

Joint European social partners'
Work-programme 2006 – 2008

Joint study on the role of the social partners in
Restructuring in ten countries in the “EU15”

Synthesis Report for the seminar
held in Brussels on 19th and 20th June 2008

Prepared by Alan Wild
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Joint European level social partners' work-programme 2006 - 2008

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Executive Summary

1. This report on restructuring differs from many others due to its exclusive focus on the role of the social partners at the national, sectoral and enterprise levels in economic restructuring. It compares and contrasts how the social partners in different countries have anticipated and responded to the restructuring challenges faced by their national economies. It seeks to identify lessons for the future, transferable practices and to help shape the activities and priorities of the national and European level social partners in this area. The content of this report has been discussed and debated at the synthesis seminar on the role of the social partners in restructuring, which was held in Brussels on 19th and 20th June 2008.
2. The countries involved in this phase of the joint social partners' project, listed in the order the seminars took place, were the Republic of Ireland, the Netherlands, Greece, Italy, France, Austria, Denmark, Spain, the United Kingdom and Sweden. The participating countries represent a broad spread of economic and social shapes and sizes with a variety of models of social partnership. More than 200 representatives of employers' and trade unions in the ten countries attended seminars, and 25 organisations presented case studies. The following restructuring case studies presented at the seminars represent national and international companies of all sizes from the public and private sectors.
3. The main body of the report is presented in five sections. The first section examines briefly the nature of restructuring in the ten participating states. The following four sections discuss a series of themes identified by the project experts in their review of the content of the ten national reports;
 - ✧ "Flexibility and Security";
 - ✧ "Developing a shared diagnosis and agenda";
 - ✧ "Dealing with current and future skills gaps";
 - ✧ Two perspectives on "silent restructuring" - focussing on major change without significant job loss - "*Transformational change*"; and jobs created and lost in small and micro businesses "*Change below the radar*".

The nature of restructuring

4. The economies of Western European countries covered by this report are facing acute challenges associated with increasing international competition within and outside the European Union. The entry into the global economy of China, India and the ex Soviet Union countries has doubled the number of people working in the global market economy with the entry of 1.4bn workers. The ten countries in the sample all find it increasingly difficult to compete with countries with significantly differing operating costs, including lower labour costs. Over the medium to longer term, Europe's developed economies will have to cope with low birth rates and an aging population that drive up the ratio of dependants to the working population.

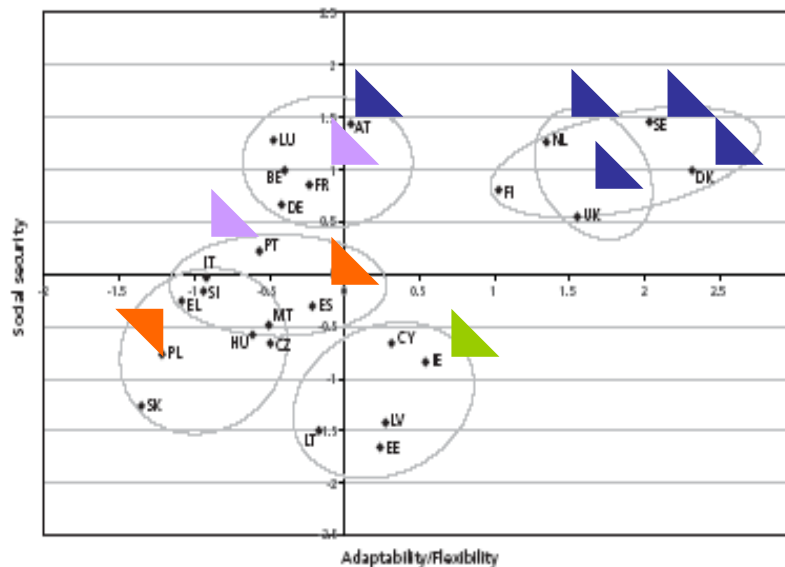
5. The word “restructuring” is often seen in a negative sense and to be synonymous with major job loss. It should be noted however, that technological and structural change in Europe has resulted in an overall increase in employment. Between 2000 and 2005 the overall net increase in employment in the whole European economy was nearly seven million – a net increase of almost 1.4 million each year.” The burden of job loss has not however fallen evenly between sectors and regions and there are often clear distinctions between those who have gained and those who have not
6. One of the most significant general trends has been the shift in share of GDP and of employment from manufacturing to services. Whilst it is clear that there has been a substantial change in the sectoral structure of employment, the data has been assessed with a degree of caution. The generally noted shift in employment concentration from industry to services is, in part, associated with the outsourcing of cleaning, security, cafeteria and restaurant services and IT activities from manufacturing companies to specialist service providers.
7. Where new jobs are being created, and how they compare qualitatively and quantitatively with the jobs lost, is an important consideration. Small and medium sized companies have experienced huge employment growth in recent years and have acted as “shock absorbers” in the restructuring process. Companies with 1 to 19 employees create twice as many new jobs as other small and medium sized enterprises and that net job creation diminishes with organisational size. Similarly most new jobs are created in young small enterprises less than five years old.
8. Restructuring that rarely attracts public attention is the internal restructuring that takes place within organisations often without recourse redundancies , and that transform the organisation’s effectiveness and competitiveness. Likewise, small numbers of job losses in small companies that in aggregate produce a significant employment effect often fall below the radar of those that measure the effects of restructuring. These sometimes result from the knock-on effect of major restructuring in client organisations, but also take place in complete sectors where small businesses predominate. These forms of restructuring are looked at in detail in theme four of this report dealing with so-called silent restructuring.
9. Restructuring of companies involving offshoring, or international relocations, have been covered in often spectacular form in the media, but are much less significant in reality. The European Restructuring Monitor (ERM) of the European Monitoring Centre of Change (EMCC) based in the European Foundation for the Improvement of Living and Working Conditions estimates that just 6.5% of jobs lost in Europe were through international relocation. One important effect of offshoring on restructuring is often not considered. The fact that a number of high profile companies have offshored major activities, and that these have been covered in the media, has resulted in the “perceived threat” of offshoring amongst Europe’s workers being heightened. On the one hand companies are more likely today to seriously review offshoring options and to benchmark costs of manufacturing and service provision. On the other, workers are more likely to discuss internal restructuring as the result of their increased perceived threat of job loss. A similar phenomenon is associated with the threat of “private equity take-over”. The private equity industry has become an extremely important player in the global economy and private equity companies have been at the heart of a number of major restructuring exercises.

10. A final and important factor in the examination of restructuring is that the financial nature of the management of redundancies has changed. Twenty years ago, companies that made people redundant did so because the companies involved were in financial difficulty or were bankrupt. Today profitable companies make decisions on job losses more frequently because they wish to retain their competitiveness by shifting the location of production to more cost effective regions or countries.
11. In a number of the national seminar reports, public sector performance, cost and productivity were highlighted either as current or future restructuring priorities. Pressures on the public purse have resulted in a series of national initiatives to make the public sector more efficient and more effective. At the same time there are considerable upward pressures on spending on pensions, health and education and ageing populations, new technological possibilities in healthcare and the skills demands of knowledge economies add to the need to control and redistribute public spending.
12. It should not be surprising therefore that it is reported throughout the dossiers that restructuring has become more frequent, and in many companies a permanent state of change. The engagement of the social partners in some companies has shifted from “project to project” involvement to a permanent state of discussion and negotiation.

Theme one – Flexibility and security

13. The section above explains briefly the challenges facing Europe's economies and labour markets. Improving competitiveness and the development of a country's capacity to “bounce-back” from economic shocks requires the creation of more flexible labour markets at the national, regional and enterprise levels. On the other hand Europe's workers, brought up on a history of relatively secure and stable employment, seek employment security in the climate of rapid structural change. In policy terms, balanced measures that address both flexibility and security for workers and employers and that create win/win solutions are needed.
14. In the ten sample countries there are a variety of social partner views on, and approaches to, flexicurity. Denmark and the Netherlands are often used as benchmarks for flexicurity but it was clear from the national reports that no single flexicurity solution exists for all member states, and any reforms must take into account the political, economic, social and legal environment of the country.
15. Although the underlying methodology behind the analysis is not universally accepted, the illustration below was used to encourage discussion in the national seminars. For our purposes, and to inform the following paragraphs, the ten participating countries in this report are identified.

Adaptability/flexibility versus social security in EU Member States



16. The spread of countries in our sample is convenient for the purpose of analysis and discussion of the role of the social partners in flexicurity with the countries falling in all four quadrants. Five countries are in various places in the “high flex/high security” upper right quadrant (Sweden, the Netherlands, Denmark, Austria and the UK); the Republic of Ireland falls in the “high flex low security” quadrant; France and Italy are marked by high security with low levels of flexibility; and Greece and Spain fall in the least favoured lower left quadrant.
17. The countries in the upper right quadrant illustrate the point that there is no one route to flexibility and security and no single model role for the social partners. In fact, of the four countries at the centre of the upper right quadrant there are three quite distinct models. What is important for the social partners and policy makers is to understand how the various systems work and, in particular, what the role of the social partners has been in achieving success.
18. The three distinct models are Sweden and the Netherlands; Denmark; and the UK. The relatively restrictive approaches to dismissal in Sweden and the Netherlands encourage positively minded social partners to develop innovative and responsible approaches to the management of change. Whilst the trade unions in both countries share the notion that economic success is born out of embracing change through better anticipation and management, employers are encouraged to enter into dialogue as mass dismissals are difficult to implement in the absence of agreement with representatives of workers. Both the UK and Denmark share places at the low end of both the ease of hiring and ease of firing spectrums. Their approaches to restructuring are however quite different from each other. The Danish model is based around positive social dialogue between strong and representative social partners. The UK model is based around low levels of legal obligation in the area of employment (in European terms); the promotion of competition; and state and privately run agencies that are generally effective minimising job transition times.
19. The European Commission report on flexicurity suggests that it is difficult to draw concrete conclusions around the role of the social partners in flexicurity as their roles in the upper right quadrant countries are markedly different. It is clear that in the Nordic and Dutch models the social partners’ role is based on development over a long history and the relationships between the employers and trade unions are based on trust and cooperation. In these countries the authorities see the social partners

themselves as key players in the acceptance, implementation and often management of employment policy initiatives. In the UK, companies are not protected from national and international competitive influences and light levels of regulation allow them to restructure relatively rapidly to meet the demands of the market. On the other hand, government, companies and private agencies invest significantly in lifelong learning and the management of job transitions.

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

Theme two – “Developing a shared diagnosis and agenda”

21. The positive impact of the social partner organisations on restructuring is based not just on cooperation and trust but in addition on two clear, but simple, pre-requisites. First the social partners should have a realistic and shared analysis of the issues facing the economy currently and in the future. Second, they should have a clear and shared diagnosis of the broad approach that needs to be taken to labour market policy. Only from this point of departure can they start to discuss and debate appropriate policy solutions and the various options open to them and to government.
22. The extent to which the social partners participating countries share a diagnosis and agenda varies. In few countries was there a shared diagnosis of the key issues that enabled a joint agenda to be discussed or negotiated that took the economy forward. The ability of the social partners to develop a shared analysis, diagnosis and agenda for change often depends on the attitude of government to the work and recommendations of the social partners. Whilst a number of governments encourage social dialogue and create the space for social partner ideas to be implemented either through agreement or with the support of government, others are less enthusiastic about encouraging the social partners to reach common views and/or taking these views into account.
23. At the enterprise level it was pointed out in more than one of the national seminars that social partner involvement in discussions on problem diagnosis and an agenda for change can be limited when the parent company is headquartered outside of the country.

Theme three – “Dealing with current and future skills gaps”

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

workforce to match the evolving labour market. The second more immediate, and more controversial policy response is the attraction of migrant workers who possess the skills needed by the economy. Whilst this policy attracts people who are almost immediately effective and net contributors of tax revenues, they are often unpopular in the countries where labour comes and in the countries that attract them. It seems that whilst the economic arguments in favour of migration have been well made, the social argument has a long way to go before it is won or lost.

25. The educational achievement of the current working age population in the ten participating countries falls into three clusters. At the top end are Sweden, Denmark and Austria. At the lower end are Spain, Italy, Greece and the Republic of Ireland. For Spain and the Republic of Ireland it might be argued that investment in education during the recent years of major economic success has not been sufficient. Looking at expenditure on education versus results, it appears that Italy and France do not get best value for their investment relative to the other countries in the sample. Looking at the involvement in training and education of the existing workforce, the four countries scoring well on lifelong learning are Sweden, Denmark, the Netherlands and the United Kingdom.
26. A simple and immediate policy response to the combined skills shortages and social security funding issues that face a number of “old Europe’s” countries is the national and international mobility of workers with skills in areas of need. In some economies this need is at the higher end of the skill spectrum, in others migrants have helped sustain the construction and hotel and restaurant sectors. The economics of inward migration to the “receiving countries” are fairly straightforward. Migrants pay taxes, act as consumers of domestic goods and services and fill job vacancies that, if left open, would put a brake on economic development. In every country visited however, the issue of legal and illegal migrant labour was a topic of discussion that often led to controversy.

Theme four - Perspectives on silent restructuring

Organisational change without significant job loss

27. One of the objectives of the project was to open a new avenue of enquiry not related exclusively to the management of collective redundancy, but into the challenges that face organisations as they attempt to produce more and better products and services with the same or fewer resources. In recent years, major organisational change initiatives of this kind have taken place in some of Europe’s largest companies. These changes have often taken place where management and workers have developed plans to improve competitiveness as an alternative to the options of outsourcing or offshoring.
28. It is the view of many senior human resource practitioners in both the public and private sector that it is often “easier” to deliver efficiency through significant job losses than it is to do with a stable workforce. In the Irish case studies for instance, the relative ease of handling a plant closure is contrasted with the difficulties faced by both sides of the social partnership in achieving substantial changes in working conditions and employment practices. It is especially difficult when significant numbers of employees lose their jobs and those that remain are expected to achieve similar results with fewer staff.

29. Delivering challenging organisational change objectives in public sector organisations often means convincing workers who have enjoyed considerable levels of job security and many years experience of a relatively “change free” environment that things need to change. From this point of view, high levels of engagement between the social partners and between the organisation and its workers are even more essential to success than in other circumstances.
30. One of the major issues facing change in the public sector is that organisations often seek to achieve two logical, but conflicting strategies. The first is to “privatise” or “quasi-privatise” public service contracts of employment and human resource practices. The second is to introduce transformational process or organisation changes that require people to work either differently or more intensively. Transformational change is easier to achieve when HR interventions are designed to foster an overall sense of certainty and confidence when day to day activities are full of uncertainty and pressure. This is not possible when measures to change long standing contractual and employment security arrangements take place alongside transitional change initiatives.

Change below the radar

31. Small and medium sized enterprises constitute the dominant form of business organisation in the ten participating countries and in the EU as a whole. Of an estimated 23 million enterprises in Europe, more than 99% are small and medium sized (SMEs). Nine out of ten SMEs are micro enterprises employing less than 10 workers and these businesses employ 30% of the European workforce. Para 7 above describes the role “small” and “young” enterprises play in Europe’s net job creation.
32. In sectoral terms, SMEs are most likely to be found in construction, hotels and restaurants and retail and distribution. Companies employing less than 10 workers make up between 40% and 50% of Europe’s businesses in these three areas. Companies employing less than 50 workers make up almost three quarters of construction and hotel and restaurant businesses and around 60% of employers in the distributive trades.
33. The distinction between the contribution to national GDP, employment and job creation between “micro” and medium sized enterprises deserves comment. The long standing and commonly adopted definition of an SME is a company employing less than 250 workers. In reality this is not a helpful definition and comprises three important subsets with very different characteristics and deserving differing policy treatments. “One person” enterprises make up around a half of SMEs; small or micro enterprises employing less than ten workers make up around 40% of SMEs; and medium sized enterprises, generally considered to employ more than 50 workers, make up just 1% to 2% of SMEs. If substantive work is to be undertaken with the SME in mind, the focus should be centred on the needs of “one person” enterprises and those companies employing less than say 10 or 20 workers.
34. In the national seminars, the focus of discussion on small and micro enterprises was limited but three important issues emerged.;
- ✧ It was suggested that “one person” enterprises tend to grow by “trading” rather than “employing” and increasingly they trade with companies internationally to secure lowest purchase prices;
 - ✧ In some countries and sectors, the role played by “industrial districts” in promoting innovation and supporting transition has been important. Case

examples were presented from the textile district of Prato in Italy and the Plastics Cluster in Upper Austria;

- ✧ Finally, although small companies are generally less inclined to dismiss their workers, when they run into financial difficulties, the speed of change in small companies and its impact on the broader economy can be significant. This is particularly the case where there is a high degree of concentration of small companies in a particular sector. The construction industry is a good example of a highly volatile sector where the collective actions of a large number of small employers can produce a substantial aggregate effect on the economy.

Background and introduction

There exists a huge volume of recently written reports, publications and articles on the subject of economic restructuring in the European Union and globally. The extent of investment in current research projects on restructuring at national, European, OECD and global levels is frankly enormous. Whilst this report uses the content and findings of many earlier publications, it is distinctive because of its single minded focus on one important aspect of the subject. The report has been commissioned by the European level social partners¹ and looks specifically at the role of the social partners at the national, sectoral, regional and enterprise levels in economic restructuring.

As a result of the research and discussion described below, we are able to compare and contrast how the social partners in different countries have anticipated and responded to the restructuring challenges faced by their national economies. It is hoped that through this process we can identify lessons for the future, transferable practices and help shape the activities and priorities of the national and European level social partners in this area.

