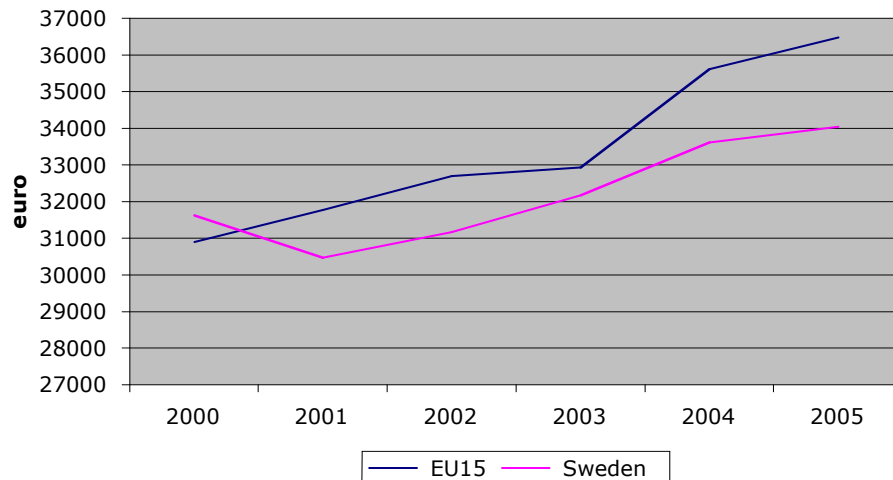
<sup>15</sup> OECD thematic review of tertiary education, country background report for Sweden, Swedish National Agency for Higher Education, June 29, 2006

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## Labour costs and productivity

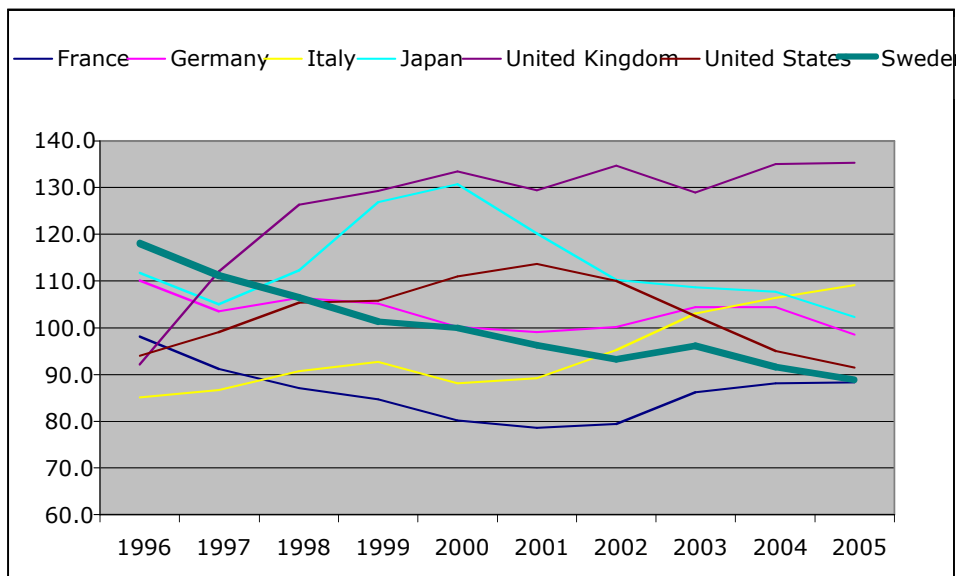
In 2004, the cost of labour in Sweden was more than ten times the average of the ten countries that joined the EU that year. Labour cost differences among the more homogenous EU15 countries were also substantial with Sweden positioned toward the more expensive end (see below). The impact of high labour costs on Sweden's attractiveness as a corporate location has been the topic of wide discussion. Labour costs however are far from the entire story when measuring competitiveness. Labour costs must always be considered together with the level of productivity of labour and the quality of the products and service produced. The illustrations below show international comparisons including Sweden's recent experience in both earnings and unit labour costs (earnings and productivity combined).

**Average gross annual earnings (enterprises with more than 10 workers)**



Source: Eurostat 2007

**Relative unit labour costs in manufacturing, selected countries. Year 2000 = 100**

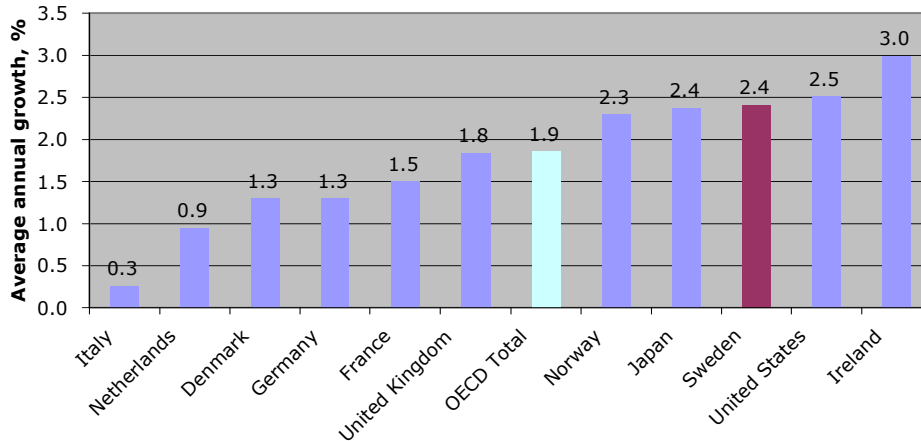


Source: OECD factbook 2007

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Sweden's GDP growth per hour worker over the period 2000 to 2005 (below) has been impressive. Recent improvements however follow a period of less competitive international performance from the late 1960's to the late 1990's.

**GDP per hour worked, Average annual growth in percentage, 2000-2005 or latest available period**



Source: OECD 2007

According to the 2006 McKinsey report on Sweden's economic performance, the recent improvement in productivity has been caused by deregulation and increased competition. The main regulatory changes include joining the European Union, adoption of stricter laws promoting fair competition and extensive deregulation at the sector level. In order to continue this positive trend in productivity growth, McKinsey suggests that competition in the private sector should be further increased by continuing regulatory reforms and promoting customers' ability to switch product and service providers.

Over the period 2002 to 2004, private sector productivity averaged 3.3% per year, the fourth strongest growth in the OECD and 1.5 times the OECD average. Particularly impressive gains were made in automotive manufacturing, retailing, retail banking and food processing. By contrast, productivity growth in the construction sector was almost zero (0.7%) and by comparison, Sweden's construction industry productivity is fully 25% less than that of the same sector in the USA.