In considering economic restructuring, much of today's research concentrates on mass redundancies or lay-offs in large enterprises. The European Restructuring Monitor (ERM) located in the European Monitoring Centre on Change (EMCC) of the Foundation for the Improvement of Living and Working Conditions, for example, measures only instances where more than 100 jobs are either created or lost. An important objective of this project has been to go beyond defining economic restructuring in terms of mass job losses in single enterprises. The social partners also have a key role to play in what we described in earlier phases of the project, and what has become the accepted term, "silent restructuring". Silent restructuring has two main forms. First, it takes place when organisations undergo internal organisational change that typically requires employees to undertake new and different responsibilities in order to improve organisational performance. These kinds of changes, and the role of the social partners in designing and implementing them, are important as they are major vehicles for change in public services and often obviate the need for mass job losses in companies needing to improve competitiveness. Second, silent restructuring takes place in small and micro enterprises that fall below the radar of those examining restructuring. The cumulative effect of job loss in a number of small enterprises can be significant to a sector, region or a national economy, and takes place where the enterprises themselves do not have the means to adopt the more progressive approaches to managing change often witnessed in larger companies.

This report, describing the second phase of a three phase project, was prepared for presentation and discussion at a seminar for the social partners in every European Union

¹ ETUC, BUSINESSEUROPE, UEAPME and CEEP

Member State that was held in Brussels on 19th and 20th June 2008. It is based on the content of ten country reports prepared by five experts² and which have already been discussed by the social partners in each country during the course of 2007 and 2008. The countries involved in this phase of the project, in the order in which the seminars were held, were the Republic of Ireland, the Netherlands, Greece, Italy, France, Austria, Denmark, Spain, the United Kingdom and Sweden. The national reports each followed an identical format covering;

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

The schedule for this phase of the project was;

Country	Date	Report prepared by
Ireland	23 rd and 24 th April 2007	Tom Hayes
The Netherlands	12 th June 2007	Valeria Pulignano
Greece	28 th and 29 th June 2007	Antonio Dornelas
Italy	23 rd and 24 th October 2007	Valeria Pulignano
France	21 st and 22 nd November 2007	Goran Hultin
Austria	10 th and 11 th March 2008	Eckhard Voss
Denmark	9 th and 10 th April 2008	Eckhard Voss
Spain	28 th and 29 th April 2008	Antonio Dornelas
The United Kingdom	6 th and 7 th May 2008	Tom Hayes
Sweden	14 th May 2008	Goran Hultin & Alan Wild
Final seminar	19 th and 20 th June 2008	Alan Wild

The report and seminar are set in the context of previous and future phases of the restructuring project. Prior to the commencement of this phase of the project, national reports and country seminars were held in the ten “2004 entry” Member States³. These reports, the notes of the ten seminars and the synthesis report used for the closing seminar of the first phase of the project held in June 2006 are available on the European employer and trade union resource centre web sites⁴. Later in 2008 and during the course of 2009, seven more reports will be prepared and national seminars held in Belgium, Bulgaria, Finland, Germany, Luxembourg, Portugal and Romania. At the end of the project, it will be possible to compare and contrast the role the social partners play in restructuring in 27 countries with differing trade union and employers’ organisation characteristics; a variety of approaches to social dialogue and who face differing economic challenges.

² Antonio Dornelas, Tom Hayes, Goran Hultin, Valeria Pulignano and Eckhard Voss

³ Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia and Slovenia.

⁴ www.erc-online.eu and www.resourcecentre.etuc.org

The purpose of the report on this phase of the project was to inform and to encourage discussion and debate on its content at the synthesis seminar on the role of the social partners in restructuring. The discussion that took place at the synthesis seminar will help shape the content of the final phase of the project and that of the final publication comparing and contrasting the role of the social partners in restructuring in 27 countries. The report attempts to be analytical rather than descriptive. Readers interested in descriptions of the macroeconomic challenges facing each of the ten countries and/or descriptions of the social partners and the roles they play in restructuring are directed to the ten national reports available on the employer and trade union websites (see footnote).

The main body of the report is presented in five sections. The first section examines briefly the nature of restructuring in the ten participating states. The following four sections discuss a series of themes identified by the project experts in their review of the content of the ten national reports. The themes have been used to shape the agenda of the synthesis seminar and can be summarised as follows;

- ✧ *“Flexibility and Security”* – The participating countries adopt very different practical and policy approaches to the issues of “job protection” and “job transition”. This section of the report reviews the approaches taken and the roles played by the social partners on internal and external flexibility and security in their country through social dialogue;
- ✧ *“Developing a shared diagnosis and agenda”* – It is difficult for the social partners to play an effective role in the management of restructuring unless they have a shared diagnosis of the problems facing the economy; are able to predict and anticipate change; and can develop a shared agenda. The report assesses the successes and failures of the social partners in current and predictive analyses of restructuring in their countries;
- ✧ *“Dealing with current and future skills gaps”* – The social partners in every participating country highlighted the importance of current skills gaps; future skills gaps; or both. Raising standards of educational attainment provide the long term answer; lifelong learning initiatives work faster and assist the current workforce to manage transitions; and for some countries inward migration of workers, although often controversially, holds the key to the filling of more immediate skill gaps.
- ✧ *Two perspectives on “silent restructuring”;*
 - i) *“Organisational change without significant job losses”* – much of the focus of restructuring falls on either job losses or outsourcing. Less attention is devoted to change that takes place within the workplace when existing employees are asked to “do things differently”. This kind of organisational change occurs in organisations of all sizes and from all sectors and often prevents plant closures and job loss. It also holds one of the keys to the need identified by many governments of improving productivity in the public sector. Social dialogue plays a key role in facilitating this kind of change and the report discusses the role the social partners have played in bringing about internal change and the problems they have faced;
 - ii) *“Change below the radar”* – Jobs lost in small and micro businesses do not appear in restructuring statistics and small companies are

often the least able to provide support for those who lose their jobs. The report examines the role of the social partners in promoting employment growth in small businesses and supporting those losing their company or their jobs.

During this phase of the project, more than 200 representatives of employers' and trade unions in the ten countries attended seminars, and 25 organisations presented case studies. The following restructuring case studies presented at the seminars represent national and international companies of all sizes from the public and private sectors. They are described in detail in the national reports.

Austria	Denmark	France	Italy
<ul style="list-style-type: none"> ➤ ÖBB Holdings; ➤ Austrian Airlines Group; ➤ T-Mobile Austria ➤ SHT Group; ➤ The Plastic Cluster – Upper Austria. 	<ul style="list-style-type: none"> ➤ Nordea; ➤ Codan Rubber; ➤ Danish local government reform. 	<ul style="list-style-type: none"> ➤ Kodak; ➤ La Poste. 	<ul style="list-style-type: none"> ➤ Ferrania Imaging Technologies; ➤ The Textile industrial district of Prato; ➤ Poste Italia.
Greece	The Netherlands	Republic of Ireland	Spain
<ul style="list-style-type: none"> ➤ Laro Abee; ➤ Ellathrio Strom; ➤ Elefsis shipyards. 	<ul style="list-style-type: none"> ➤ KPN Telekom; ➤ Altuglas. 	<ul style="list-style-type: none"> ➤ Cadbury Ireland; ➤ Aer Lingus. 	<ul style="list-style-type: none"> ➤ RTVE; ➤ The Industrial observatories.
Sweden		United Kingdom	
<ul style="list-style-type: none"> ➤ Ericsson; ➤ Swedish Mail. 		<ul style="list-style-type: none"> ➤ Cadbury plc; ➤ The National Health Service – the Hospital at Night. 	

Throughout the paper “good practice” national profiles or “mini-cases” are illustrated for each of the themes. The paper deliberately highlights the better practices emerging from the national reports and seminars and does not focus unduly on problems unless there are valuable comparisons to be made or helpful lessons to be learned. Whilst the less positive comments associated with social partner engagement in change are included in the national dossiers, the main purpose of this paper is to identify and to encourage the transfer of best practice rather than highlight shortfalls or problems.

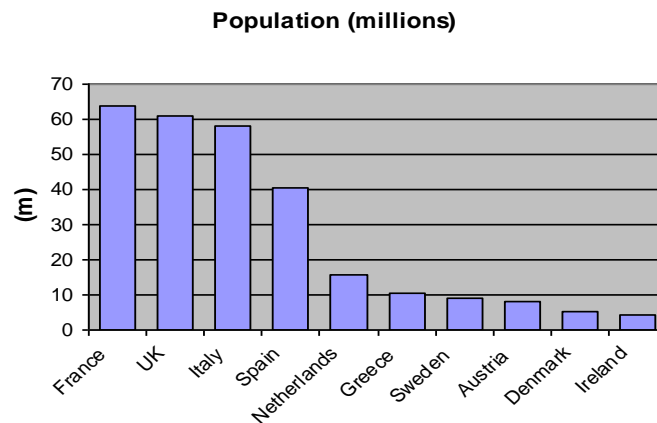
Finally, this paper is presented as an “expert report”. It represents the views of the author, the project expert coordinator, and the project experts responsible for the national dossiers. It does not purport to represent the views, either individually or collectively of the European social partners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

The nature of restructuring in the ten EU member states

Summary economic data

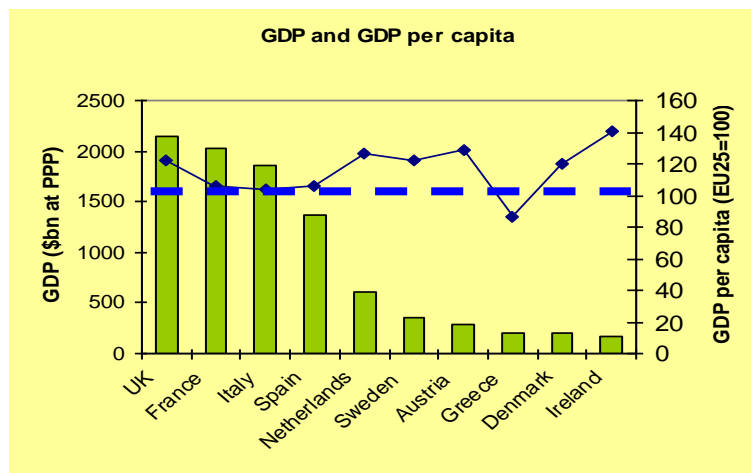
The first section of each of the national reports contains a detailed description of the nature of the economy both in pure economic and in more social terms. The second section of each national report gives key facts on the social partner organisations. This data provides the essential economic and social background against which the social partners act in restructuring.

For those seeking an in depth review of the ten participating country economies and descriptions of the social partners, these can be found in each national report. For the purpose of this report, a series of overview charts are included which draw attention to the considerable variations between the ten countries in terms of population; GDP and GDP per capita; the composition of the economy in GDP and employment terms; and the representivity of the social partner organisations measured in terms of membership density. The data that relate specifically to the main themes of the report are presented in the relevant section. For example, education data is presented in the section dealing with “current and future skills gaps”.



Eurostat 2008

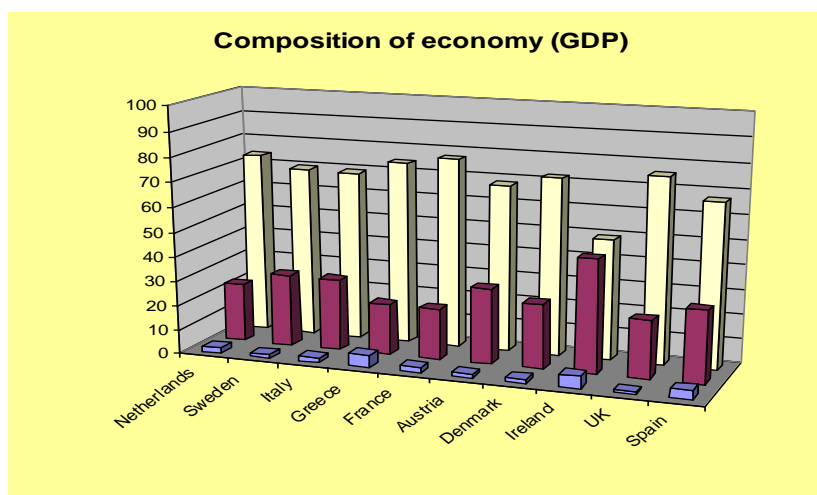
The populations of the countries vary widely, from the UK and France with more than 60 million inhabitants to Denmark and the Republic of Ireland with just over five million and four million respectively.



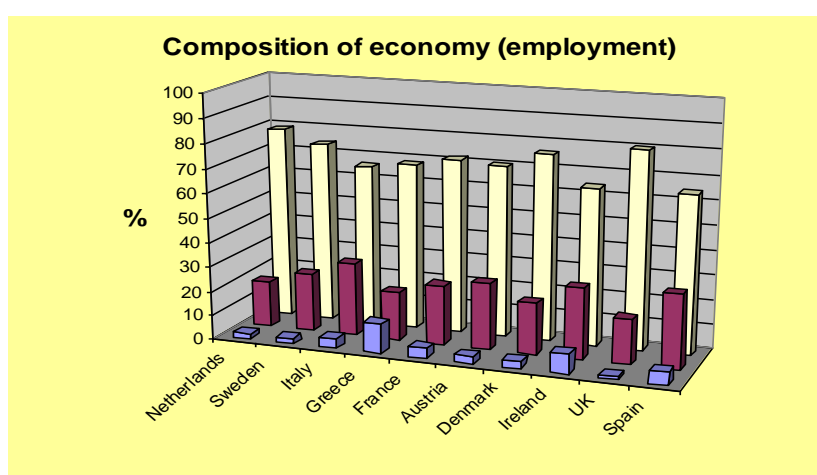
Eurostat (2007 data)

The differences in population are reflected almost exactly in variations in GDP. Ranked by GDP per capita, the difference in per capita contribution to national performance results in the UK moves one place higher, above France; and Greece drops two places below Sweden and Austria. It can be seen from the GDP per capita index on the right axis that the UK, the Netherlands, Sweden, Austria, Denmark and the Republic of Ireland “over-perform” against the EU25 average. Greece “under-performs” with a GDP per capita score of just over 80% of the EU25 average.

Below are two views of the sectoral make-up of the economies between agriculture (blue), industry (red) and services (yellow) both in terms of contribution to GDP and employment.



Eurostat (2007 data)



Eurostat (2007 data)

In general terms it can be seen that services dominate in every country in both GDP and employment terms. Productivity, measured by the difference between GDP and employment shares, tends to be higher in industry than in either services or agriculture. The ten country sample includes five countries where services are relatively more important – the Netherlands, France, Greece, Denmark and the UK. In five other countries the industry share of GDP is relatively high – Sweden, Italy, Austria, Ireland and Spain. Interesting points of variance from the norm within the sample are that the Greek level of service sector contribution is driven by tourism related services and in the Republic of Ireland the extraordinary share of industry in GDP is influenced strongly by the attractiveness of the country's corporation tax rate to multinational companies and their decision where to "take profits".

Summary data – the social partners

The following table summarises employers' organisation density (red), trade union density (blue) and provides an index of "strike activity" (yellow). In general terms, the strength of social dialogue in Sweden and Denmark is clear from the membership density of both

trade unions and employers. Conversely the UK has the lowest combined membership density profile.

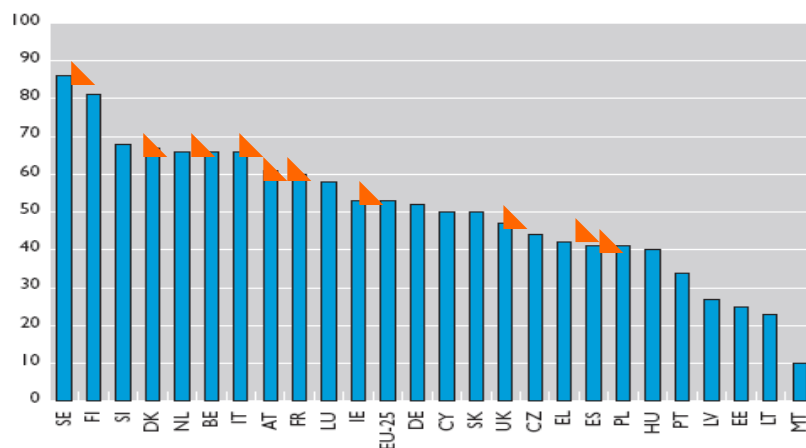


EIRO industrial relations profiles 2008

Assumptions based on what appear to be “outlying” data can be misleading. Relatively low trade union density in France and Spain are driven not by an absence of interest in “worker solidarity” but by the role trade union membership plays in enterprise works council elections. Conversely, the very high level of employers’ organisation density in Austria is due to the legal requirement for all employers to belong to the “Chamber” system.

Perhaps a better picture of the engagement and influence of the social partners in dialogue at the enterprise level is gained by examining the number of employees that benefit from having a trade union presence at their workplace. (see illustration below – report countries flagged)

Trade union or similar present at the workplace % of employees



European Commission, European Industrial Relations Report, p. 71. Based on 2006 data

The nature of restructuring

The economies of Western European countries covered by this report are facing acute challenges associated with increasing international competition within and outside the

European Union. The entry into the global economy of China, India and the ex Soviet Union countries has doubled the number of people working in the global market economy with the entry of 1.4bn workers. The ten countries in the sample all find it increasingly difficult to compete with countries with significantly lower labour costs. Over the medium to longer term, Europe's developed economies will have to cope with low birth rates and an aging population that drive up the ratio of dependants to the working population. The solution for Europe, described in the Lisbon agenda, is to invest in physical and human capital that result in the creation of higher value added occupations. In the face of these requirements, current levels of performance in most of the "ten" countries in research and development expenditure; the education of young people and those currently in the workforce; labour market flexibility; and the design of retirement schemes appear insufficient by many measures.

The generally accepted perception of restructuring, and certainly that focused upon by the media and the many monitors of restructuring that exist, is that it involves companies announcing and giving effect to significant job losses. Of course job losses occur as a consequence of business closures; outsourcing, relocation and offshoring; the substitution of labour for capital; and more general productivity enhancing initiatives. In previously state owned enterprises and utilities, restructuring has been driven by the widespread privatisation and liberalisation strategies adopted by most European governments.

Equally important in the consideration of the social impact of restructuring is a review of where new jobs are being created and how they compare qualitatively and quantitatively with the jobs lost. Small and medium sized companies have experienced huge employment growth in recent years and have acted as "shock absorbers" in the restructuring process. Some countries have been much more successful at job creation than others and it is important to understand why.

This led one of the project experts, Eckhard Voss, to comment;

*"Not a day goes past without announcement in the daily economic press of cases of corporate and company restructuring –in the form of closures, relocations, privatisation projects, mergers and acquisitions- often with the resulting downsizing of workforces. This negative connotation associated with restructuring in the public debate is quite understandable as we all know that "bad news is good news". But it also makes the point that restructuring and structural change is a permanent feature of economic life, that there is a need for companies to constantly adapt and innovate in order to remain competitive in today's economic environment. Furthermore it must be recalled that structural change in Europe has resulted in an overall increase in employment. Between 2000 and 2005 the overall net increase in employment in the whole European economy was nearly seven million – a net increase of almost 1.4 million each year."*⁵

The illustration below shows the importance of "small" and "new" businesses to job creation. The flagged data shows that companies with 1 to 19 employees create twice as many new jobs as other small and medium sized enterprises and that net job creation diminishes with organisational size. Similarly most new jobs are created in "young" enterprises less than five years old.

⁵ Eckhard Voss – Structural change, company restructuring and anticipation of change in the European small and medium-sized enterprise sector" - 2007

Average job flow rates in Europe by company characteristics (average % of total employment over the period 1992 to 2001)

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

Source: ECB based on Amadeus database

Jobs recorded as being “created” are often genuinely “new jobs”, but they are also the result of outsourcing or relocation of activities within the country concerned or jobs “lost” elsewhere coming into the economy from a third country. Jobs measured as “lost” in, for example, the privatisation of utilities are often still to be found in the organisations to which work has been outsourced or relocated. Indeed, the generally noted shift in employment concentration from industry to services is, in part, associated with the outsourcing of cleaning, security, cafeteria and restaurant services and IT activities from manufacturing companies to specialist service providers. In the UK between 1998 and 2006, 10% of the fall in manufacturing employment was accounted for simply by the switch in classification of employer from manufacturing to service. This data does not include the widespread outsourcing of occupations like cleaning, restaurants, security and IT services which, although not recorded in readily available statistics, has resulted in an even more significant transfer of “manufacturing” to “service” jobs. The restructuring question is often one of categorisation rather than job loss. Restructuring produces both quantitative and qualitative changes in jobs and employment. Genuine job loss and changes in the employment conditions of jobs transferred elsewhere are different phenomena that ought not to be mixed up in the analysis of restructuring. To do so risks the adoption of inappropriate or ineffective policy solutions.

Restructuring that rarely attracts public attention is the internal restructuring that takes place within organisations without recourse to major redundancies and that transform the organisation’s effectiveness and competitiveness. Likewise, small numbers of job losses in small companies that in aggregate produce a significant employment effect often fall below the restructuring monitor radar. These sometimes result from the knock-on effect of major restructuring in client organisations, but also take place in complete sectors where small businesses predominate. These forms of restructuring are looked at in detail in theme four of this report dealing with so-called silent restructuring.

Restructuring of companies involving offshoring, or international relocations, have been covered in often spectacular form in the media, but are much less significant in reality. The European Restructuring Monitor estimates that just 6.5% of jobs lost in Europe were through international relocation. In Denmark, one of Europe’s most open economies, 24% of Danish manufacturing firms, 8% of service firms and 11% of all Danish companies offshored activities between 2002 and 2005. Less than 2% of organisations had offshored more than 40% of their output. The most important destinations were Central and Eastern Europe and China. Although coming from a small base, offshoring volumes in the Netherlands doubled between 1995 and 2005 with 10% of enterprises reporting international relocations in 2005. 52% of offshoring goes to Central and Eastern Europe, 16% to China and 11% to India. One important effect of offshoring on restructuring is often not considered. The fact that a number of high profile companies

have offshored major activities, and that these have been covered in the media, has resulted in the “perceived threat” of offshoring amongst Europe’s workers being heightened. On the one hand companies are more likely today to seriously review offshoring options and to benchmark costs of manufacturing and service provision. On the other, workers are more likely to discuss internal restructuring as the result of their increased perceived threat of job loss.

A similar phenomenon is associated with the threat of “private equity take-over”. The private equity industry has become an extremely important player in the global economy and private equity companies have been at the heart of a number of major restructuring exercises. Since 1984, the amount invested by the UK private equity industry into UK businesses totals over £70 billion in around 25,000 companies. The UK private equity industry continues to be the largest and most developed in Europe, and second only to the USA in world terms, accounting for 57% of total European private equity investment in 2006.

Whilst UK private equity companies employ around 3 million workers and have turned in impressive financial results, trade unions have been extremely critical of the industry. It is claimed⁶ that by their very nature, private equity firms cannot have a long-term perspective that recognises the rights and interests of workers. It is suggested that they see the workplace as a “bundle of assets” to be manipulated and squeezed for as much cash as possible in the shortest time before they “dispose” of their investment. Trade unions also claim that the private equity industry benefit from unfair taxation support compared to the “Joint Stock Company” form of business ownership.

The current liquidity crisis has deflated the private equity balloon to some extent, but it is very likely that these organisations will play an important role in the future.

A final and important factor in the examination of restructuring is that the financial nature of the management of redundancies has changed. Twenty years ago, companies that made people redundant did so because the companies involved were in financial difficulty or were bankrupt. Today profitable companies make decisions on job losses more frequently because they wish to retain their competitiveness by shifting the location of production to more cost effective regions or countries. Quoting an Austrian seminar participant;

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

Continuous competitive benchmarking is more relevant as the lifetime of capital investments reduces. Major investment decisions that provoke decisions on where products should be made are being taken more often. In this situation, companies are able to approach the question of job loss using a cost benefit analysis of the variety of available options. This means that companies are often prepared to invest fairly heavily either in job transition support or in paying high levels of redundancy payments to support work transfer.

It should not be surprising therefore that it is reported throughout the dossiers that restructuring has become more frequent, and in many companies a permanent state of change. The engagement of the social partners in some companies has shifted from “project to project” involvement to a permanent state of discussion and negotiation.

⁶ International Union of Foodworkers : A Worker’s Guide to Private Equity Buyouts 2007

Public sector restructuring

Throughout Western Europe the public sector grew rapidly during the 1950's and 1960's as state welfare provisions expanded in the immediate post-war years. Since this time pressures on the public purse have resulted in a series of national initiatives to make the public sector more efficient and more effective. Throughout the developed world, the often open ended and demand driven commitments made in the immediate post war model (in healthcare and pensions in particular) were leading countries into serious macroeconomic financial difficulties. At the same time changes in the internationalisation of the economy has limited Governments' independence in managing the national economy and in the determination of the size and scope of government activity. To further exacerbate the situation, the upward pressures on spending on pensions, health and education remain. Ageing populations, new technological possibilities in healthcare and the skills demands of knowledge economies add to the need to control and redistribute public spending.

The first European country to pursue a policy of aggressive restructuring of the public sector was the United Kingdom. A condition for International Monetary Fund support during the country's economic crisis of the early 1970's was the control of public spending. As a result of the "oil shocks" of the 1980's and 1990's, other Northern European countries began to address public sector spending and in the 1990's the countries of Central and Eastern Europe adopted wide ranging "privatisation and marketisation" reforms. Subsequently, public spending in the twelve "2004 and 2007 entry" New Member States was affected by plans to join the European Union and to achieve the Maastricht public expenditure targets required for adoption of the Euro. At the same time, the older member states in the euro-zone were affected by the tight public spending parameters in the "Growth and Stability Pact".

In a number of the national seminar reports, public sector performance, cost and productivity were highlighted either as current or future restructuring priorities.

National profiles – features of restructuring

The ten countries covered by this report have been affected differently by restructuring as the short profiles below illustrate;

THE NETHERLANDS – *taking a positive view*

The Dutch social partners consider restructuring as a normal part of the process of the country's economic growth believing that high performing economies are those that embrace the challenge of remaining internationally competitive. 800,000 jobs are lost and replaced in the Dutch economy each year and displaced people find new jobs at the similar high rate to those experienced in the USA and 20% faster than the EU average. The Dutch economy has proved to be extremely resilient in maintaining manufacturing production with significantly fewer workers and in retaining high value adding jobs- notably those engaged in research and development. As a consequence Dutch workers tend to compete directly with workers in other countries that are paid equally or higher than they are.

FRANCE – *improving competitiveness through increased flexibility*

France is the world's sixth ranked economic power and is a service dominated economy with a significant manufacturing base. The capital invested in French business activities over recent years has made the country a word leader in terms of hourly productivity of labour. Structural adjustment in France most frequently manifests itself in productivity generating job loss. According to the McKinsey Global Institute (2002 – 2005) 64% of job loss in France is attributable to internal restructuring, 23% to bankruptcies, and 9% to the effects of mergers and acquisitions. International relocation accounts for just 4% of job loss. A priority of the current French government is to improve the country's competitiveness by, amongst other things, increasing labour market flexibility.

AUSTRIA – positive effects of globalisation

Austria has been strongly and positively affected by globalisation, and in particular by the transformation and economic integration process of the countries of Central and Eastern Europe. Since accession to the EU in 1995, the export of goods and services has nearly doubled and today amount to 56.1% of GDP compared to an EU average of less than 40%. Although employment in industry shrank by almost 10% or 65,700 jobs over the 11 years from 1995 to 2006, 280,000 jobs were created in the service sector in business services, health, education and retail trades. The main forms of restructuring in Austria according to a survey conducted by the Vienna Chamber of Labour suggests that 80% of restructuring was due to internal changes within companies and 70% involved the “outsourcing of auxiliary work”.

SPAIN – things can change quickly

Spain has been one of the EU's recent success stories. The macroeconomic stability afforded by the Euro; sound use of EU subsidies; a property boom; and the influx of foreign workers have driven growth levels in recent years of more than 4% per annum. Over the last four years Spain has created two thirds of all new jobs in the Euro area's biggest four countries. In recent months the boom times have come to an abrupt end and it appears that the country is not well prepared for the challenges to come. GDP growth and forecast have slowed significantly; house prices are tumbling; inflation is rising; and consumer confidence is at a 13 year low. Spain is a very “closed” economy in terms of international trade and has to date been affected significantly less than other countries by the pressures to compete globally. Investment in education and lifelong learning in the country is historically low and labour markets are amongst the most rigid in Europe. It remains to be seen how the country will cope with what looks like a much more difficult economic future.

THE REPUBLIC OF IRELAND – sustainable success?

In the mid 1980's the Irish economy was the most troubled in Europe. Its performance in recent years however has been described as an “economic miracle” and the reasons for this have been avidly studied by new and old EU member states. Whilst the “low tax” and “constructive national social dialogue” regimes that contributed significantly to economic success remain, the circumstances that led to the “miracle performance” have changed in recent years. Ireland is no longer a low wage economy and other countries have mirrored its low corporate tax model. The driver of Irish growth has shifted from the traded sector to construction and high domestic consumption facilitated by higher wages. Irish infrastructure has improved, but it has not kept pace with economic growth. The education system for people of all ages may not be ready to support the change to a high productivity, service led economy. If Ireland's economic performance is to be sustained in the years ahead then public policy will have to deal with these emerging challenges.

SWEDEN – learning from earlier lessons

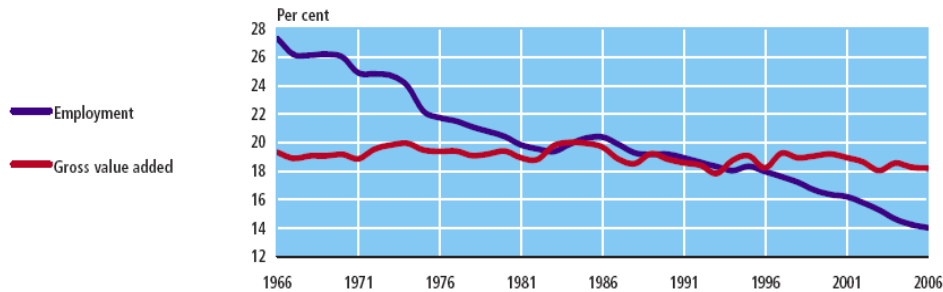
Since the early 1990s Swedish business has responded to membership of the EU; deregulation of financial, telecommunications, postal and other markets; increased global competition from new competitors in China and India; and new technological advances. Manufacturing employment halved from 1960 to 2005 whilst at the same time the service sector (and in particular public services) more than replaced the jobs lost.

Sweden's relatively newly open economy has taken good advantage of the 2004 and 2007 phases of European expansion. Restructuring in Sweden has been largely as a result of outsourcing non-core portions of business; the export of “simpler” production activities to lower cost countries; and to mergers and acquisitions affecting major Swedish companies.

DENMARK – *manufacturing productivity gains*

The history of the Danish economy until relatively recent years was based upon agriculture and trade. The industrial sector developed quite and Danish business leaders tend to have been brought up in more “risk taking” and responsive environments.

Over the period 2000 to 2006 the Danish economy lost 46,000 jobs in manufacturing and created 120,000 in services with a net increase over the period for the economy of 90,000. Education and business services were the most important growth areas. Although manufacturing jobs faced a decline, the share of manufacturing in GDP held up reflecting a significant improvement in productivity (see below)



Whilst the Danish economy has responded quickly and generally positively to the changing environment, it remains to be seen whether the “Danish model” can continue to respond to future challenges.

GREECE – *difficulties yet to come*

The experience of the Greek economy with restructuring to date has been relatively limited by European standards. The economy is relatively closed in European terms and restructuring has been primarily associated with internal expansion and contraction of enterprises. In recent years job creation has outstripped job loss and little or no restructuring activity has been associated with mergers and acquisitions, outsourcing, relocation or offshoring.

The future will be more problematic. The Greek economy has competed in the past by being one of Europe’s lowest cost producers in traditional sectors like textiles. It is today no longer a low cost producer either in European or global terms. The lack of flexibility in the Greek labour market has led to the existence of large numbers of self employed workers and very high levels of “informal” working.

UNITED KINGDOM – *restructuring on an enormous scale*

The economic story of the United Kingdom describes a dramatic shift from heavy industry to high value added niche manufacturing; the growth in financial and other business services and deregulation of public services. The economy underwent massive change as a result of three oil shocks in the 1960’s and 1990’s and enormous job losses in what had been the country’s core industries, coal, iron and steel and motor manufacture. The UK was also the first European country to pursue an aggressive policy of restructuring in the public sector and has probably gone furthest in reform. The only remaining public utility in the UK is The Royal Mail and current government policies are focussed on performance improvement in public administration and services. Looking to the future, the UK government predicts exponential growth in demand for environmental goods and services like energy management, renewable energy and waste management

ITALY – *a long list of problems*

“The Economist” magazine recently awarded the Italian economy the title of “Europe’s laggard”. The list of the country’s economic problems is a long one – the underlying macroeconomic environment is poor due a consistent 20 year run of budget deficits; the public debt/GDP ratio

is 50% above the Maastricht reference point of 60% and is amongst the highest in the world. In the first quarter of 2007, Italy recorded the largest number of job losses (close to the data for France, the UK, Germany and the Czech Republic) but Italy lagged far behind in terms of job creation. The government's policy response, along with that of the social partners at local level – has been to safeguard employment in companies that have become uncompetitive rather than look to job creation in competitive sectors. In 2004 Italian investment abroad grew by twice as much as foreign investment in Italy. Unusually in the countries covered by the report, internationalisation involved large numbers of small and medium sized companies in the “made in Italy” sectors of clothing, footwear, leather goods, textiles and furniture.

Differing notions of social partnership

The models of social partnership and the way the social partners approach restructuring varies widely from country to country. The specific involvement of the social partners permeates all sections of the report, but a few introductory comments on social partnership in the participating countries provide a useful background information for the reader that can be supplemented by reference to the national reports;

- ✧ In Denmark and Sweden, strong social partners on both sides assume the space more normally occupied by government in the design, implementation and management of many employee relations and labour market initiatives. In both countries collective bargaining between employers and trade unions has a long history, starting in the late 19th century (Denmark) and in the first years of the 20th century (Sweden). In Denmark the formal legal regime is very light and the social partners set the labour market rules. In Sweden collective agreements are allowed to vary the relatively strict labour code either upward or downward, and as a result produce often innovative and distinctive solutions;
- ✧ UK employers argue that employee interests can be successfully accommodated in radical change processes without recourse to complex and institutionalised models of social dialogue. UK trade unions believe that more should be done to foster institutions of social dialogue at all levels as a matter of sound employment policy. Although the country's post war employee relations history (to 1979) involved active interventions by strong institutions of social dialogue, today there is little engagement of the social partners at national or sectoral levels. Engagement at the enterprise level is based on a low, and very recently introduced, legal threshold and in practice, the depth of dialogue varies widely;
- ✧ In the Republic of Ireland the long standing and constructive national social dialogue, where the social partners engage with government on pay, fiscal and employment policy issues, does not permeate downwards to produce effective social dialogue at the sector or enterprise levels. Recent legal changes giving employees the right to establish works councils has not resulted in broad take-up and a major debate is taking place on the levels of representivity required for the recognition of trade unions for collective bargaining;
- ✧ France shows certain unique characteristics with respect to social partner representivity. Traditional measures based on trade union membership and density are unreliable indicators of French social partner influence at the macro or micro levels. In reality, low levels of trade union membership and density in the country are associated with high levels of influence on employer and government behaviour. A good recent example is the engagement of the social partners in the development of the series of initiatives contained in the new government agenda for improving labour market flexibility;

- ✧ Social partner relations in the Netherlands are characterised by “the Polder model” of consensus based social dialogue where the social partners engage with government on strategic and long terms issues such as labour market flexibility and labour market policies. The high engagement and consensus driven model pervades the powerful sectoral level collective bargaining system dialogue between the social partners in change programmes at the enterprise level;
- ✧ Until the 1990’s the Greek state adopted a highly interventionist approach to labour market regulation and even today it is suggested that the government does not readily embrace the notion of encouraging influential social dialogue. Greek social dialogue is more typically marked by conflict rather than consensus and on the times the social partners have produced joint recommendations they have not produced a favourable policy making response. Engagement at the enterprise level is patchy with Greece recording the second lowest level of employee representative activity in the ten participating countries;
- ✧ Social partner relations in Italy and Spain are underpinned by a comprehensive legal framework and there are multiple formal institutions for bipartite and tripartite discussion at all levels. Whilst the institutions for effective dialogue exist, the outcomes of social dialogue, particularly in terms of influencing government policy, has been less successful. The approach to restructuring in Spain and Italy at the enterprise level is often however caricatured by use of the law to protect old, rather than create new, jobs;

An interesting aspect of the national seminar discussions captured above is the quite different perspectives on restructuring, and in particular globalisation in public debate. In some countries it was generally perceived that globalisation was an opportunity (Denmark, the Netherlands and the UK) whilst in others it was seen as a threat (France and Greece). This general perception shapes significantly the environment in which the social partners are able to operate (see illustration on page 40 for data).