Productivity in the public sector is more difficult to quantify than that of the private sector. The McKinsey study results however point to much slower productivity growth in the Swedish public sector which they suggest is due to more limited exposure to competitive pressures.<sup>16</sup> The effect of this difference in productivity on the economy as a whole is accentuated by the fact that 30% of Swedish employees work in public service. The McKinsey report claims this to be one of the most acute challenges facing the Swedish economy today. They suggest that it will be difficult to finance the country's current level of welfare provision if the public sector's productivity level does not increase. The actions proposed are developing a measuring tool for public sector productivity; formulating productivity targets and tracking performance against them; and intensifying competition in public services.

<sup>16</sup> Business Week, September 22, 2006

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## Foreign direct investment

Inflows and outflows of FDI to and from OECD countries increased significantly in 2007 to a level only exceeded in the “boom year” of 2000. One of the most pronounced changes in FDI flows took place in Sweden where FDI inflows more than doubled to USD 28 billion. Corporate takeovers together with a small number of investments by UK-based investors accounted for around half of the total amount.

The McKinsey analysis suggests that the increasing participation of foreign players in the Swedish food industry has been a driving force behind significant consolidation and efficiency improvement. Swedish consumers have benefited from this: grocery prices increased by just 4% between 1990 and 2005, in comparison to a 35% rise in the general consumer price index.

## Taxes

Along with Denmark, Sweden has the world's heaviest tax burden at 51% of GDP in 2004. The distinguishing feature of the Swedish system is high income taxes on low incomes due to the very low basic allowance and the relatively low level of income at which the highest rate of marginal taxation (57%) comes into force.

It has been suggested that high taxes damage work incentives and result in lower paid workers getting stuck in a poverty trap due to the high combined marginal tax rates and means-tested government grants. Recent government budgets have included tax reductions, targeted particularly at lower paid workers.

## The nature of restructuring in Sweden

In recent years, in common with industry in most of the developed world, the Swedish economy has been characterised by rapid restructuring as a response to increased international competition, market deregulation and technological developments. Since the early 1990's Swedish business has responded to membership of the EU, deregulation of financial, telecommunications, postal and other markets, increased global competition from new competitors in China, and India and technological advances. More recently, Swedish companies have also responded to the challenges and opportunities provided by the European expansion that took place in 2004 and 2007.

A combination of international competition and banking and real estate crises in the early 1990's exposed Swedish business to a deep and lengthy depression with joblessness rising from 1.5% in 1990 to 8.2% in 1993. If those included in government supported training and temporary work programmes are included the real unemployment figure was closer to 15%. The floating of the Krona in 1992 and its subsequent sharp fall was accompanied by manufacturing companies and businesses in general adopting radical efficiency improvement programmes. A distinguishing feature of the late 1990's was the growth in products and services related to IT and when the ICT bubble burst in 2000, the Swedish economy was probably the worst affected in Europe. This was largely due to the importance to the national economy of the company Ericsson in terms of employment, exports and subcontracting activities. Ericsson was one of the case study companies covered in the seminar on May 14<sup>th</sup>.

Restructuring in Sweden has been a result of outsourcing non-core portions of business, the export of “simpler” production activities to lower labour cost countries and mergers and acquisitions involving major Swedish companies.

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The Swedish manufacturing sector's share of employment has fallen alongside improvements in productivity. Employment in manufacturing shrank from 1.1 million in 1960 to 691,000 in 2005. At the same time employment in the service sector increased from 2 millions to 3.3 millions. Whilst it is clear that there have been major increases in service sector employment, it should be recalled that the outsourcing of labour intensive service related activities by manufacturing companies (cleaning, security, restaurants, transport, etc) has simply shifted the same jobs from one category to another. In Sweden's manufacturing industry today, fewer workers are employed in actual production work with most labour costs being accounted for by R&D, design, marketing, sales and support service activities.

When job creation to offset manufacturing job losses is considered, the Swedish public sector has expanded rapidly (by more than 137,000 workers) between 2001 and 2006<sup>17</sup>. This is as a result of policy decisions to invest more in healthcare, education and childcare. Today Sweden's public services account for a higher share of the working population than in most comparable developed economies.

## Mergers and acquisitions

Merger and acquisition (M&A) activity has been an important feature of restructuring in Sweden's larger companies. Merged companies can focus their activities on higher value added operations and take advantage of the opportunity to reduce overheads. Among numerous examples of mergers and acquisitions are the formation of ABB from Sweden's ASEA and Switzerland's Brown Boveri; the merger of Volvo cars with Ford and Saab with General Motors. Sweden's oldest company, Stora is now a part of Finland's StoraEnso; Pharmacia was acquired by the US based Pfizer and Astra is now a part of the British based Astra-Zeneca.

## Offshoring or "delocalisation"

Offshoring is a current topic of debate in all industrialised countries. The concept of offshoring is usually used to refer to relocation of production (of goods or services), migration of jobs or production and outsourcing – in other words import of goods or services from independent or affiliated suppliers abroad. Offshoring as a phenomenon is well known and understood in Sweden, but its effects and the companies involved have only recently been the subject of deeper analysis.<sup>18</sup>

In European terms Sweden falls in the middle of the European pack in terms of the proportion of jobs lost through offshoring activities. In 2006, some 48.2% of jobs lost in Belgium and 45.6% of jobs lost in Denmark were as a result of offshoring. At the other extreme offshoring accounted for just 3.7% of Italian job losses and 0.9% of German jobs. Sweden compares with the UK where 14.6% and 12.3% of jobs lost were through offshoring respectively.<sup>19</sup>

Statistics Sweden and Örebro University have conducted a study on the characteristics of Swedish offshorers as well as on the effects on firms' productivity from the offshoring of either goods or services during the years 2000-2004.