Theme one – “Flexibility and security”

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

This theme of the report emerged as a major topic of discussion and debate in every national seminar. The topic is however wide-ranging and risks overlap into the themes below relating to a shared analysis and diagnosis of labour market problems; skills gaps and other forms of organisational change. Whilst we try to minimise overlap between the themes, this inevitably happens to a certain degree with the result that this section of the report is longer than the other three.

In the ten sample countries there are a variety of social partner view on, and approaches to, flexicurity. Denmark and the Netherlands are often used as benchmarks for flexicurity but it was clear from the national discussions that took place throughout this project, that the conclusion of the 2006 European Commission Report “Employment in Europe” was well made;

“No single flexicurity solution exists for all member states, and therefore adopted reforms need to take into account the specific situation – encompassing the political, economic, social and legal environment – of each country”

In the national seminars the contrast in views when the subject was debated was marked. The Danish social partners regarded the term as describing not a new phenomenon but an umbrella term capturing approaches to labour market policy and practice that had long underpinned Danish social dialogue. Far from being the source of social partner consensus, in Greece flexicurity is the source of contention and the new term is not one readily embraced by the Greek trade unions. Whilst in Sweden, flexicurity is embraced by the social partners with the government in the background; flexicurity in the UK is a plank of government social policy with the social partners playing a relatively supporting role.

Some definitions and a practical model of flexicurity practice

It is not the purpose of this report to describe the history, theory and practice of flexicurity. There are plenty of publications that do this very well – a good summary can be found in “Approaches to flexicurity: EU models” published by the European Foundation for the Improvement of Living and Working Conditions in 2007⁷. The purpose of the paper is to examine the social partners’ approaches to, and role in, flexicurity. Having said this, and given the varying understandings of the term, it is worthwhile to reproduce the Wilthagen and Tros⁸ descriptions of the forms of flexibility.

- ✧ *External numerical flexibility* – the flexibility of hiring and firing, ordering some services from external workers or companies without having to award long term employment contracts, but instead using commercial contracts through teleworking, virtual organisations or “entre-employees”, that is those engaged in self-entrepreneurial activities;
- ✧ *Internal numerical flexibility* – an employers’ ability to modify the number and arrangement of working hours without changing the number of employees;
- ✧ *Functional flexibility* – an employers ability to move employees between different tasks or departments, or to change the content of their work;
- ✧ *Wage flexibility* – enables employers to alter wages in response to changes in labour market or competitive conditions.

On the “security” side, the same authors distinguish four categories of social security;

- ✧ *Job security* – the certainty of retaining a specific job with a particular employer;
- ✧ *Employment security* – the certainty of remaining in work but not necessarily with the same employer;
- ✧ *Income security* – income protection in the event that paid work ceases;
- ✧ *Combined security* – the certainty of being able to combine paid work with other social responsibilities and obligations.

The European level social partners describe flexicurity as the appropriate nationally determined balance between five elements⁹;

- ✧ Labour law and contractual arrangements facilitating access to the labour market and transitions into rewarding jobs that balance the need for worker protection and flexibility;

⁷ www.eurofound.europa.eu/pubdocs/2007/84/en/1/ef0784en.pdf

⁸ The concept of flexicurity: a new approach to regulating employment and labour markets: *Transfer* Vol10 No2 pp166-186

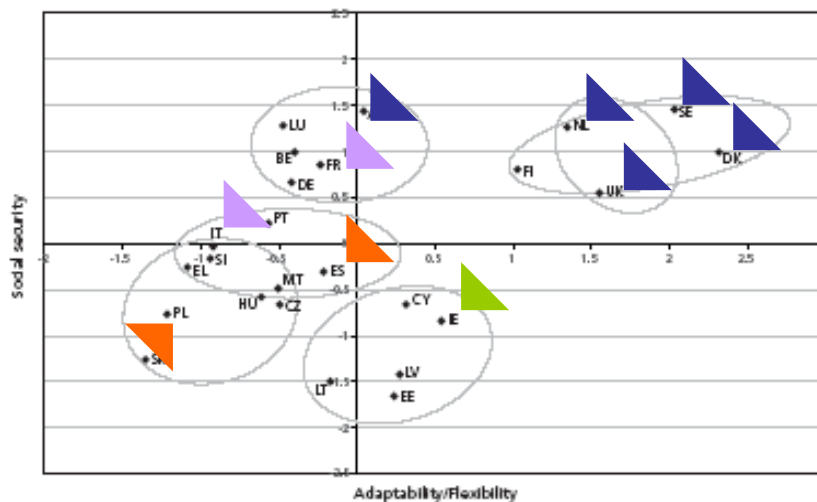
⁹ Key challenges facing European labour markets: A joint analysis of European Social Partners – October 2007

- ✧ Effective and high quality active labour, market policies, investing in people and helping them to address change in a productive way;
- ✧ Lifelong learning policies ensuring the employability of workers by improving competencies and qualifications;
- ✧ Efficient and sustainable social protection systems providing guaranteed income support and fostering labour market integration;
- ✧ A social dialogue contributing to a negotiated balance between flexibility and security, improving the smooth functioning of the labour market and the adaptability of enterprises and workers.

Although the underlying methodology behind the analysis is not universally accepted, the illustration below was used to encourage discussion in the national seminars. The illustrative model is reproduced below from the Eurofound “Approaches to Flexicurity” publication referred to above and its findings reflect generally the nature of the discussions that took place in the national seminars.

To generate the data, the authors compare measures of social security with demonstrated adaptability and flexibility according to the above definitions. For our purposes, and to inform the following paragraphs, the ten participating countries in this report are identified.

Adaptability/flexibility versus social security in EU Member States



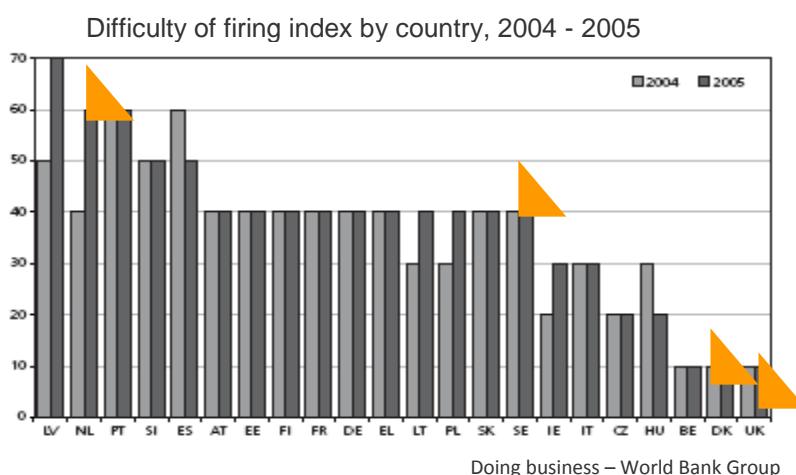
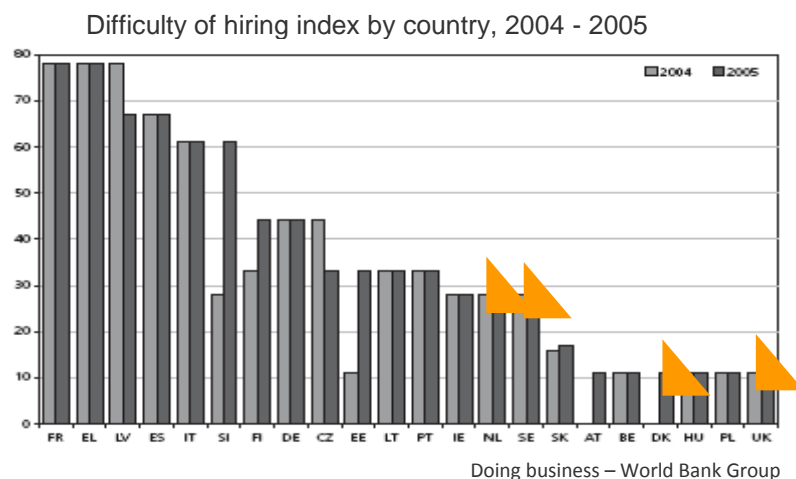
The social partners at European and national levels go to some length to point out that the appropriate balance between flexibility and security must be developed in the national context. The spread of countries in our sample illustrates this, and is convenient for the purpose of analysis and discussion of the role of the social partners in flexicurity as the countries falling in all four quadrants. Five countries are in various places in the “high flex/high security” upper right quadrant (Sweden, the Netherlands, Denmark, Austria and the UK); the Republic of Ireland falls in the “high flex low security” quadrant; France and Italy are marked by high security with low levels of flexibility; and Greece and Spain fall in the lower left quadrant.

High flex and high security

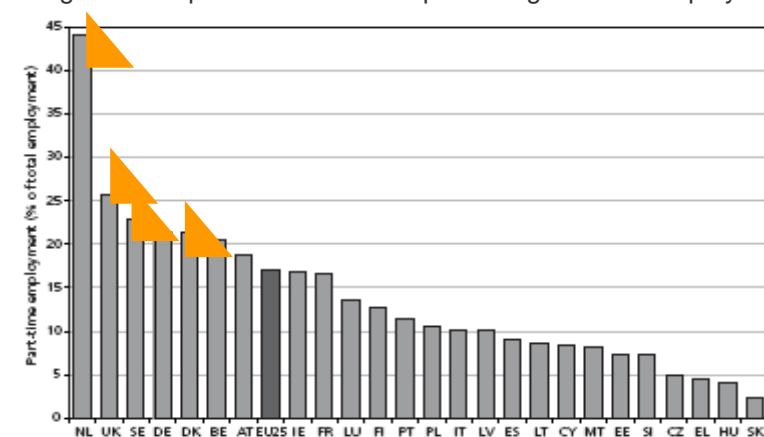
This section of the paper focuses on the countries in the matrix that deliver high flexibility and high security in order to provoke discussion on the issue of the nature of a win/win flexicurity balance. It does not suggest that the upper right quadrant is always “the place to be” for all countries, in all circumstances and at all stages of labour market evolution. Even the countries in the upper right quadrant illustrate the point made above and reinforced in the national seminars – there is no one route to flexibility and security and

no single model role for the social partners. Of the four countries at the centre of the upper right quadrant there are three quite distinct models. The paragraphs below use the content of the national reports and the discussions at the national seminars to assist the social partners and policy makers is to understand how the various systems work and, in particular, what the role of the social partners has been in achieving success.

On the side of flexibility, three tables combine to illustrate the differences in approach between the highlighted countries.



Average level of part-time work as a percentage of total employment by country 2000 - 2005

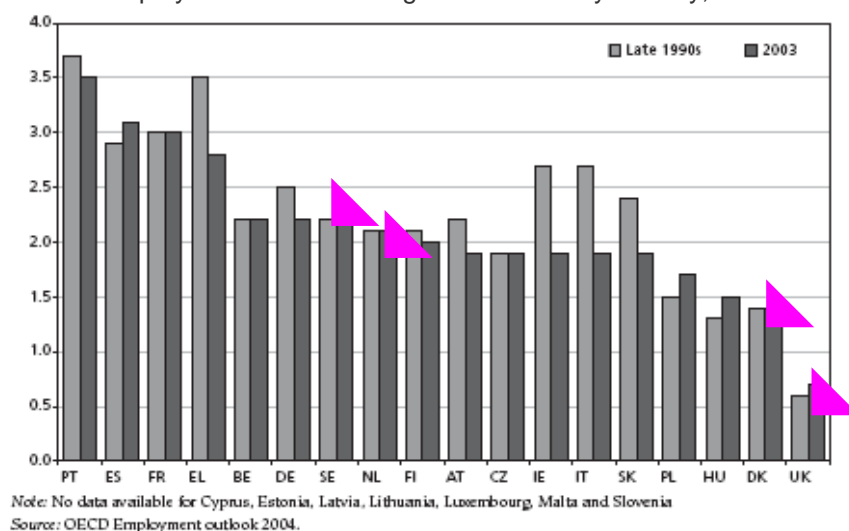


Note: For Ireland, the average is for 2000-2004.
Source: Eurostat, 2000-2005.

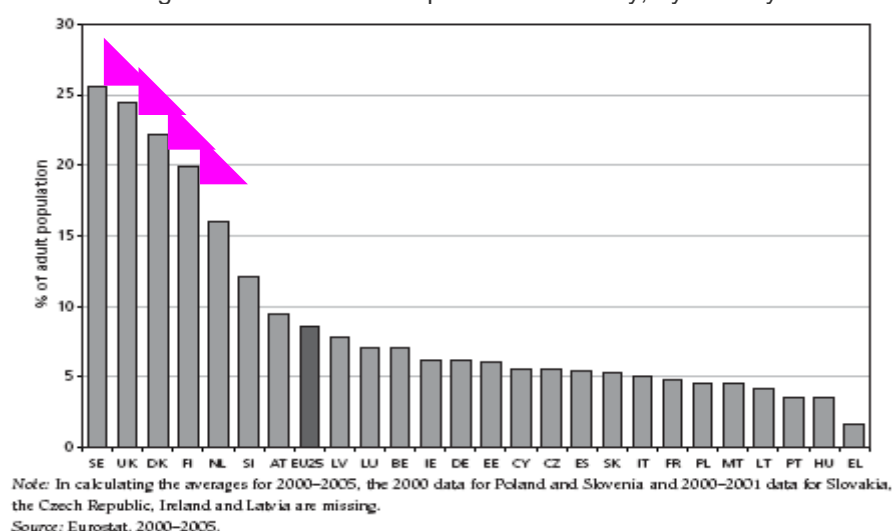
Whilst all four countries show high relative incidence of part time working, which the researchers used as a proxy for employment flexibility, the other illustrations above show two countries at the extreme end of the ease of hiring and firing spectrum (the UK and Denmark) and two with more rigid employment laws, particularly with respect to dismissals (Sweden and the Netherlands).

On the side of “security”, the following two illustrations help the analysis of the similarities and differences between the upper quadrant countries. The “security” illustrations highlight the difference in employment law rigidity between Sweden and the Netherlands and the UK and Denmark and the focus that all four countries place on lifelong learning to enhance current company competitiveness and to improve worker employability.

Employment Protection legislation index by country, late 1990s and 2003



Average percentage of population aged 25-64 years participating in education and training over the four weeks prior to the survey, by country 2000-2005



Sweden and the Netherlands

Put simply, the relatively restrictive legal requirements relating to dismissal in Sweden and the Netherlands described in the boxes below encourage positively minded social partners to develop innovative and responsible approaches to the management of change. Whilst the trade unions in both countries share the notion that economic

success is born out of embracing change through better anticipation and management, employers are encouraged to enter into dialogue as mass dismissals are difficult to implement in the absence of agreement with representatives of workers.

SWEDEN– innovative consensus against a background of legal rigidity

Sweden ranks 14th in the world in overall ease of doing business yet ranks 107th in the index measuring the ease of employing workers. The World Bank study however measures only the rigidities in published employment laws. The distinctive feature of the Swedish approach to regulating employment 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. Almost uniquely to Sweden, collective agreements can be reached that reduce protection below the level of legislation, normally with counterbalancing improvements.

Amongst other requirements, Swedish law presumes that collective dismissals are to proceed in accordance with seniority i.e. “last in – first out” (LIFO). Studies of restructuring in Sweden 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 organization 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 organization models.

It is often the desire to avoid “LIFO” based dismissals combined with the power and positive attitude of Swedish trade unions that provokes innovative solutions, an example of which is described in the “mini-case” below

THE NETHERLANDS – innovative consensus and legal rigidity

The Netherlands ranks 21st in the world in overall ease of doing business and ranks 92nd in the index measuring the ease of employing workers. There is a detailed legal framework in the country that places a number of obligations upon employers to inform and consult with workforce representatives (works councils) in the event of restructuring involving job losses. The Works Councils Act (1950) gives important rights to the works councils, including the right of access to information and to be consulted on planned changes. The works council has also advisory powers which enable it to give its opinion on proposed changes, to suggest alternatives and to take initiatives.

When a company takes important strategic decisions concerning company restructuring it must seek advice in advance from the works council. It must state the grounds for its decision, the consequences for the workers and the measures to be taken to deal with the social consequences of restructuring. Dutch legislation also establishes specific obligations for employee information and consultation in the event of company mergers and takeovers.

Should the employer and the works council fail to reach agreement on proposals for restructuring, three options exist. The employer can withdraw the decision; attempt to reach a compromise solution through negotiation; or elect to continue with the plans. Should the employer decide to proceed with its plans, it is obliged to postpone implementation for one month. Within this period, the works council is able to lodge an appeal against the decision with the Enterprise Chamber of the Amsterdam Court of Appeal which assesses whether the decision is reasonable. If the Court decides against the employer, it can force the employer to withdraw the plan, cease its implementation and adopt measures to reverse the consequences as far as possible. In this case, the employer and the works council may negotiate a compromise solution. For example, the works council may agree to a restructuring on condition that the employer agrees to keep the business in question open for a guaranteed period of time. Other than in certain exceptional circumstances, the employer is bound by such an agreement.

Since the 1990s, generic “social plans”, although not automatically part of a collective agreement, have regulated the outcomes of redundancies in large companies and in some industry sectors in the Netherlands. These generic plans are not covered by law and they are negotiated between employers and trade unions. As such the parties involved consider the social plan as a contract, in the same way as a collective agreement. A social plan provides for a programme, which includes redeployment or job mobility, an ongoing guarantee of benefits on top of unemployment benefits or of lower wages earned in a new job, and a compensatory payment for those who are prepared to leave their job of their own accord. Particularly in large companies, the inclusion of anticipatory measures in social plans has become more important in recent years.

The mini-case below describes one of the innovative features relating to the management of restructuring in Sweden.

MINI-CASE ONE

SWEDEN AND RESTRUCTURING INNOVATION – *Job Security Councils*

“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 Public Employment Service (PES) was not regarded by employers as providing sufficient support for white-collar workers to find new jobs and consequently the social partners agreed to establish an alternative 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 major Job Security Councils in operation.

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 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 Public Employment Service 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). Today, about two million employees in Sweden are included under job security 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* (*Kollektivavtalstiftelse*). 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). Each Job Security Council is managed by a board of representatives from the different partners involved in the agreement, with the seats split equally between employer 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 employers who contribute a fixed percentage of their total payroll. The contribution's level is determined in the collective agreement (a typical example, the TRR agreement, mandates a contribution of 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 system. 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 parties to 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. It is currently suggested 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.

The UK and Denmark

The UK and Denmark share places at the low end of both the ease of hiring and ease of firing spectrums. Their approaches to restructuring are however in reality quite different from each other. Both models place a high level of focus on lifelong learning (see table on page 29 above) and reducing the time spent in "job transition". The Danish model however is fundamentally based around active labour market policies and a positive social dialogue between strong and representative social partners; the UK model is based around low levels of legal obligation in the area of employment (in European terms); the promotion of competition; and state and privately run agencies that are generally effective minimising job transition times.

The difference between the UK and Denmark on the one hand and Sweden and the Netherlands on the other is well illustrated in the following table derived from World Bank data. It shows these four countries to be in the five most competitive of the ten participating countries and highlights the difference in the ease of employing workers ranking in global terms.

World Bank “Doing Business”* – world overall economic performance and “employing workers” rankings 2007/2008		
	Overall World Ranking	“Employing workers” – world ranking
Denmark	5	10
United Kingdom	6	21
Republic of Ireland	8	37
Sweden	14	107
The Netherlands	21	92
Austria	25	62
France	31	144
Spain	38	154
Italy	53	56
Greece	100	142
* www.doingbusiness.org		

UK laws on information and consultation provisions in redundancy procedures were introduced in the 1970's as a result of the EU Directive on Collective Redundancies and had to be revised twice having been found not to fulfil the obligations laid out in the Directive. Today UK laws reflect the baseline requirements of the Directive. From a practical point of view there are good models of restructuring practice to be found in the UK. But whilst all practices fall above the legal base requirement, they vary widely from company to company. In many companies there is little discussion on the anticipation of change and the real negotiations often surround the compensation to be paid to workers who lose their jobs. The incidence of job transition support in company restructuring plans in the UK is increasing but the state “Jobcentre Plus” system supported by private employment agencies are generally available and are quite effective in managing transitions.

The Danish approach to flexicurity is more difficult to categorise, and, like the UK version, is difficult to export as it is anchored firmly in national society and culture. The Danish labour market model is a system with extremely strong historical roots which has been built upon over many years with a specific culture of social partnership and dialogue between strong social partner organisations. The employers' right to freely hire and fire the employees dates back to the so-called September Settlement of 1899 between the workers and employers. The unemployment benefit system has also existed for almost a hundred years. The system is very expensive to operate in terms of the demands it makes on public expenditure.

In a way, the long standing concept of what is today described as flexicurity works as a kind of unwritten “contract” – or historical compromise – between the state, the employers and workers. Without the implicit and explicit support of all three parties, flexicurity does not work. The system also works because of its “fit” with a Danish culture where not having a job is a severe social impediment.

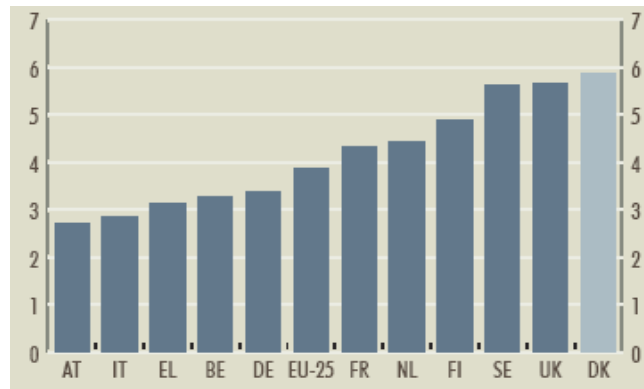
Because of the broad interest amongst European social partners and policy makers in the Danish model of flexicurity, extracts from the section of the national report describing the approach are reproduced below;

MINI-CASE TWO

FLEXICURITY IN DENMARK

The Danish labour market traditionally is characterized by a high level of job mobility or "labour market churn". Approximately one out of three Danes or about 700,000 wage earners changes his or her job every year. Danish wage earners have on average had more jobs in the course of their working lives than their counterparts in every other EU country.

Average number of jobs to date for a wage earner, 2005

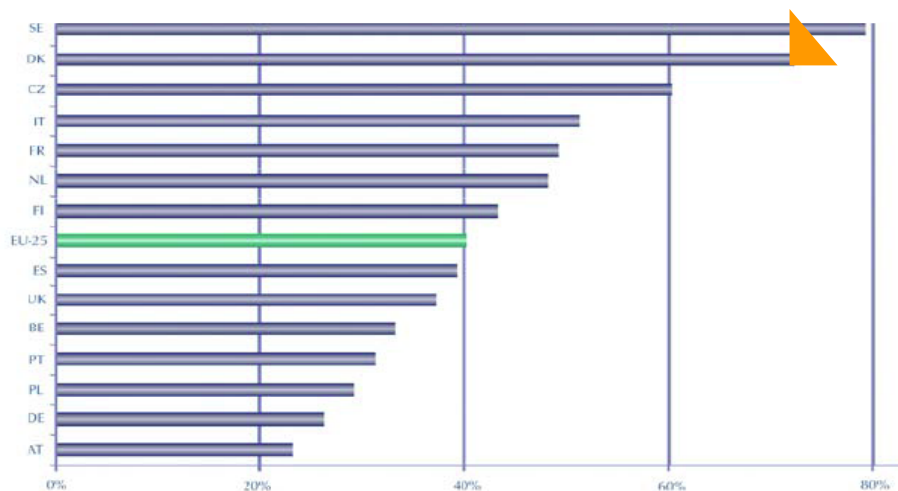


Source: Dansk Arbejdsgiverforening DA 2007, based on Eurobarometer 2006

Interestingly, Danish employees not only believe that it is good for people to change job every few years but they are also amongst the most satisfied workers in Europe (see below). While more than 70% of employees from Denmark and Sweden believe that it is good to change jobs every few years, less than 30% of those from Austria, Germany or Poland share this view.

High numerical flexibility and mobility in Denmark is acceptable for the employees since they receive a high level of unemployment benefit while they are unemployed and they have a relatively good chance of returning to a new job. These two components of the Flexicurity concept are crucial to its success in Denmark.

Percentage who think that it is good for people to change jobs every few years



Source: CO Industri 2007, p. 3

Share of employed who are satisfied or very satisfied with their job

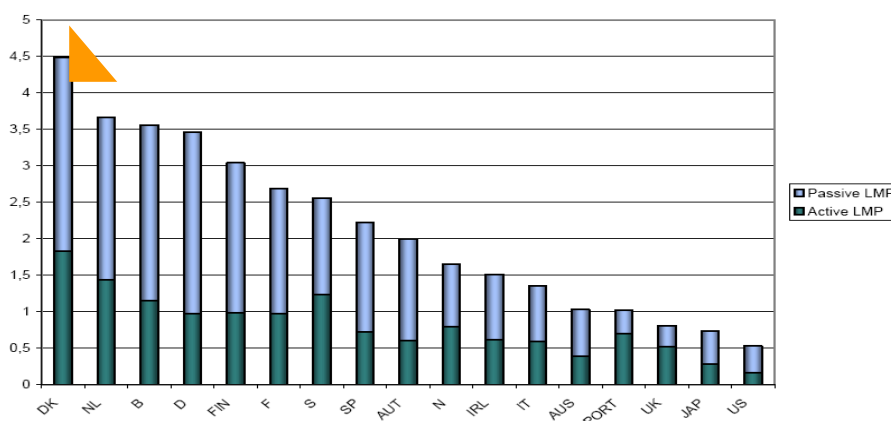


Source: EF Dublin, cited in DA 2007, p. 6

Combining social security and active labour market policies

Denmark is characterised by high security for wage earners in the case of unemployment and the country spends more money on passive and active labour market policies, proportionately, than any other industrialised country in the world. Danish labour market expenditure in terms of percentage of GDP is twice as high as the EU-average.

Expenditure on active and passive employment policy (share of GDP in 2004)



Source: OECD Employment Outlook 2004.

The purpose of the Danish active labour market policy is not to create more jobs, but to provide the key pre-conditions for the creation of jobs. It generally contributes to a highly effective supply of labour by ensuring that the unemployed part of the labour force is actively seeking jobs and has the qualifications needed to fill new positions. It also provides a targeted effort towards preventing marginalisation and long-term unemployment by ensuring that the unemployed maintain their qualifications. Thus training is a key component of Danish active labour market policy.

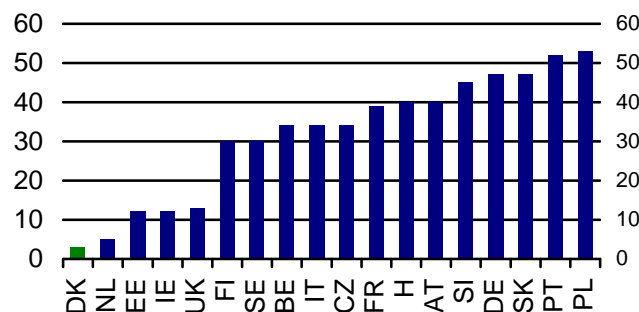
Participation in ongoing training in Denmark is very high. Training is important regardless of employment status, and plays a separate and vital role in Danish flexicurity. This is underscored by the fact that vocational training in Denmark is of a general nature with curricula which are not specific to any one enterprise. This means that the training undertaken will be directly relevant in any Danish company. When a person becomes unemployed, an individual action plan is made either together with the job centre or with the

worker's trade union. The action plan documents the steps which need to be taken in order to qualify the unemployed person for currently available jobs. In cases where further training or retraining is needed, this normally takes place with full unemployment benefit.

It is an important part of the active labour market policies that the social partners play a major, hands-on role in the job centre system. At the national, as well as local level, tripartite bodies advise and guide the public authorities. This is of particular importance at regional and local levels, where trade union and employers' representatives can help ensure that the policy fulfils the task of matching the available workforce to the demands of local enterprises.

Seen from the employers' view; they have a flexible labour force, and from the wage earners' view; they have a safety net consisting of an unemployment benefit system and an active employment policy. One result of this is the perception of the risk of unemployment in Denmark which differs significantly from most other European countries as the following chart illustrates.

People considering unemployment as one of the three main concerns, (%)



Source: Dansk Arbejdsgiverforening

The Danish social partners participating in the national seminar found difficulty in identifying the facets of the Danish system that might be exported to other countries. They stressed key underlying issues that are almost impossible to replicate in the short to medium term, if at all, in other countries;

- ✧ The seeds of today's social dialogue system were planted more than 100 years ago in the 1890's;
- ✧ Denmark is a small country with a strong and consistent cultural identity where work is important, people take a high level of personal responsibility for their own professional development and being out of work is socially unacceptable;
- ✧ Conversations between management and trade unions are open and honest and not generally adversarial in nature – after all most managers are trade union members;
- ✧ The Danish economy transitioned from agriculture and trading into a “modern” economy only recently and over a short period of time. As many senior managers

in industry and services began their life as traders, they tend to be positively oriented toward risk taking;

- ✧ Government is prepared to allow the social partners to play a strong role in labour market policy and management, but the social partners remain aware that it will be prepared to “step in” if things are not progressing in the national interest;
- ✧ Finally, Danes are generally happy with the high levels of taxation required to fund high quality public services, active labour market policies and lifelong learning initiatives.

Perhaps most tellingly, a Danish participant explained that it was relatively easy to explain the Danish model in practice, but more difficult to explain how it worked in theory.

Best practice models are not limited to the four countries thus far highlighted. So far in the report, the fifth country that sits on the border of the upper right quadrant, Austria, has not been mentioned. In Austria Labour Foundations have been established involving the social partners and public authorities in adopting measures to cushion the effects of restructuring. In addition to the extract below, the Austria national dossier describes the establishment and the role of the labour foundation used in restructuring in the Austrian Air case study;

MINI-CASE THREE

LABOUR FOUNDATIONS IN AUSTRIA - cushioning *the effects of restructuring*

Labour foundations (“*Arbeitsstiftungen*”) are instruments that have been used successfully in Austria for almost 20 years for deploying “surplus” labour potential in a flexible and meaningful way. They also aim to develop solutions for regional structural change and labour market adjustments.

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

In Austria, this instrument, which is based on initiatives of the Austrian trade unions and carried out as a joint programme of trade unions, employer organisations and public authorities, was first used in the framework of the VOEST-Alpine Steel Foundation (1987). Positive experiences with the scheme led to its spread throughout Austria, and it also served as a model in other countries. It proved to be an extraordinary success, serving equally the interests of companies, employees and the regions. Austria’s accession to the EU in 1995 brought with it a need for adjustments in economic structures, and this was accompanied by workforce reductions within larger enterprises. To cushion the effects of EU

entry, and of structural change in the food and haulage sectors, the social partners took initiatives leading to the creation in 1995, after a brief preparatory period, of the two sectoral foundations AUFLEB in the food sector ("*Ausbildungs- und Unterstützungsverein für Arbeitslose in der Lebensmittelbranche*") and AUSPED in the road transport sector ("*Ausbildungs- und Unterstützungsverein Spedition*"). These were active across the whole of Austria, and up to October 1996, 2,600 people took part in them.

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

In 2005, 1,800 people were supported by outplacement foundations, while 4,900 were approved for participation in an in-placement foundation (Holzer 2006). The clear increase in activity (2,100 people more than in the previous year) is in particular attributable to training in the health and care sectors.

A labour foundation contains a range of instruments whose concentrated use can produce synergies in the promotion of employment. Central elements within the labour foundations are career guidance, various qualification based training measures, active job searches, work experience programmes and (in the case of outplacement foundations) assistance with business start-ups. This comprehensive approach by the labour foundations, through the use of combined packages of measures, has proved particularly effective. Setting up a labour foundation entails cooperation and financing by a very diverse group of actors at different levels.

The European Commission report on flexicurity¹⁰ suggests that it is difficult to draw concrete conclusions around the role of the social partners in flexicurity as their roles in the Netherlands, Denmark and the UK are markedly different.

It is clear that in the Nordic and Dutch models the social partner role is based on development over a long history and the relationships between the employers and trade unions are based on trust and cooperation. In these countries the authorities see the social partners themselves as key players in the acceptance, implementation and often management of employment policy initiatives. In the UK, companies are not protected from national and international competitive influences and light levels of regulation allow them to restructure relatively rapidly to meet the demands of the market. On the other hand, government, companies and private agencies invest significantly in lifelong learning and the management of job transitions.

An important point relating to the adoption of a positive mindset on both sides toward managing transitions was made in the Dutch seminar where an employee representative explained that the employers have to accept that investments in improving human capital are an essential part of economic and personal development and trade unions

¹⁰ *ibid*

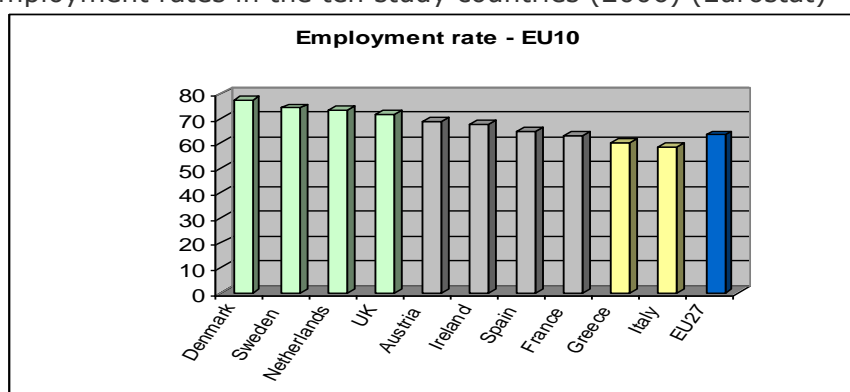
have to persuade employees that high levels of financial compensation for job losses are not an acceptable method of dealing with restructuring. This is not an easy task, as was explained in the Republic of Ireland. Particularly so when older workers have acquired significant wealth through escalating property prices and look forward to early retirement in a cheaper part of the country or the world. It was in Ireland that the notion of “unfair selection for retention” was raised in this context. This point is well illustrated in the Cadbury Ireland case study in the Irish national report and was reinforced in the UK and Spanish national seminars.