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<sup>17</sup> Recent restructuring trends in the EU – European Foundation for the Improvement of Living and working conditions, (2007)

<sup>18</sup> Effects on Productivity from Swedish Offshoring, Preliminary results October 2006. Eva Hagsten, Statistics Sweden; Patrik Karpaty, Örebro University; Stefan Svanberg, Statistics Sweden

<sup>19</sup> Recent restructuring trends in the EU – European Foundation for the Improvement of Living and Working Conditions. (2007)

The researchers identified that the companies involved;

- ◇ Are on average more labour intensive;
- ◇ Have higher skill and capital intensities than firms in general;
- ◇ Are large firms;
- ◇ Are often exporters or parts of multinational organisations or networks;
- ◇ Trade mainly with other high-wage countries (offshorers of services in particular)

## The average Swedish offshorer (2004)<sup>20</sup>

Variable	All firms	Offshorers of services	Offshorers of goods
Labour productivity (value added per employee), SEK	517.9	1095.1	587.8
Number of full time employees	11.39	327.9	42.9
Value of production per employee, SEK	1192.9	4336.3	1570.5
Value of intermediates per employee, SEK	688.5	3300.0	1001.8
Capital intensity (capital per employee), SEK	719.5	1019.8	404.6
Import intensity (imports/total purchases), per cent	0.07	7.1	5.2
Export intensity (exports/value of production), per cent	0.0	18.1	1.0
Share of MNEs, per cent	6.1	67.7	23.9
Share of Swedish MNEs, per cent	2.9	29.5	10.3
Share of exporters, per cent	12.3	90.6	57.4
Share of employees with post-secondary education, per cent	15.0	22.6	13.5
Share of imports from low-wage countries, per cent	-	33.4	43.2

## Section two - The role of the Swedish social partners in restructuring

### Summary

Trade union density in Sweden has traditionally been, and remains, extremely high in both European and “world” terms. It has been reported that Swedish trade union membership levels have fallen recently but the density rates reported for Sweden in 2006 still record a level of 78%. One of the many reasons why density remains extremely high is the central role played by the Swedish trade unions in the management of social protection schemes. High levels of trade union membership are mirrored by the extremely high membership and influence of employers’ organisation.

The Swedish model of employee relations is characterised by the important role played by powerful and influential social partners in reaching collective agreements at all levels and in shaping mechanisms for regulating the labour market. Nonetheless, and in contrast with Denmark, Swedish labour laws are relatively restrictive in comparison with labour legislation in many EU member states. Swedish employment laws may however be amended to some extent by collective agreements without the more typical European restriction that negotiated settlements can only “improve” the legal minimum standard. This provides a backdrop for the considerable negotiated flexibility that exists in Sweden.

The overall level of coverage of collective agreements is high – estimated at around 90%. At the national level, social dialogue and collective bargaining focus on overarching shaping and facilitating agreements rather than laying out specific terms and conditions of employment. The key level for collective bargaining in Sweden is the sector

<sup>20</sup> Effects on Productivity from Swedish Offshoring, Preliminary results October 2006. Eva Hagsten, Statistics Sweden; Patrik Karpaty, Örebro University; Stefan Svanberg, Statistics Sweden



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or industry level. Nonetheless, supplementary discussions at the enterprise level mean that more than 80% of employees have part of their pay determined by local level negotiations, and 10% have all of their pay determined locally. Industry level agreements are signed by the employers' association and the union. At company level the employer reaches agreement with the local union organisation.

Swedish workers engage in a system of employee representation at board level which is more extensive than in most other countries. The system seems to work well ... according to a survey carried out by the trade unions in 1998 the experience of workers' participation at board level has been largely positive for both trade unions and enterprises. The survey suggests that worker representation at board level appears to have made it easier for employers to win worker support for difficult decisions.

Built into rather comprehensive and restrictive regulations for the conduct of collective redundancies is the "last in first out" or LIFO principle. Studies of restructuring suggest that the LIFO approach protects older workers at the expense of younger ones and is particularly unsuited to change involving major technological shifts or moves to more market oriented organisation models.

Against the background of employment laws, the well established tradition of collaboration between the social partners combined with the undesirability of the legal fall back position has resulted in innovative and distinctive practices and solutions to dealing with job losses. Particularly notable are the job security foundations or councils established to provide practical assistance to displaced employees in managing job transitions. This section of the report looks at job councils in some detail. Recognising that restructuring has become a permanent way of life in most large organisations, some companies have set up permanent support units whose job it is to support employees' transition into new jobs both inside and outside the organisation.

## The Swedish social partners

### Trade unions

The Swedish Work Environment Authority mentions three labour unions as social partners: LO, TCO and SACO. These unions are affiliated to the ETUC and are briefly described below:

◇ *The Swedish Trade Union Confederation (LO)*

LO is the central organisation for 15 affiliates which organise workers within both the private and the public sectors. The 15 affiliates together have around 1,831,000 members of whom about 839,115 are women.

The individual affiliates have full responsibility within their industrial sectors at central, regional and local levels. They are also responsible for the administration of unemployment insurance funds.

Contacts with the Social Democratic Party are frequent and LO has a representative on the party's executive committee elected by the Party Congress. Within the labour movement, there are also a number of organisations and enterprises that are close to LO, such as the educational organisations ABF (Workers' Educational Association) and Bilda (Correspondence School), as well as the insurance company Folksam.

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## ◇ *The Swedish Confederation for Professional Employees (TCO)*

TCO comprises 16 affiliated trade unions. The 1.3 million members of these unions are professional and qualified employees from a wide variety of occupations and working in all parts of the labour market. Over 60% of TCO members are women. Approximately half of the members work in the private sector and half in the public sector.

Recently two of the larger trade union members of TCO, the Swedish Union of Clerical and Technical Employees in Industry (Sif) and the Salaried Employees' Union (HTF) merged to form the Swedish white-collar union under the name Unionen. Its 500,000 members work in the private sector, in companies that operate in areas including IT, telecoms, construction, manufacturing and research and development. A small number of members are self-employed.

## ◇ *The Swedish Confederation of Professional Associations (SACO)*

SACO is a confederation of 24 independent associations that together have around half a million members, all of whom are academics or graduate professionals with a university or college degree. The members include economists, lawyers, physiotherapists, graduate engineers, doctors and teachers. SACO is not formally tied to any political party.

Trade union density in Sweden is extremely high in both European and "world" terms. The illustration below presents comparative and evolving data on trade union density in selected European countries for the years 1970 to 2002. More recent data sources show that membership levels in the year 2006 remained at the 78% level. It has however been widely reported that Swedish trade union membership levels fell during 2007 and an analysis of the reasons for this is being undertaken.