At risk of making the analysis more complex, it seems that there are other important employment related factors that that emphasise that a positive approach to flexicurity has as much to do with an overall philosophical approach to labour market investment and management than is measured by indices of flexibility or security alone. The following three charts illustrate that the upper quadrant countries perform better competitively (WEF global competitiveness index); perform better in terms of gender equality (measured by both the World Economic Forum and the UNDP gender development index); perform better against the Lisbon indicators (WEF data); have very high employment rates where people change jobs more frequently (see Danish data above); remunerate workers better than the others in the sample; are safer places to work and have a population that sees globalisation more as an opportunity than a threat (see below).

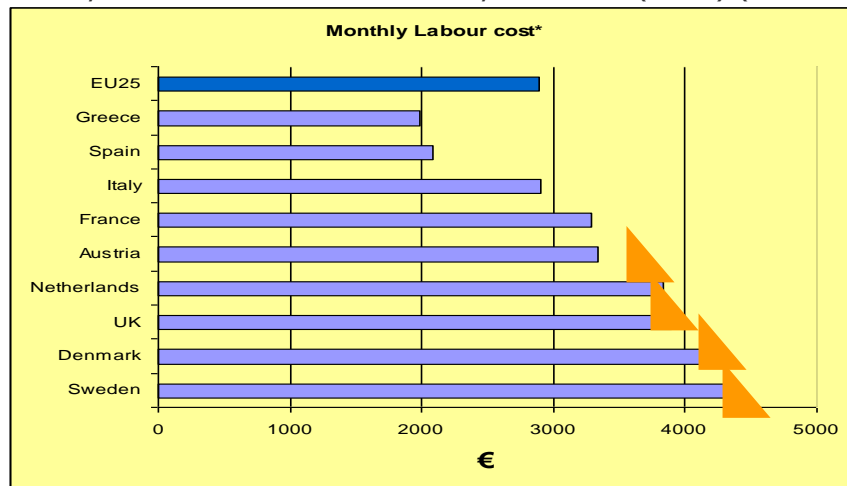
Global competitiveness – Overall economic performance, Lisbon and gender equality				
	GCI* world ranking	GCI gender gap world ranking (EU10 in brackets)	UNDP GDI** world ranking (EU10 in brackets)	Lisbon indicators* EU ranking
Denmark	3	8 (2)	11 (5)	1
Sweden	4	1 (1)	5 (1)	3
United Kingdom	9	11 (5)	10 (4)	6
The Netherlands	10	12 (6)	6 (2)	4
Austria	15	27 (7)	19 (9)	7
France	18	51(8)	7 (3)	9
Ireland	22	9 (3)	15 (7)	11
Spain	29	10 (4)	12 (6)	15
Italy	46	84 (10)	17 (8)	24
Greece	65	72 (9)	24 (10)	23

* World Economic Forum Global Competitiveness Index
** UNDP Gender Development Index
*** World economic Forum 2007

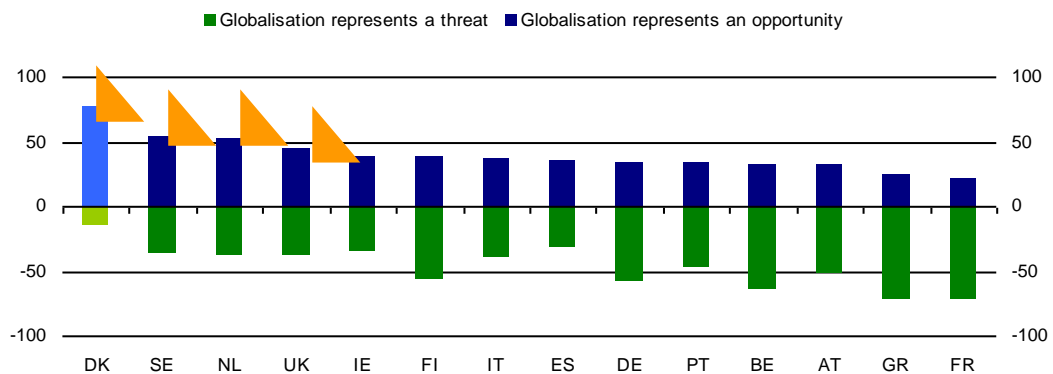
Employment rates in the ten study countries (2006) (Eurostat)



Monthly labour costs in the ten study countries (2004) (Eurostat)

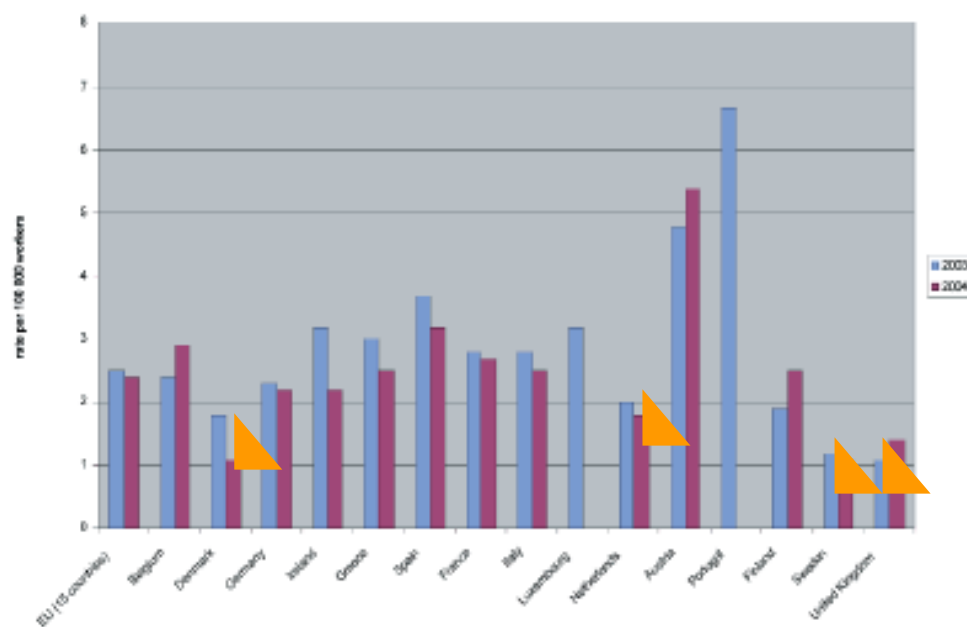


Globalisation as a threat or Opportunity?



Source: Dansk Arbejdsgiverforening DA 2007

Fatal accidents at work in 2003 and 2004 (eurostat)



Source Eurostat

It should be emphasised that not all good practice is to be found in the four countries highlighted in the paragraphs above and there is a variety of excellent practice to be found in active labour market policies, social partner initiatives and lifelong learning that is illustrated in the following sections of the report. The countries selected provide the opportunity to describe similar “flexicurity related” results being derived from different approaches.

Observing the varying four country models, it seems clear that investment in comprehensive long term employment strategies is directly correlated with flexicurity success. Whilst another approach exists in the UK, a mature, influential and cooperative relationship between the social partners where government views the role of the social partners as essential to securing the acceptance, implementation and often management of employment policy initiatives is positively associated with success. It appears that in the absence of comprehensive systems of social dialogue, and at least in the cultural traditions of the Anglo Saxon world, national government can achieve significant employment policy successes. The evidence would suggest that whilst isolated initiatives can work (see theme four below), true success is borne out of taking an overall view of labour market effectiveness and is assisted greatly by securing the conviction and commitment to it of the social partners.

The paragraphs above focus on the macroeconomic view of flexicurity and there were many examples in the national seminars of employers and workers at the enterprise level undertaking flexicurity strategies. Whilst the macroeconomic framework acts as a facilitator or constrains local activities varies country by country, there is always scope for enterprise level initiatives on issues like recruitment, training, the management of lay-offs, contracts and working hours provide a micro environment for successful practices.

Theme two – “Developing a shared diagnosis and agenda”

As work progressed through the national seminars, starting in the Republic of Ireland and ending in Sweden, it became increasingly clear that the positive impact of the social partner organisations on restructuring was based not just on cooperation and trust but in addition on two clear, but simple, pre-requisites. First the social partners should have a realistic and shared analysis of the issues facing the economy currently and in the future. Second, they should have a clear and shared diagnosis of the broad approach that needs to be taken to labour market policy. Only from this point of departure can they start to discuss and debate appropriate policy solutions and the various options open to them and to government. It is likely that they may not agree on all of the actions they consider to be necessary or on their priority. Employers are likely to stress the importance of flexibility and competitiveness whilst trade unions are likely to focus on the social costs of restructuring and providing employment security for those temporarily or occasionally permanently, displaced from the labour market. Based on the shared analysis and diagnosis, both sides however will probably agree that both are important.

The extent to which the social partners participating countries share a diagnosis and agenda varies;

- ✧ In certain of the study countries it appeared that both social partners were unwilling to see the issues facing the economy immediately and in the medium term future as seriously as portrayed by national and international analysts and summarised by the experts in the national reports. In both Spain and Italy, the social partners did not agree with important aspects of social and economic

analysis taken from authoritative sources and expressed in the report prepared for the national seminar;

- ✧ In other countries, the trade unions and employers took different views on the current and future state of the economy and the policy direction that should be taken. In Greece the diagnosis of solutions differs significantly between the social partners. For the trade unions job security is the cornerstone of the strategy to be followed whereas for employers the economy needs to boost labour flexibility and productivity. The national report concludes that the combination of a strict employment law, very low access to life-long learning and a low level of unemployment benefits combine with the size of the informal economy and the present characteristics of the industrial relations system with the effect of protecting existing jobs rather than promoting the structural changes necessary to create new ones. The national report points to the “Greek conundrum” of high levels of job protection being combined with high levels of employee perceptions of insecurity. At the enterprise level, the Aer Lingus case study presented at the Irish seminar, illustrates the problems that arise when change is negotiated in the absence of an agreement on the underlying problems and potential areas of solution;
- ✧ In some countries there was a shared diagnosis of the key issues that enabled a joint agenda to be discussed or negotiated that took the economy forward. Good examples of shared analysis and diagnosis of the key issues facing the macro and micro economy were found in Sweden, Denmark, Austria, the Netherlands, the Republic of Ireland and France. In certain cases involvement was more successful at the national or sectoral levels than at the level of the enterprise – the Republic of Ireland series of national “pacts” since 1987 being a good example. In other cases, social partner engagement at the enterprise level proved more creative and effective than at the national level. In the UK, for example, there are good examples of approaches to restructuring in a number of progressive companies. Towards the end of this section of the report, cases of effective social partner engagement through the development of a shared analysis and agenda for change are illustrated;
- ✧ At the enterprise level it was pointed out in the case studies of T-Mobile in Austria and Altuglas in the Netherlands, that social partner involvement in discussions on problem diagnosis and an agenda for change can be limited when the parent company is headquartered outside of the country. In this case in Germany (T-Mobile) and France (Altuglas).
- ✧ An indicator of the engagement of the social partners in the broader restructuring agenda is the scope of collective agreements. In some countries collective agreements typically constrain themselves to remuneration and basic terms and conditions examples would be Greece, Spain and Italy. In others the agenda is broader covering training and education, the management of restructuring; sickness; pensions; equal opportunities.
- ✧ The ability of the social partners to develop a shared analysis, diagnosis and agenda for change often depends on the attitude of government to the work and recommendations of the social partners. Whilst a number of governments encourage social dialogue and create the space for social partner ideas to be implemented either through agreement or with the support of government, others are less enthusiastic about encouraging the social partners to reach common views and/or taking these views into account.

A shared diagnosis and agenda at the European level

All of the major texts on employee information and consultation produced over recent years at the European level place emphasis on the importance of continuous open dialogue and early anticipation of change. This can only occur where the social partners have a shared analysis of likely problems and broad agreement on the diagnosis and treatment.

At the European level, the European social partners recently produced a joint publication titled “Key Challenges facing European labour markets: a joint analysis of European social partners”¹¹. The report follows the simple model described above being laid out in three chapters - “Analysis”; “Challenges” and “Recommendations of Social Partners”.

The challenges are seen as follows;

- ✧ *Active labour market policies and economic policies* – education and training; pursuit of sound macro-economic policies; and providing a favourable business environment;
- ✧ *Social protection and cohesion* – reforming tax and social protection systems; a supportive public environment; and social cohesion.
- ✧ *Labour regulation and industrial relations* – mobility; undeclared work; social dialogue; and labour law and contractual requirements.
- ✧ *Flexicurity* – balancing labour law and contractual arrangements; effective and high quality labour market policies; lifelong learning policies; efficient and sustainable social protection systems; and social dialogue

An indicator of the engagement of the social partners in the broader restructuring agenda is the scope of collective agreements. In some countries collective agreements most typically constrain themselves to remuneration and basic terms and conditions. In others the agenda is consistently broader covering training and education, the management of restructuring; sickness; pensions; equal opportunities.

Examples from national, regional/industry and enterprise levels.

A range of good practices in the area of “shared diagnosis and agenda” can be found in the national reports. A summary of some important initiatives is contained in the boxes immediately below and more detailed case examples from the national reports are outlined in the passages which follow;

NATIONAL PROFILES – SHARED DIAGNOSIS

DENMARK

The Danish report describes the “Globalisation Council” of employer and trade union representatives set up in 2005 and which delivered a strategy document in April 2006 defining target objectives to be achieved by 2010 in the areas of education; knowledge and research; entrepreneurship; and innovation policy.

At a lower level, the restructuring case of the Danish public authorities explains the importance of agreeing the principles for reform before entering detailed negotiations. In this case 13 counties and 269 municipalities employing around 630,000 staff were restructured into five regions and 98 municipalities.

¹¹ Key Challenges facing European labour markets: a joint analysis of European social partners – BUSINESSEUROPE, CEEP, UEAPME and ETUC – October 2007

FRANCE

The French national seminar took place against the background of the changed approach to the engagement of the social partners in French social policy contained in the 17th January 2007 law on “Modernization of social dialogue” and the role they have taken up in outlining the country’s future social agenda.

The 2007 law makes involvement of the social partners mandatory for all draft reforms planned by the government on Individual and collective labour relations; employment; occupational training; and that are related in any way to national and inter-occupational collective bargaining. All draft reforms in these fields must first be the subject of dialogue with representative workers’ and employers’ organisations at national level. The government must provide the social partners with a working document which presents the ‘the elements of diagnosis, aims pursued and main options’. The social partners can then elect to undertake negotiations and indicate the timescale they believe necessary for reaching an agreement. This procedure may be disregarded ‘in case of emergency’, but the government must give reasons for its decision, and this may be legally opposed.

The government is not obliged to follow the terms of a negotiated agreement in its own law-making process. It must however, submit its proposals, depending on the areas of competence, to the National Committee on Collective Bargaining (CNNC) (for reform on work relationships); the Higher Labour Committee; and the National Committee for Lifelong Occupational Training. The social partners who are represented in these institutions can therefore verify that the government proposals correspond to any agreement reached and, if need be, express their formal opinion. The initial intention of grouping these authorities into a ‘social dialogue council was dropped by the government. Finally, and according to the draft law, the government is required to present its policies on the areas covered to the CNNC once per year, and to give a calendar of reforms for the coming year. The government must also annually submit to parliament a report on the state of discussions and consultations covering the year to date.

REPUBLIC OF IRELAND

Between 1980 and 1987 the Irish economy was in the throes of a prolonged recession. Real living standards fell. There was a dramatic increase in unemployment and emigration was often the best option for the young and newly qualified. By 1987 the debt/GNP ratio was approaching 130 per cent and there were widespread fears that the country would become insolvent. Against this background, the social partners—acting in the tripartite National Economic and Social Council (NESC) —worked out an agreed strategy to escape from the vicious circle of economic stagnation, rising taxes and exploding debt. NESC’s *Strategy for Development* (1986) formed the basis upon which a new government and the social partners quickly negotiated the *Program for National Recovery* to run from 1987 to 1990. This was to be the first of seven such agreements, now stretching over more than 20 years, which have played a key role in bring Ireland from the brink of economic disaster to being one of the most successful economies in the European Union. Following the influence of the *Strategy for Development*, the negotiation of each subsequent social partnership programme has been preceded by an NESC Strategy report, setting out the shared perspective of the social partners on the achievements and limits of the last programme and the parameters within which a new programme should be negotiated.

AUSTRIA

In October 2006, the Austrian Institute of Economic Research (*Österreichisches Institut für Wirtschaftsforschung*, WIFO) presented a ‘white paper’ on long-term national employment strategies. The paper entitled “Towards higher employment via economic growth based on innovation and qualification” had been commissioned by four major Austrian social partners and sponsored by the Austrian National Bank (*Österreichische Nationalbank*, ÖNB) and other public and private institutions. During 2005–2006, several dozens of WIFO experts drafted this strategy paper, which is based on 22 partial studies on growth, the labour market and economic

policy.

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

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

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

The longer case illustrations below demonstrate the positive effect of early social partner engagement at the national (the Netherlands); territorial (Italy) and enterprise (SHT Austria) levels.

MINI-CASE FOUR

NATIONAL SOCIAL DIALOGUE IN THE NETHERLANDS – *the Polder Model*

The Dutch system of social dialogue is often described as the 'Polder' model. The term 'Polder' refers to a way of working together that leads to a consensus among all parties. Policy concertation through the consensus-seeking behaviours of government, employers' organisations and trade unions is an essential feature of the 'Polder' model. In practical terms this means that all three socio-economic parties are prepared to settle controversial problems and regulate employee relations by means of peaceful discussion and to use cooperation and consultation rather than conflict. "Wage moderation" has been a central part of the country's macroeconomic strategy and it has been delivered largely through the central coordination of decentralised bargaining. Concertation between the government and the social partners at national level has the following three functions;

- ✧ It engenders macro-level flexibility when this is needed by bringing wages into line with the national economic performance;
- ✧ It prepares social and economic regulations and creates a broader basis of support for these measures;
- ✧ It provides for the joint monitoring of socio-economic trends to facilitate agenda setting for social dialogue.

There are two national forums for social dialogue in the Dutch system: one under private law (the Labour Foundation) and the other under public law (The Social-Economic Council).

The Labour Foundation (Stichting van de Arbeid) (1945)

The Labour Foundation is the council in which nationwide bipartite consultations take place. The chairmen of the most important trade unions (FNV) and the employers' organisation (VNO-NCW) act as chairs of the Foundation. The Foundation works through standing committees in almost every area of social policy including wages, social insurance, company training, hiring and dismissal procedures, etc. The employer and trade union confederations meet in the Labour Foundation to advise the government (through the formulation of recommendations) on social-economic policy and to establish (primarily by negotiation) a national framework for the bargaining process in the various sectors and companies. A central agreement reached within the Foundation takes the form of a recommendation to the affiliated unions and employers on the attitude to be adopted in the collective bargaining process e.g. a maximum wage increase may be laid down. Negotiations under the auspice of the Labour Foundation have led to the following main central "social pacts";

- ✧ *Wassenaar agreement (1982)* - is regarded as a ground breaking agreement in Dutch employee relations. In substantive terms employees agreed to wage moderation in exchange for a reduction in working hours and the government promised it would show reserve with regard to intervention in employment conditions;
- ✧ *'New Course' agreement (1993)* - the social partners agreed on further flexibility of employment relationships and further decentralisation of wage setting. Specifically, the Parties agreed to a zero increase in wages and the revision of the law on employment. In return it was established that employees on flexible contracts would be offered more security while at the same time allowing sufficient flexibility to respond to economic developments. In line with this agreement, social partners started a discussion with the Labour Foundation on the modernisation of contract and labour law, which led to the "Flexibility and Security" (*flexicurity*) document in 1996 that remains highly relevant today;
- ✧ *"New Agenda 2002"* - covered flexibility and job/income security for employees in new and existing employment relationships; more scope for combining working life and private life, in particular care tasks; shaping a new form of industrial relations within companies; encouraging employee training and education and improving employability;

- ✧ *2002 agreement on "wage moderation"* - the Foundation requested the parties to collective negotiations not to allow wages to increase by more than 2.5%;
- ✧ *2004-5 "wage moderation promises"* – dealt with active labour market policies and also produced a recommendation for no increases in contract wages in the year 2004 and to "an increase close to nil" for the year 2005.

The Labour Foundation has also reminded employers and employees of their responsibility to promote investment in human capital as the key tool to create innovation in the national economy ("social innovation"). As a result, employability, on-the-job training and job mobility projects are used to prevent unemployment while enhancing the level of competitiveness on a global scale. In order to provide the members with the tools necessary to put a well-thought-out employability and training policy in place, the Labour Foundation has updated "the 2001 employability/training recommendations for companies and parties involved in collective agreements".

The Social-Economic Council (Sociaal-Economische Raad - SEC) (1950)

The Social-Economic Council is a tripartite organisation whose membership is equally divided amongst trade unions, employer confederations and government appointed experts. It is the government's official advisory body on social and economic policy. Currently the SEC consists of 33 members;

- ✧ 11 are "Crown-appointed members" - appointed by the government and including the president of De Nederlandse Bank and the director of the Centraal Planbureau;
- ✧ 11 members appointed by the employees' organisations; and
- ✧ 11 members appointed by the trade unions.

The Crown determines which organisations may appoint members and must specify representative organisations in this respect. The Crown also determines how many members each organisation may appoint.

MINI-CASE FIVE

TERRITORIAL PACTS IN ITALY – *an integrated local framework for change*

Territorial pacts ("*patti territoriali*") are an innovative form of social dialogue that developed in Italy at the territorial (regional) level since the beginning of 1990s. Territorial pacts were developed autonomously within CNEL (*Consiglio nazionale dell'Economia e del Lavoro*) - which brings together representatives of the social partners – from 1993 onwards.

The aim is to sustain and coordinate various economic development projects in a particular area (for example a province, a city or large neighbourhood) and to put them into an integrated framework, based on bargaining. In a territorial pact, the relevant social partners: define a set of development goals for the area concerned; select projects according to these goals; and agree on measures which could facilitate and support their realisation. Pacts, which are

signed by employers' organisations, trade unions and local authorities: identify the financial resources that should be contributed, partly by companies and partly by the local authorities; define simplifications of administrative procedures and dispensations from legal provisions aimed at helping speed up the implementation of the development projects; and set specific industrial relations rules to be applied within the areas covered by the pact in order to lower labour costs and/or improve flexibility and thus provide incentives for companies to invest in the area. The territorial pact is thus a means of gathering together all the resources present at local level and directing them towards the realisation of shared development objectives. As territorial pacts rely heavily on financial investments by private companies, an agreement between trade unions and employers to define an industrial relations framework that is capable of attracting firms into the areas covered by the pact is crucial.

In March 1997 CIPE introduced a degree of coordination and differentiation between territorial pacts and "Area Agreements" (*contratti d'area*). Area Agreements are another instrument for social concertation on local development programmes, which were defined by the tripartite national "Pact for Employment" signed in September 1996. The main differences between territorial pacts and area agreements are that Area Agreements can cover only crisis-hit areas; only trade unions and employers' organisations can conclude area agreements; and Area Agreements must specifically mention the goals and the contents set out in the September 1996 Pact for Employment.

Territorial pacts and the way in which they can assist in areas with large numbers of small employers are discussed in more detail under *Theme four* below.

MINI-CASE SIX

RESTRUCTURING IN THE SHT GROUP - *a shared vision at the enterprise level*

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

When the company faced insolvency in 2003, there was also the risk that 660 employees would become redundant. In this situation the management decided to take the initiative and start a turn-around process. This decision was taken since there were good reasons to keep the company trading. These included a sustainable level of sales and market shares; a highly motivated workforce; and investors interested in the company and banks which were in favour of continuing the business.

In this situation the management together with an Austrian investor started a restructuring and turn-around process in order to

strengthen the competitive basis of the company, improve customer orientation and overall efficiency and profitability. During this critical phase the basis for organic and healthy growth had been established by the time the new owner took over at the beginning of 2006. The restructuring process aiming at consolidating the company was characterised by a comprehensive set of measures and sub-projects, such as;

- ✧ Reduction of personnel costs (by 10%) in close cooperation with the works council;
- ✧ Reduction of other operational costs and improving efficiency by change management projects;
- ✧ Initiating a process of strategic business orientation;
- ✧ Introduction of a new software system;
- ✧ Reorganisation of management structures and functions;
- ✧ More efficient and cheaper sourcing practices;
- ✧ Improving the image and corporate profile of the company.

Both from the point of view of the SHT group's management and the works council the prevention of insolvency and closure and the successful turn-around of the company would not have been possible without the active involvement of the employees who were key actors in the whole process. In fact, from the point of view of the management the support of the works council for the whole process was essential (there are eight local works councils, a central works council and two employee representatives in the company board). The works council had been informed about the crisis situation at an early stage of the whole process by the local management and was deeply involved in the turn-around process. Described by the works council chairman as a "dance on the volcano", the process also included far-reaching decisions and agreements with the management in order to prevent a closure. Critical to the success of the project was the works council decision that the reduction of employees would be carried out without negotiating a social plan in order to avoid signals of alert to clients and to the public. The staff reduction was carried out in close cooperation between the works council and management over an extended period of around nine months.

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

- ✧ Openness and clear communication within the company is a motivating factor in securing engagement and commitment;
- ✧ A well functioning social dialogue at the company level prior to embarking on major change taking place is essential for managing restructuring processes successfully;
- ✧ Restructuring means being open to more options than simply the downsizing of personnel.

This positive experience of social dialogue and cooperation at the SHT group has also had an impact on the industrial relations development and corporate culture of the new mother company, the

Frauenthal group. After the acquisition of the SHT group, a group-wide works council was established and in 2008 discussions have started to install also a European Works Council.

Theme three – “Dealing with current and future skills gaps”

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

- ✧ First, investment in lifelong learning initiatives that develop the skills of the current workforce to match the evolving labour market. It is clear that too many workers over the age of 50 "check out" of the labour market, often at a cost to government social protection plans that they can ill afford;
- ✧ The second more immediate, and more controversial policy response is the attraction of EU and/or third country national migrant workers who possess the skills needed by the country. Whilst this policy attracts people who are almost immediately effective and net contributors of tax revenues, they are often unpopular in the countries where labour comes from (the “brain” or “muscle” drains) and in the countries that attract them (“stealing” jobs that would be available for local nationals). It seems that whilst the economic arguments in favour of migration have been well made, the social argument has a long way to go before it is won or lost.

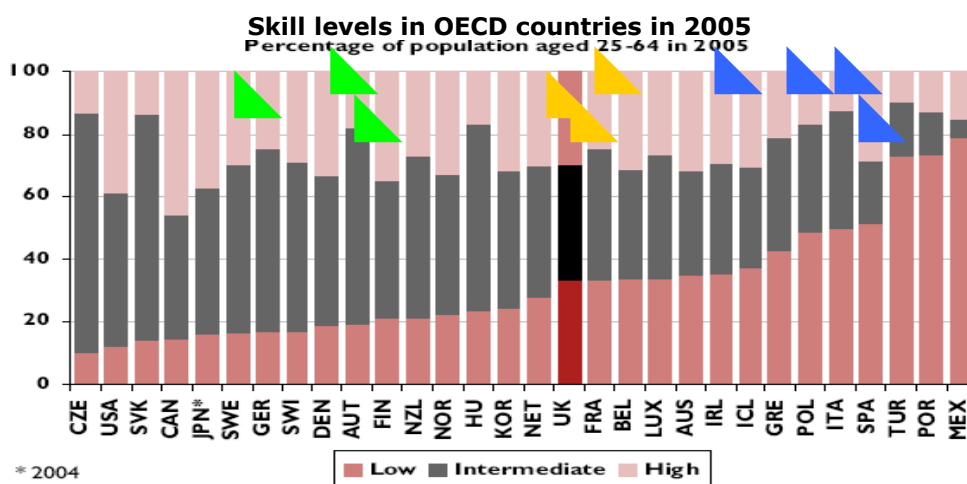
This section of the paper looks at these questions in more detail, examining;

- ✧ Current levels of investment in education for children and young adults;
- ✧ The extent of lifelong learning; the nature of its provision; and best practice examples of various kinds of provision;
- ✧ The “migration dilemma”.

Investment in primary, secondary and tertiary education

Four illustrations taken from the UK and Spanish national dossiers provide an insightful picture of past and current investment in the formal education system for young people in the participating countries.

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

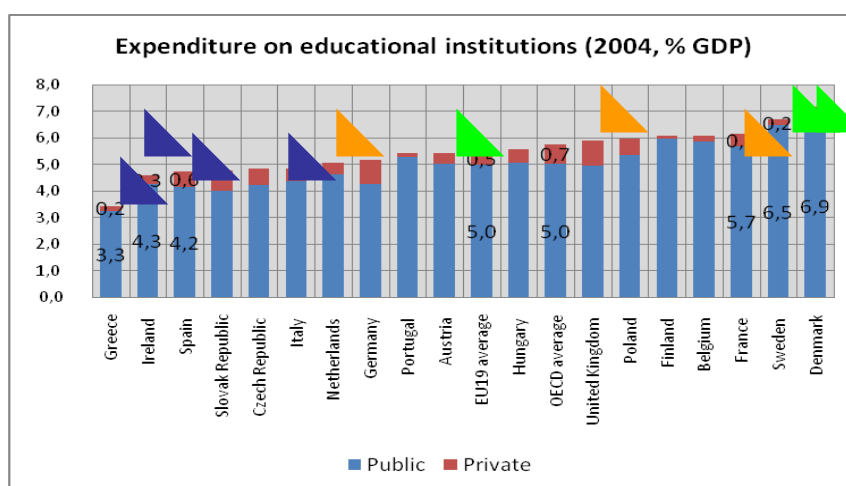


Source: OECD Education at a glance 2007

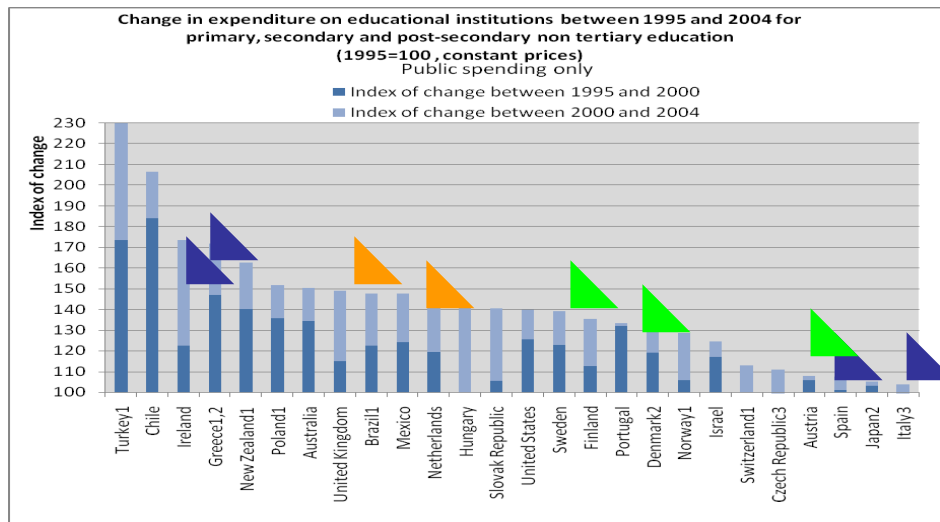
There appear to be three convenient clusters. Two clusters could almost certainly have been predicted from the forgoing sections of the paper;

- ✧ Sweden, Denmark and Austria have performed at world class levels over a period of years;
- ✧ Spain, Italy, Greece and the Republic of Ireland perform at the lower end of the scale. This cluster suggests, as will be seen later, that Spain in particular has not invested significantly enough in formal education systems during the recent extended period of economic success. Italy is currently not investing enough to provide a baseline for economic restructuring based on moving up the employment “value chain”.

What is perhaps surprising is the positioning of the Netherlands, the UK and France in the middle ground. It suggests that a relatively small and well educated group of workers are primarily responsible for the high value adding employment and points to the need already identified in each country that education systems need to be improved. The second group of three illustrations show respectively current levels of expenditure on educational institutions as a proportion of GDP; the change in expenditure over the years from 1995 to 2004; and the difference in education between the “older” current workforce (ages 45 – 54) and the immediate “future” workforce (ages 25 – 34).



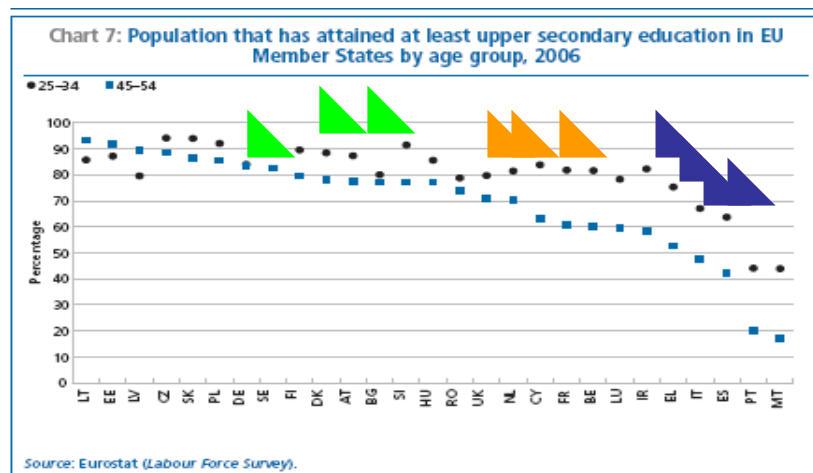
Source: OECD, Education at a Glance, 2007 (<http://www.oecd.org/dataoecd/27/52/39254884.xls>)



Source: OECD, Education at a Glance, 2007

(<http://www.oecd.org/dataoecd/27/52/39254884.xls>)

* No data available for France



Source: Eurostat (Labour Force Survey).