**Comparison of union density, adjusted data 1970–2003 (% in selected European countries)<sup>21</sup>**

YEAR	Finland	Sweden	Denmark	Netherlands	Spain	EU
1970	51.3	<b>67.7</b>	60.3	36.5	—	37.8
1980	69.4	<b>78</b>	78.6	34.8	12.9	39.7
1990	72.5	<b>80.8</b>	75.3	24.3	12.5	33.1
1991	75.4	<b>80.6</b>	75.8	24.1	14.7	34.1
1992	78.4	<b>83.3</b>	75.8	25.2	16.5	33.4
1993	80.7	<b>83.9</b>	77.3	25.9	18	32.7
1994	80.3	<b>83.8</b>	77.5	25.6	17.6	31.7
1995	80.4	<b>83.1</b>	77	25.7	16.3	30.4
1996	80.4	<b>82.7</b>	77.1	25.1	16.1	29.5
1997	<b>79.5</b>	<b>82.2</b>	<b>75.3</b>	<b>25.1</b>	<b>15.7</b>	28.8
1998	78	<b>81.3</b>	75.6	24.5	16.4	28.2
1999	76.3	<b>80.6</b>	74.1	24.6	16.2	27.8
2000	<b>75</b>	<b>79.1</b>	<b>73.3</b>	<b>23.1</b>	<b>16.1</b>	27.3
2001	74.5	<b>78,0</b>	72.5	22.5	16.1	26.6
2002	74.8	<b>78</b>	—	22.4	16.2	26.3

<sup>21</sup> Union membership statistics in 24 countries by Jelle Visser. Monthly Labor Review, Vol. 129, No. 1, January 2006.

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One of the reasons why Swedish trade union membership remains extremely high is the number of people not in employment that are trade union members due to their role in the management of social protection schemes (see below). Even allowing for this, Swedish trade union membership remains extremely high by any international comparison in both the public and private sectors.

Share of non-employed members in trade unions (14 countries, total and adjusted membership)<sup>22</sup>

Country	Year	Adjustment, of which on account of:				
		% of reported membership	Non-financial membership	Retired from labour market	Unemployed	Self-employed and students
Austria	2002	18.2	0	18.2	–	–
Belgium	2002	41.7	12.9	18.2	10.6	0.2
Denmark	2003	20.4	0	14.2	5.9	0.3
Finland	2003	29.7	0	11.5	8.2	10*
France	2003	33	13	20	–	–
Germany	2003	19.8	0	19.8	–	0
Ireland	2003	8	–	18	–	–
Italy	2004	53.1	3.1	48	0.7	1.3
Netherlands	2003	20.1	0	19.8	–	0.3
Norway	2002	26	0	24	–	2
Spain	2003	6	.	.	4.5	1.5
<b>Sweden</b>	<b>2003</b>	<b>20.7</b>	<b>0</b>	<b>14.7</b>	<b>5.6</b>	<b>0.4</b>
Switzerland	2001	13	0	13	0	0
UK	2003	12.8	0	10	–	2.8
<b>Average</b>		<b>24.2</b>		<b>17.2</b>		
* of which 6.1% are students						
<i>italic</i> - includes unemployed and disabled workers						

<sup>22</sup> Union membership statistics in 24 countries by Jelle Visser. Monthly Labor Review, Vol. 129, No. 1, January 2006.

## Employers' organisations

The European Union refers to national most inclusive and important employer organisations as NEPAs or 'national employer peak associations'. Below this level, in many countries there are more specialised organisations associations which can be divided into two main categories: affiliates of a NEPA; and unaffiliated associations.

In Sweden, the affiliated employers' organisations enjoy fairly substantial operating autonomy from their NEPA and the focus of employer interest is at the level of the affiliate. The lower-level employers' organisations' autonomy in collective bargaining - one of the core fields of employers' organisation activity – takes place against the background of an absence of formal authority of the NEPAs over the affiliate.<sup>23</sup>

Unaffiliated employers' organisations have been established for the separate and independent representation of special employer groups such as the not-for-profit organisations of the labour movement, the Workers' Education Association (Arbetarnas Bildningsförbund, ABF), and the Social Democratic Party (Socialdemokratiska Arbetarepartiet, SAP).

The six Swedish NEPAs are:

- ◇ *The Confederation of Swedish Enterprise* (member of BUSINESSEUROPE) - was founded in March 2001, as a result of a merger between the Swedish Employers Confederation and the Federation of Swedish Industries. It is a pro-business, non-profit organisation representing 54,000 Swedish companies. The federation consists of 50 trade and employer association members, representing 70% of the Swedish private sector. The member companies employ roughly 1.5 million people
- ◇ *The Federation of Private Enterprises, Företagarna* (member of UEAPME) – is a non profit organisation, representing the interests mainly of the owners of small and medium sized companies. The organisation has around 55, 000 entrepreneurs as members, and is organised in 21 regions and around 300 local associations. There are also 16 sector associations affiliated to Företagarna.
- ◇ *KFO Cooperative Movement Bargaining Organisation (Kooperationens förhandlingsorganisation)* - represents mostly cooperatives, not-for-profit organisations and associations. The KFO has around 2,500 members.
- ◇ *The Employers' Alliance (Arbetsgivaralliansen)* - is an independent employer's association for voluntary sector employers. It has about 2,500 member organisations employing nearly 22,500 people. They represent different sectors, such as sport, non-profit care, education and adult education, religious communities and ecumenical organisations.
- ◇ *The Employers' Organisation of Swedish Banking Institutions (BAO)* - represents more or less all banks in Sweden. The BAO has about 150 members which employ around 45,000 employees.

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<sup>23</sup> Employers' organisations in Europe, Martin Behrens/Franz Traxler – <http://www.eurofound.europa.eu/eiro/2003/11/study/tn0311101s.htm>

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- ◇ *The Swedish Industry Association (Sinf)* - is a national organisation of small and medium-sized Swedish industries. They inform and assist member companies in all essential business matters, for example labour law and contract law. Their 1,500 member companies are divided in twenty branch associations, for which Sinf handles the administration.

In addition to the six NEPAs described above, the public sector is a major employer responsible for about one third of the total employment in the country. The four public sector employer associations, and which constitute CEEP Sweden, are;

- ◇ *The Swedish Association of Local Authorities and Regions (SALAR)* - represents 290 municipalities, 18 county councils and 2 regions which together employ about 1.1 million employees;
- ◇ *The Swedish Agency for Government Employers (SAGE)* - has 250 member agencies in the central Government sector. Other members include closely associated organisations, mostly foundations. Altogether its members employ about 240,000 employees.
- ◇ *The Swedish Organisation for Local Enterprises (KFS)* - has 550 members that are companies are owned either by municipalities and county councils, or wholly or privately owned. The total workforce employed by KFS members are about 31,000.
- ◇ *The Employers Association for the Property Sector (PACTA)* - has around 1,500 members and 22,000 employees.

## Collective Bargaining

The overall level of coverage of collective agreements in Sweden is high – estimated at around 90%. The key level for collective bargaining in Sweden is the sector or industry level. Nonetheless, supplementary discussions at the enterprise level mean that more than 80% of employees have part of their pay determined by local level negotiations, and 10% have all their pay determined locally. Industry level agreements are signed by the employers' association and the union. At company level the employer reaches agreement with the local union organisation. Agreements are legally binding on the signatories. The collective agreements only have contractual, rather than statutory, status.

## Landmarks of the Swedish collective bargaining system

The first collective agreements at national level emerged at the beginning of 1900s, and in 1915 the Swedish Supreme Court declared that a collective agreement was a legally binding contract. In 1928 the Collective Bargaining Agreements Act was adopted, and at the same time the Swedish National Labour Court was set up. In 1936 the Right of Association and Negotiation Act was passed, which completed the legal framework for self-regulation and collective bargaining covering the whole private sector.

In the 1960s, the collective agreement system was extended to cover also the public sector, with some exceptions, and in 1976 further steps were taken in order to make regulations in bargaining in the public sector more equal to the private sector. The 1970s is characterised by demands on joint decision followed by the new regulation on consultation and information as well as certain restrictions on the employer's prerogatives. The Employment (Co-determination in the Workplace) Act came into force on 1 January 1977.(ibid.)

Source: Minutes of XIVth Meeting of European Labour Court Judges, 4 September 2006; Collective Agreements, Sweden.

Collective bargaining in Sweden has changed dramatically since the 1980s. For around 30 years between 1956 and the late 1980s the key bargaining level was national, with deals covering the whole economy. The first major break from this pattern came in 1983 in the metalworking sector and in 1990 the Swedish Employers' Federation decided to negotiate wages and general conditions of employment only at the sectoral level. This era of centralisation has now ended, although a number of important non-wage framework agreements between the unions and employers at national level have been negotiated. Examples include the 1982 efficiency and participation agreement and more recently the 2006 national agreement on pensions covering 700,000 non-manual workers in the private sector.

The Swedish mediation office (Medlingsinstitutet), an institution set up in 2000, has divided Swedish collective agreements into seven separate categories. These range from those where the national agreement does not set a pay increase but leaves it entirely to local negotiations – so-called “figureless” agreements, to those where the national agreement fixes a common increase for all employees. Overall it estimated in its 2006 report that around 10% of employees were covered by figureless agreements and 7% by agreements setting a nationwide increase with no local variations. This means that the pay for more than 80% of employees is set by a combination of industry and local negotiations. This is often done through a nationally agreed increase on the total pay bill, with local negotiations on its distribution, sometimes with individual supplements linked to performance.

Agreements also often include fallback arrangements, which set the increases to be paid if no local agreement is reached, and frequently there is also a guaranteed minimum increase for individuals. The Swedish mediation office report for 2006 shows 10% of private sector employees covered by figureless agreements, compared with 38% of state employees and 5% of local authority employees.

Since 1997 a number of unions and employers' associations have signed agreements on co-operation and bargaining procedures. These involve agreeing timetables for negotiations, rules for the appointment of mediators and arrangements for ending negotiations. One of the aims – not always reached – of these procedures is that the two

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sides should settle before the old agreement expires. Most pay agreements now last for three years. There is also the option to terminate an agreement one year before it ends.

As well as pay and working time, most elements of the working life can be covered by collective bargaining. Some, such as topping up sick pay, compensation for accidents or pension levels that exceed state provision, both for disability and old age, are dealt with through industry level bargaining. Local level negotiations can cover a range of issues like training or the introduction of new technology.

## Workers and board-level participation

The Act on employee board representation was established in 1973 and rewritten in 1987 and has produced a system of employee representation at board level which is more extensive than in most other countries. According to a survey carried out by the trade unions in 1998 the experience of workers' participation at board level has been largely positive for both trade unions and enterprises. About 60% of managers polled believed that it had contributed to a positive climate for cooperation in their enterprises and that it had improved worker understanding of decisions reached by the board.

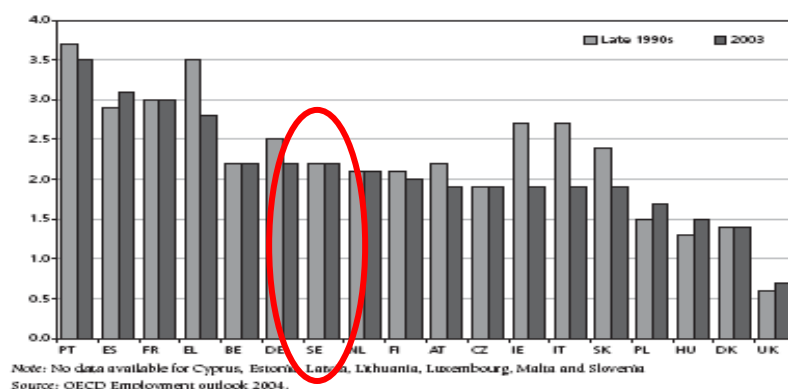
The survey also suggests that worker representation at board level appears to have made it easier for employers to win worker support for difficult decisions. For their part, trade unionists considered board representation strategically important in supporting trade union activity at the workplace. Most also did not think companies made decisions outside the board to avoid employee participation in them while only a handful felt that workers found the issues raised on boards were complicated or difficult to understand.

The report on the survey points out that employee board representation has evolved during the recent period of restructuring, technical innovation and modernisation. An example of this was the intervention of the workers' representatives on the supervisory board of the energy company Vattenfall to assure that adequate social and job transition measures were taken when the company shifted from "last-in first-out" (LIFO) to targeted selection methods in their ongoing downsizing programmes.

## The role of the Swedish social partners in restructuring

The Swedish model of employee relations is characterised by the important role played by powerful and influential social partners in mechanisms for regulating the labour market. Nonetheless, and in contrast with Denmark, Swedish labour laws are relatively restrictive in comparison with labour legislation in many EU member states (see below).

Figure 6 Employment protection legislation index, by country, late 1990s and 2003



Source: OECD employment outlook 2004

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The OECD data is reinforced by the World Bank ease of doing business indicators (below).

Ease of...	Doing Business 2008 rank	Doing Business 2007 rank	Change in rank
<b>Doing Business</b>	<b>14</b>	<b>13</b>	<b>-1</b>
Starting a Business	22	21	-1
Dealing with Licenses	17	16	-1
<b>Employing Workers</b>	<b>107</b>	<b>111</b>	<b>+4</b>
Registering Property	7	8	+1
Getting Credit	36	32	-4
Protecting Investors	51	49	-2
Paying Taxes	42	41	-1
Trading Across Borders	6	6	0
Enforcing Contracts	53	51	-2
Closing a Business	19	18	-1

Source [www.doingbusiness.org](http://www.doingbusiness.org)

Whilst Sweden ranks 14<sup>th</sup> in the world in ease of doing business, ranks 107<sup>th</sup> in the index measuring the ease of employing workers.

The World Bank study simply measures the rigidities in published employment laws. The distinctive feature of the Swedish approach to regulating employment however is the considerable leeway for strong social partners to “negotiate flexibility” in order to adapt the rather rigid regulatory framework to sectoral and enterprise conditions. It is strongly argued that the high level of regulation promotes a similarly high level of innovation and flexibility – particularly in larger organisations. It is equally suggested that high regulation is responsible for the country’s low levels of job creation in small and micro enterprises.

Today’s Swedish employment protection legislation dates back to the 1974 Employment Protection Act (lagen om Anställningsskyd LAS). Although subsequently amended, it remains basically intact. The law presumes that, unless otherwise stated, an employment contract is open ended; when terminating an employment contract the employer must provide a valid reason and advance notice; and whilst the grounds for collective dismissals are relatively liberal, the dismissals themselves are to proceed in accordance with seniority i.e. “last in – first out” (LIFO).

Studies of restructuring in Sweden<sup>24</sup> suggest that the practice of workforce reduction through seniority rules implies that a company loses young workers with the competencies needed to secure the future of the organisation leaving older workers with less relevant skills and ability to change behind. It is suggested that the LIFO approach is particularly unsuited to change involving major technological shifts or moves to more market oriented organisation models.

The process of effecting collective dismissals in Sweden involves a series of processes;

- ◇ The employer must present the problem and its plans to the trade unions in the manner laid out in the Co-determination Act (Medbestämmandelagen, 1976). If the employer decides to proceed with terminations, new negotiations on the practical operation of the process must commence;

<sup>24</sup> Bergström and Storrie (2003) Restructuring in Sweden since the recession of the early 1990’s,



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- ◇ The employer must notify the Public Employment Services of proposed dismissals between two and six months before terminations commence (depending on the numbers of staff involved). The notion of early notification is to provide the local job centres with the opportunity to start to find jobs for redundant workers as quickly as possible;
- ◇ Before notifications of dismissal are given, the negotiations with the trade unions described above must have been completed.

The long tradition of collaboration between the social partners and their willingness to accept and to share responsibility for restructuring combined with the undesirability of the legal fall back position has resulted in innovative and distinctive practices and solutions to dealing with job losses. This has created a practice where agreements are entered into by the social partners that facilitate employee choice in the decision to leave the organisation on condition that they are offered generous programmes and support to find new jobs. In particular, job security foundations or councils established through collective agreements play an important role in supporting workers in the event of restructuring. The councils are paid for by employers and since 2004 have covered almost all segments of the labour market.

Voluntary programmes underpinned by social partner agreements have a number of advantages. They avoid the application of the LIFO principle; they allow particular groups to be targeted through the design of the programme; they reduce employee uncertainty to some extent and reduce the stigma and loss of confidence suffered by individuals selected for redundancy.

## Job Security Councils

Although literally translated from the Swedish as “Job Security Councils”, these bodies promote the management of transitions between jobs rather than job protection in the narrow sense of the word. The report “Job Security Councils in Sweden” published in 2006 by Andreas Diedrich and Ola Bergström from the University of Göteborg describes the job security councils in detail as follows;

“Job security councils are a peculiar feature of the Swedish labour market. The first councils were developed in 1972 and 1974 against the backdrop of the deteriorating economic conditions in Sweden in the late 1960s and the massive job loss of white-collar workers in the wake of the oil crisis in 1973. The PES [public employment service] was not regarded by employers as providing sufficient support for white-collar workers to find new jobs. Therefore the social partners agreed upon establishing a particular organisation that would provide services to this group of workers. Over time such organisations have been established in most segments of the labour market and today there are more than 10 job security councils in operation (see Table).

The council an employer or employee belongs to depends on the collective agreement they fall under as well as their trade union membership. Today even blue-collar workers whose trade union (LO) historically regarded the PES as providing sufficient support for their members, are covered by such agreements. Recent negotiations initiated by LO with the *Confederation of Swedish Enterprise* (Svenskt Näringsliv) led to the signing of the *Omställningsavtal* (Transition Agreement) in 2004. It covers 900, 000 privately employed (privatanställda) workers and is administered by the *Job Security Foundation* (TSL).

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Council	Contractual Partners	No. of employees	Sector
Trygghetsrådet	TRR SAF (The Confederation of Swedish Enterprises) and PTK (The Negotiation Cartel for Salaried Employees in the Private Business Sector)	700 000	Private white-collar workers (since 2004 even private blue-collar workers)
Trygghetsfonden	TSL SAF (The Confederation of Swedish Enterprises) and LO	2 950 000	Private blue-collar workers
Trygghetsstiftelsen TSn	Swedish Agency for Government Employers, the Union of Swedish Academics, the Union for Service and Communication Employees and the Public Employees' Negotiation Council	245 000	Public white-collar employees
Trygghetsrådet TRS	The Employers' Alliance, Swedish Performing Arts and PTK	30 000	Private blue-collar workers and white-collar employees
Trygghetsrådet Fastigo	Fastigo, SIF, Ledarna, CF, AF, SKTF	8 800	Employees in the real estate sector
KFS-företagens Trygghetsfond.	KFS Kommunal, SEKO, etc	30 000	Employees of companies close to the municipality
Trygghetsfonden BAO/Finansförbundet	BAO and Finansförbundet	45 000	Employees within the banking sector
Trygghets- och AGEfond för KFO Tjänstemän samt Trygghetsfond för butikstillräden och lagerarbetare samt frisörer	KFO and Handelsanställdas förbund	35 000	
TFL, Trygghetsfonden Fastigo-LO	Fastigo, LO	13 000	Employees in the real estate sector
Job Security Foundation 2005 Sv. Kyrkans församlingsförbund, Kommunal,	SKTF, SSR, JUSEK, Kyrkans Akademikerförbund, Lärarnas samverkansråd	7 500	The Church
Job Security Foundation 2005 Sv. Kyrkans församlingsförbund, Kommunal,	SKTF, SSR, JUSEK, Kyrkans Akademikerförbund, Lärarnas samverkansråd	7 500	The Church
Four smaller job security councils		1 000	

Source: *The Job Security Councils* (adapted from, Bäckström 2005; 2006, [www.tr.s.se](http://www.tr.s.se) and SOU 2002

Today, in all about two million employees in Sweden are included under job security agreements. These agreements are collective agreements reached between the social partners as the result of negotiations facilitated within the framework of Swedish employment protection legislation. The social partners in Sweden have traditionally taken a large degree of responsibility through labour legislation by means of collective agreements and over 80% of the workforce are in some form or other covered by these types of agreement.

The reason for this can be found in the semi-dispositivity of Swedish labour laws, meaning that the employment protection legislation is binding when it comes to a minimum level of protection that is not negotiable, at the same time as it leaves room for more advantageous conditions (be it for the employer or employee) in the form of collective agreements.

The job security councils were established to administer the support that is given in accordance with the respective Job Security Agreements. Their activities are organised under a special legal entity referred to as a *Collective Agreement Foundation* (*Kollektivavtalsstiftelse*). This specific form of foundation was created to satisfy important practical needs of the social partners. Among others, one advantage with this type of foundation is that it is exempted from having to pay taxes, under the condition that at least 80% of the foundation's returns on capital are redistributed to the clients (in the case of the job security councils the workers receiving some form of support).

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Each Job Security Council is made up by a board of representatives from the different partners involved in the agreement, with the seats split equally between the employer representatives and employee representatives. The board has the task of deciding upon the scope and content of the support that is to be granted. The councils' activities are financed by the employers who continuously contribute with a percentage of their total payroll. The contribution's level is determined as part of the collective agreement (e.g. in the TRR agreement listed above: 0.3% of payroll).

The job security councils' employees, both advisors and consultants, have a high degree of freedom to prepare, based on the decisions that are made by the board, the support for each and every employee individually. This possibility of providing support tailored to the needs of the individual is considered as one of the strengths of the Swedish job security councils.

When questions are raised concerning the interpretation of certain aspects of the agreement or its implementation, these are generally taken up and resolved between the different partners of the agreement. The councils are given an important role in providing workers with support in the event of restructuring and are described as highly valuable not only from an individual perspective but also from an economic as well as societal perspective. The same enquiry comes to the conclusion that there should be job security councils for all the sectors of the labour market in order to "guarantee an independent position, professionalism and quality" when it comes to restructuring issues. The municipal sector is currently witnessing the establishment and development of job security councils. This means, in principle, that the whole labour market is covered by job security agreements.

A number of company level programmes are described in the MIRE report published in April 2006<sup>25</sup>. A good example is the programme set up in 1997 by Swedbank which was created as a result of a merger between two major savings banks. Between 1992 and 1996 the two banks shed 5,000 of their 19,000 staff through the LIFO route. The problem of losing too many young and highly educated workers was seen as a threat to the new banks future profitability. Following the merger, Swedbank had overlapping branch offices and duplicated HQ services. Their requirement was to reduce the workforce over time by 3,000 staff whilst at the same time hiring 800 people in areas of skill shortage. In July 1997 the company gave an offer to all 14,000 staff to leave the organisation with access to a programme that included 6 month's severance pay, individual counseling, job-search training, medical examination, networking meetings and support in up-grading their IT skills. There were also preferential loans available for those who chose to start a new business. The target of the programme was 1,000 acceptances. The programme was supported by an extensive information campaign to communicate the offer to those choosing to lose but also the future mission and vision of the bank to those who chose to stay – more customer focus, more technology and the development of new products and services. In the end 1373 employees chose to join the "resource bank" set up to employ the workers during an agreed extended dismissal period.

Building on the Swedbank experience, the Swedish Post Office, Posten Futurum (see case studies) reduced their workforce by 4,000 and ensured that they retained essential staff by introducing both targeted incentives and clear cut selection criteria for those to whom the programme would become available.

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<sup>25</sup> Innovative restructuring in Sweden: an overview of existing research – Ola Bergström,

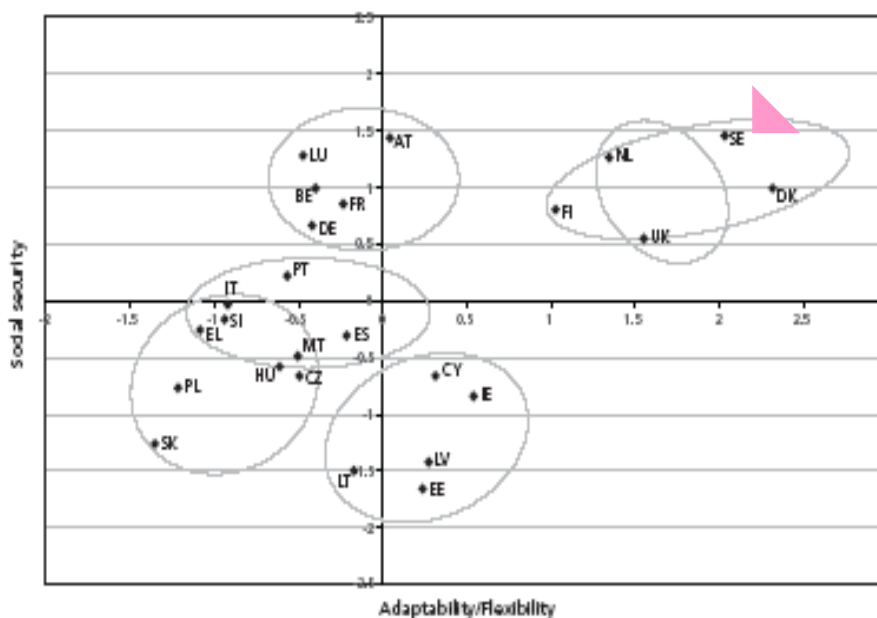
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Recognising that restructuring has become a permanent way of life in most organisations, some companies have set up permanent support units whose job it is to support employee's transition into new jobs both inside and outside the organisation. Examples of this approach are the telecommunications company Telia and the energy giant Vattenfall. This is an important development. In most countries, long term restructuring trends are dealt with by serial relatively short term negotiations.

## A review of flexicurity - Swedish style

According to most commentators, Sweden (along with its Nordic neighbours and the Netherlands) has an advanced system of flexicurity. If measures of social protection and adaptability are plotted against each other, Sweden performs particularly well (see below)<sup>26</sup>.

Figure 10 Adaptability/flexibility versus social security in EU Member States



Source: Authors' calculations.

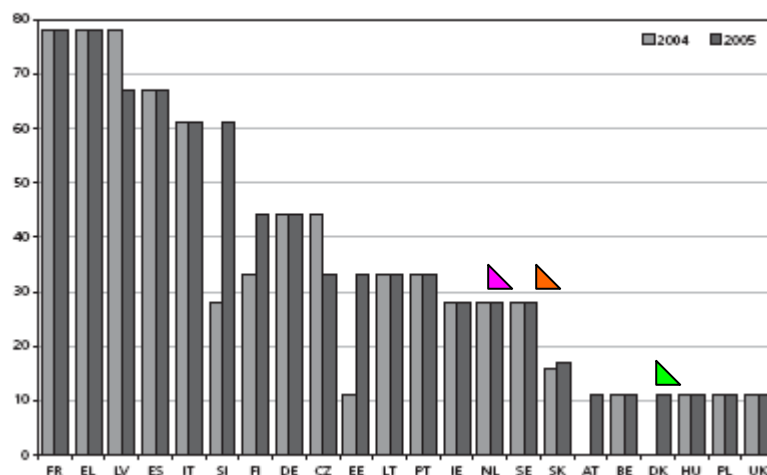
Related to this analysis, the reported ease of hiring and firing respectively are illustrated below. Sweden tends to follow the Dutch model of relative ease of hiring combined with a more restrictive legal approach to dismissals that provokes social partner engagement and agreement rather than the Danish model of ease of both hiring and dismissal (see below)<sup>27</sup>.

<sup>26</sup> Approaches to flexibility : EU models – European Foundation for the Improvement of Living and Working Conditions

<sup>27</sup> Approaches to flexibility : EU models – European Foundation for the Improvement of Living and Working Conditions

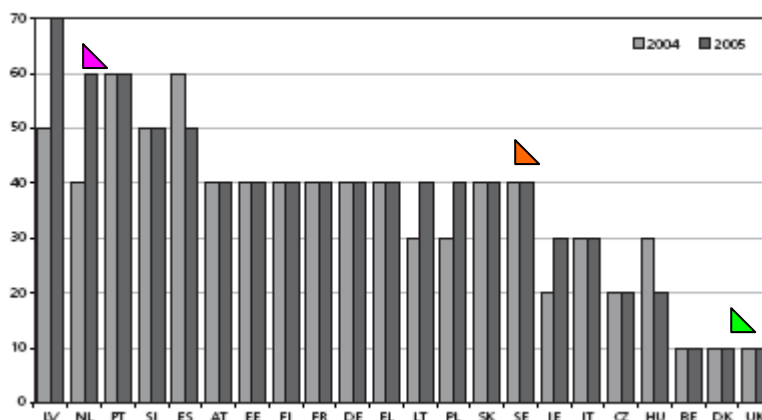
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Figure 1 Difficulty of hiring index, by country, 2004 and 2005



Source: OECD employment outlook 2004

Figure 2 Difficulty of firing index, by country, 2004 and 2005



Source: OECD employment outlook 2004

Flexicurity in Sweden is supported by the activities of employers in managing restructuring and by the state in its social protection and active labour market policies. The role played by major Swedish employers is described in the paragraphs above. State programmes follow similar lines.

## Section three – case studies

### Swedish Mail

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

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

The case presentation was made by a member of the postal workers trade union who described in detail what he explained had been a “long mental journey” from government service to free market orientation. The restructuring process not only changed the way the company was organised and run, but also the structure and management of the trade union. Over the period of restructuring the trade union had learned to live with change and to support employees in transition through providing security in the move from job to job. There were points in time where the leadership of the trade unions had a different point of view from their members in the need for wide-ranging change and had to help in ensuring they had a shared view of the future.

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

The extent of the change in the Swedish Mail system over 15 years has been enormous. The organisation employed 70,000 workers in 1993 and now employs 30,000. At the heart of the change are a series of collective agreements designed to promote security in transition and the “Futurum” structure that provides one year of job search and transition management coaching for individuals. The “Futurum” structure is a “Job Security Council” of the type described earlier in the report and was modelled on that used successfully in Swedish Telekom. The assistance offered is geared specifically to the needs of the individual. It rewards financially those who find early solutions and protects those who find transition more difficult. To date it has enjoyed a 95% success rate.

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

### Ericsson

The Ericsson case was presented jointly by the company’s Director of Industrial Relations and a senior employee representative.

Prior to the restructuring process Ericsson was a decentralised business with global operations employing 107,000 people in more than 140 countries. As a result of the restructuring exercise the company moved from an operating loss of SEK13bn in 2001

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to profitability in quarter three 2003. Headcount was reduced from 107,000 staff and 17,000 consultants to 54,000 employees. At the same time operational expenditure reduced from SEK88bn to SEK38bn.

## Methodology and results

Looking forward from 2001, the prospects for Ericsson looked excellent. No-one had predicted the change in paradigm brought about by the dot.com bust when demand for the company's products literally collapsed. Not only did the organisation need to rationalise its operations quickly, it also needed to shift from a decentralised organisation with duplicated resources and independent strategies to an organisation with stronger central control and governance.

The business turnaround focused on three simultaneous action plans – reductions in operating expenditure; increases in margins and the freeing up of capital through the disposal of assets. Operating expenditure was reduced in four stages over three years by 56% from SEK88bn to SEK33bn. Margins were improved by product rationalisation, outsourcing of manufacturing and centralisation of procurement. Cash flow was improved by the joint venture with Sony, sale and leaseback of facilities, stock reduction and capital restructuring.

In organisational terms, market units were merged from 100 to less than 30 and the number of R&D sites was reduced from 80 to 20. Headcount was reduced from 107,000 to 54,000 in 2004 and 47,000 today.

## Key success factors

Seven success factors were identified in achieving the turn-around;

1. Strong clear communication of targets and objectives - including the 100% commitment of executive management and their active involvement in delivery;
2. Giving the line organisation responsibility for delivery – with regular follow up and reporting to senior management;
3. Keeping focussed – setting step by step objectives for each target area and sticking to them;
4. External and internal benchmarking – identifying internal and external benchmarks to assist securing the buy-in of managers and staff to the changes;
5. Selective use of small numbers of consultants as strategic partners in the direction of the change process;
6. Close cooperation with trade unions (see later);
7. Meeting the leadership challenges of spreading understanding and managing frustrations.

## Social partners' involvement

The formal background to the change process included the use of and compliance with a variety of instruments including the Act of Codetermination; the Swedish Employment Act; the Agreement on Transition; the National Agreement on Efficiency and Participation; the Ericsson agreement on efficiency and participation; and the European Works Council. The most important elements of engagement however were providing

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employees and their representatives with accurate knowledge about the business situation and the recovery strategy; respecting the views of others; and building understanding and trust between management, trade unions and employees.

Whilst the European Works Council was an important bridge between the global strategy and the national change programmes, the emphasis of work was at the group, business unit and local plant levels involving those affected by the change process. Most meetings with employee representatives were held at the Group level (weekly or bi-weekly); at the Business Unit level and at the plant level.

In summary and as a result of the changes in Sweden, 15% of staff leavers had taken retirement; 65% had moved on into new jobs and 10% remained unemployed. The organisation's overriding people objectives are to remain an employer of choice with excellent human resource practices and to offer career security for those that work for the company.

It was suggested that after 10 years of constant restructuring through either growth or contraction, the organisation was today learning how to deal with restructuring effectively.

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