Source: Employment in Europe 2007

Using the same colour coding as earlier in the section, it can be seen that;

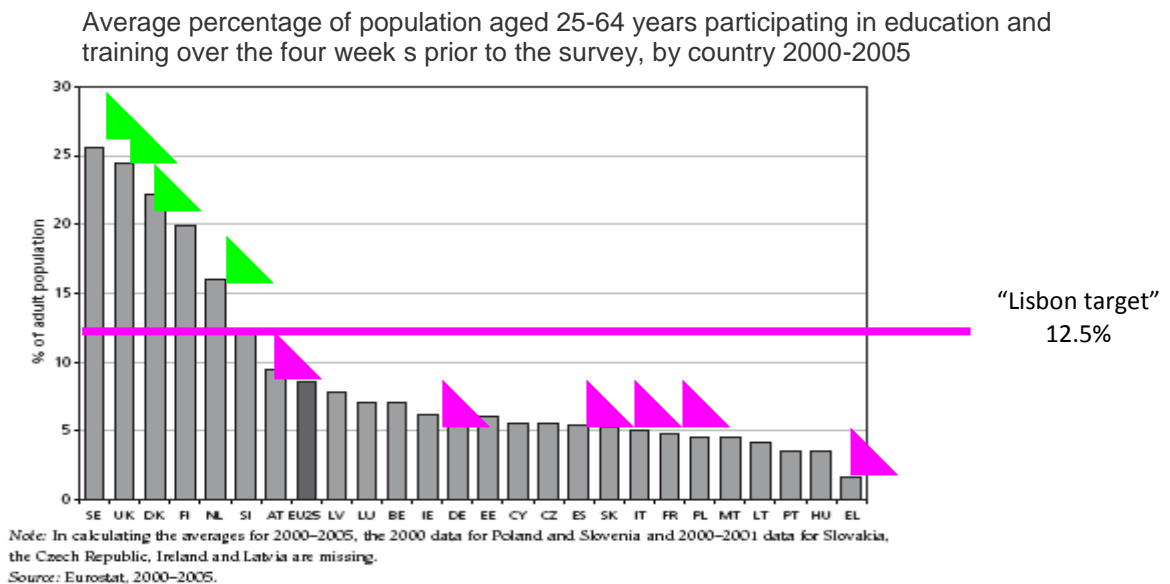
- ✧ Sweden, Denmark and, to a lesser extent Austria, invest heavily as a proportion of GDP on education and reap the results from this through both a well educated and improving workforce;
- ✧ Towards the bottom, Spain, Greece, Italy and the Republic of Ireland fall at the low end of the spending and achievement graphs, but the increased investment noted in the Republic of Ireland and Greece appears to be showing results in improving workforce qualification between the younger and older cohorts in the illustration. It would also appear that although Italy is increasing investment in education significantly, it is not getting value for money from the current level of investment which is close to that of Austria and the Netherlands. Another country appearing not to get best value for investment in education is France. The French national dossier notes that whilst French universities have places for almost everyone that wishes to attend, during the first two years of study four out of every ten students drop out.

Lifelong learning

Lifelong learning is an important concept if the skills of the current national workforce are to evolve alongside the evolution of the economy and avoid the negative effects of leaving the older workforce either outside the labour market or employed exclusively in lower value added occupations. It involves initiatives taken by government, social partners or others that invest in skills transformation of the current workforce in order to them to be relevant to the needs of the labour market.

Theme one of this report already referred to the direct correlation between performance in the management of restructuring and lifelong learning. The following illustration, reproduced from the earlier section of the report shows the number of people of working age in receipt of a learning experience (including both formal and non formal learning) in the previous month. The “Lisbon target” of 12.5% is also indicated.

The four countries scoring well on lifelong learning are Sweden, Denmark, the Netherlands and the United Kingdom. Five of the other six countries fall below the EU25 average and six below the 12.5% Lisbon target. Between the end of the data collection period in the illustration and today, Spain has significantly improved performance in lifelong learning with a 2006 achievement rate of 10.4% of the population - up from around 5%. The more recent performance of Greece however has not improved perceptibly over the reference period and remains well below the average of the EU27, the EU25, the Lisbon target and significantly below the levels achieved in the best performing countries.



The role of companies in the provision of ongoing learning to employees varied, but was nonetheless important in every country. UK employers, for example, pointed to two fact relating to workforce education. The first is the investment of companies in training (estimated at almost £40bn in 2007) and the fact that two third of this training is “uncertified” in terms of the award of a formal qualification. The mini-case below describes the role of the Austrian social partners in developing lifelong learning initiatives and most models of the labour foundation or job security council type approaches focus on (re)training initiatives. There is a variety of “employability” programmes in companies which aim to build worker skills for both current and future needs based on the twin responsibilities of employers to provide training and on workers to develop their skills.

It is perhaps simplistic to draw a direct parallel between the openness of economies to international trade and their performance in lifelong learning, but if the traditionally more closed economies, pictured toward the right of the illustration above, are to improve their ability to see change more positively and handle it better, then step improvements in workforce preparedness for change would appear vital.

There are many examples of good practice in this report and in the national dossiers. Two specific examples of social partner initiatives are described below. The first describes the quite recent Austrian social partner initiative designed to re-shape government thinking on lifelong learning. The second is an innovative state funded trade union initiative introduced by the TUC in the UK designed to engage employee representatives in the promotion and management of lifelong learning.

MINI-CASE SEVEN

AUSTRIA – new social partner plans to improve lifelong learning performance

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

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

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

- ✧ The current promotional scheme providing employers with a lump sum of €1,000 for each apprentice employed will be replaced by a more tailor-made and flexible scheme for promoting apprenticeships. This means that state subsidies payable to employers who take on apprentices will directly depend on the amount of the apprenticeship allowance paid and on the apprentice's actual completion of the entire training year. Moreover, additional subsidies will be granted to those employers offering apprenticeships for the first time and for young people with special needs;
- ✧ Those young people who have failed to find an apprenticeship, as well as socially underprivileged and disabled persons younger than 18 years of age will be entitled to attend special 'qualification centres'. These centres aim to

provide special vocational training programmes, culminating in a final examination entitling each participant to perform a formally recognised occupation. Furthermore, special job placement schemes originally introduced for older employees will also apply to young employees older than 17 years of age who may have left the education system early. The same applies in relation to the special 'crash qualification course' on skilled labour. These schemes will also conclude with a final examination;

- ✧ For older employees, the country's Public Employment Service (*Arbeitsmarktservice*, AMS) will be commissioned to implement a special qualification programme, the so-called 'Project 10,000'. Under this programme, at least 10,000 unemployed people will be retrained for metalworking-related occupations by mid 2008. Workers for these occupations are considered to be mostly in demand by businesses. In addition to this programme, the existing subsidised wage scheme (*Kombilohn*) introduced in 2005) will be amended, thereby extending coverage to workers older than 45 years of age who are currently excluded from the scheme. Moreover, under the extended scheme, the threshold of wages eligible to subsidies will be increased from the current amount of €1,000 to €1,700 a month;
- ✧ For those sectors suffering from a chronic shortfall of skilled domestic workers, the partial opening of the labour market to workers from the new EU Member States (NMS), which began in May 2007, will continue. Around 50 occupations which currently record a shortfall of skilled labour were opened up to foreign workers by ministerial decree on January, 1st 2008. According to AMS, a current need exists for at least 6,000–7,000 skilled workers throughout the country which could be satisfied by the employment of well-trained NMS citizens.

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

MINI-CASE EIGHT

THE UNITED KINGDOM – *engaging employee representatives in lifelong learning*

Even when good programmes of further training and skills development exist, it appears that people who are not used to academic study are reluctant to commit themselves to any kind of training or process certifying their experience in the field.

The Union Learning Representatives (ULR) initiative developed by trade union organisations in the UK is addressing this issue in a unique way. The ULR approach is based on the trade unions' access to large numbers of low-skilled workers who have little experience of the education system. Organised on a regional and branch basis, the ULR system relies on financial support from the government and enables the unions to appoint "representatives in charge of training" in the workplace itself.

The role of the Union Learning Representatives is to analyse training needs, promote and supply the information the workforce requires, organise training courses and engage in dialogue with employers to implement these activities. Unions have funds through which they can train ULRs to do their job. ULRs perform their tasks during normal working hours so that employees can contact them while they are at work. ULRs are therefore an important link between the workforce, the employer and the training agency. The close relationship between union representatives and workers, just like that between union representatives and training agencies, enables them to advise the least-qualified members of the workforce on the course(s) best suited to them.

The migration dilemma

A simple and immediate answer to the combined skills shortages and social security funding issues that face a number of "old Europe's" countries is the inward migration of workers with skills in areas of need. In some economies this need is at the higher end of the skill spectrum, in others migrants have helped sustain the construction and hotel and restaurant sectors.

The economics of inward migration to the "receiving countries" are fairly straightforward. Migrants pay taxes, act as consumers of domestic goods and services and fill job vacancies that, if left open, would put a brake on economic development. The UK Treasury estimates that between 2001 and 2006 migration added 0.5% to the working age population and supported economic growth to the value of around £6bn. Evidence collected by business organisations in the UK also highlights the benefit arising from the skills, flexibility and work ethic that migrant workers bring.

In every country visited however, the issue of legal and illegal migrant labour was topic of conversation, and often controversy. Whilst there is a clear distinction in legal and policy terms between migrants from countries within the EU and those from third countries, the general perception of migrants changed little in the discussion. Although the issue of Chinese workers in Italian based clothing companies was discussed, recent press reporting has focused on the influx of migrants from Romania. The argument between public perception and economic reality is perhaps best summarised in the following extract from the Republic of Ireland national report and taken from an Irish Times article published in the week of the seminar and which refers primarily to the recent entry of Baltic state and Polish workers into the Irish labour market ;

"In electoral terms, actual [economic] difficulties in manufacturing and potential problems in construction are likely to be overshadowed by voters' fears of job displacement and worsening conditions of employment due to the influx of non-Irish workers. There is no

doubt that immigrant workers have been major contributors to the continuing rapid growth of the Irish economy over the past five years. Without substantial immigration inflows, growth would have been choked long ago by labour shortages. Moreover, the knowledge and qualifications that immigrant workers bring to the State have enhanced considerably the skills base of the economy. However, both the perception and impact of immigration is heavily influenced by social class. The middle class is, on the whole, positively disposed towards immigration. It means lower-paid workers in their businesses, cheaper personal services in their homes and little direct competition for their jobs. Working-class voters tend to be more wary. They hire nobody, spend far less on personal services and they are more likely to face direct competition both in terms of jobs and wages from immigrant workers. The size of the immigrant workforce in Ireland is now substantial and is rising rapidly. By the second quarter of 2006, there were 198,100 non-Irish workers employed in Ireland, equivalent to 9.8 per cent of the workforce. In the preceding year, the non-Irish national workforce had increased by 47,800. In terms of their sectoral spread, virtually none are employed in public administration and defence, few are engaged in farming and not many are employed in education. Taken together, these three sectors account for just 11,900 of the total immigrant workforce.

As can be seen, non-Irish nationals account for one in four of all those working in hotels and restaurants; one in eight of those employed in construction; and one in nine of those engaged in industry. It is in these sectors that Irish workers are most likely to fear that their jobs, wages and conditions of employment are at risk of being undermined by foreign labour. However, the evidence suggests that, to date, these fears are unjustified. A 2005 study by Alan Barrett and others at the Economic and Social Research Institute found that over the years 1997-2003, the average immigrant was quite highly skilled and immigration resulted in reducing average wages of high-skilled workers by 4-5 per cent below what they would otherwise have been. Wages of low-skilled workers were broadly unaffected and employment of both high- and low-skilled workers increased.

More recently, the Fás Labour Market Review 2006 concluded that "displacement is not a major, or widespread, issue in the current circumstances in the Irish economy. The two overriding reasons for this view are the continued low levels of unemployment and the continued rise in wage levels across all the main sectors of the economy". Both of these assessments were conducted against the background of a rapidly expanding Irish economy. If the pace of economic growth begins to decelerate, is displacement likely to become more pronounced? Fás reckons that "displacement could be significant for low-skill jobs in the event of an economic slowdown".

Whatever the objective evidence, in politics, perceptions trump reality. With manufacturing employment in decline, construction jobs at risk and fears that, in a slowing economy, the jobs, wages and working conditions of Irish workers could be threatened by foreign labour, the Government parties are unlikely to reap the electoral dividends they might count as their due given the country's scintillating employment performance over the past five years."

Although the actual incidence of foreign workers from within and outside the EU varies enormously country by country (see below) the level of engagement in debate in the national seminars was generally high. The caricatures discussed ranged from the Chinese takeover of the northern Italian fashion clothing and shoes sector; the apparently widespread activities of Polish plumbers; and concerns with illegal immigration fuelling existing problems with the informal economy. We have no objective data, but it often appeared that the concern with inward migration was negatively correlated with the incidence of actual migration into the countries concerned. In the illustration below, the countries with a level of inward migration higher than the percentage for the EU15 are highlighted in yellow. The nature of debate also varied, whilst some countries had negative attitudes toward migration, in the UK, Sweden and Denmark questions related primarily to methods of integrating economic and non economic migrants.

The share (%) of working age foreign nationals in the country of residence relative to the total working age population (2005)

Country of residence	Citizenship			Total
	From EU15	From EU10	From outside EU25	
Austria	1.7	1.4	7.1	10.2
Denmark	0.9	0.2	2.5	3.6
France	1.8	0.1	3.6	5.4
Greece	0.2	0.4	5.3	5.9
Ireland	2.7	1.9	2.7	7.3
Italy	Data not available			
Netherlands	1.3	0.1	2.6	4.0
Spain	1.2	0.2	8.4	9.8
Sweden	2.0	0.3	3.1	5.4
UK	1.7	0.4	4.0	6.1
EU25	1.2	0.3	3.4	4.9
EU15	1.5	0.3	4.0	5.8

Source Employment in Europe 2006

The issues faced by the Nordic countries were slightly different. Denmark is positively encouraging the inward migration of workers in areas of skill shortage (see example below) but, along with its neighbour Sweden, it has problems associated with the economic integration of “non economic” migrants. The Nordic governments have traditionally adopted a policy of accepting refugees from a variety of troubled or failing states in Africa, the Balkan states, the Middle East and Asia. “Non economic” migrants (as opposed to those from Central and Easter Europe) are proving difficult to bring into learning programmes and into employment.

MINI-CASE NINE

DENMARK - *improving the labour market by opening up supply*

In March 2007 the *Job Card scheme* relating to future immigration, was extended to include midwives, dentists, architects, surveyors, lawyers, economists, marine engineers and building engineers. The agreement also extends the scheme in such a way that residence permits are issued to all foreigners who can document a concrete job offer with an annual salary of more than DKK450,000 and the usual wage and employment conditions, regardless of whether there is a shortage of labour in the field. The government is also contemplating lowering the annual pay limit.

An agreement on future immigration has been concluded which introduces a *Green Card scheme* enabling specially qualified foreigners to obtain a visa to seek employment in Denmark for up to six months. The government is also considering adjusting the scheme to improve opportunities for enterprises to recruit foreign labour.

The government has launched 13 new initiatives to facilitate enterprises' access to recruitment through increased knowledge and tools, and to market Denmark in Sweden, Poland and Germany as an attractive country in which to work.

Most recently, the *transitional scheme for EU enlargement* has been changed starting from 1 January 2008. The change enables enterprises covered by a collective agreement to employ people from the new EU countries without first having obtained a work permit. The first adaptation of the so-called East Agreement entered into force in June 2006, enabling enterprises covered by a collective agreement to be pre-approved to employ citizens from the new EU countries without the citizens first having obtained work and residence permits. Since June 2006 there has been a significant increase in the number of work and residence permits issued.

Theme four – “Perspectives on silent restructuring”

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

The social partners also have a key role to play in what we described in earlier phases of the project, and what has become the accepted term, “silent restructuring”. Silent restructuring has two main forms;

- ✧ First, it takes place when organisations undergo internal organisational change that typically requires employees to undertake new and different responsibilities in order to improve organisational performance without significant job losses. These kinds of changes, and the role of the social partners in them, are important as they are major vehicles for change in public services and often obviate the need for mass job losses in companies needing to improve competitiveness.
- ✧ Second, silent restructuring takes place in small and micro enterprises that fall below the radar of those examining restructuring. The cumulative effect of job loss in a number of small enterprises can be significant to a sector, region or a national economy, and takes place where the enterprises themselves do not have the means to adopt the more sophisticated approaches to managing change often witnessed in larger companies.

Within “theme four” of the report these two facets of “silent restructuring” are examined further under the headings of “transformational change” and “small and micro companies – change below the radar”.

Organisational change without significant job loss

One of the objectives of the project was to open a new avenue of enquiry not related exclusively to the management of collective redundancy, but into the challenges that face organisations as they attempt to produce more and better products and services with the same or fewer resources. Where “qualitative” restructuring takes place, the organisation seeks to persuade the same employees to embrace different working practices under what they often perceive to be less favourable working conditions and job security. In recent years, major transformational change initiatives have taken place in some of Europe’s largest companies. These changes have often taken place where management and workers have developed plans to improve competitiveness as an alternative to the options of outsourcing or offshoring. It was suggested earlier that the increased incidence of offshoring and of private equity take-overs have sharpened the minds of both sides of the social partnership towards projects to improve business performance.

Organisational change in the public sector

“Qualitative” restructuring is not limited to private sector organisations. Indeed the pressure falling on public authorities to improve services, often in the context of static or reducing budgets, has led to a stream of innovative approaches to the management of change. In a number of the national reports, from Sweden to Italy, securing improvements in public service performance and productivity were raised as important issues impacting on economic success. It is the commonly accepted view of senior human resource practitioners in both the public and private sector that it is often “easier” to deliver efficiency through significant job losses than it is to do with a stable workforce. It is especially difficult when significant numbers of employees lose their jobs and those that remain are expected to achieve similar results with fewer staff.

Achieving qualitative change objectives in public sector organisations often means convincing workers who have enjoyed considerable levels of job security and many years experience of a relatively “change free” environment that things need to change. From this point of view, high levels of engagement between the social partners and between the organisation and its workers are even more essential to success than in other circumstances.

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

A number of case studies were presented at the national seminars (in addition to the Danish public administration restructuring described earlier) that illustrate transformational change in the public sector ranging from the Spanish RTVE to Poste Italiane. Two other cases from the national seminars are described below.

MINI-CASE TEN

THE UNITED KINGDOM HEALTH SERVICE – “*The Hospital at Night*”

The UK national health service project, “The Hospital at Night” sought to resolve the problems associated with compliance with the European Working Time Directive and at the same time assure service continuity and improve the delivery of safer patient care out of hours.

The approach taken was to adopt a whole system solution based upon staff engagement in service redesign and productivity improvement. The outcomes were the creation of multiprofessional teams with a collective responsibility for night-time patient care. The old model of extended shift working combined with “on-site on-call” working arrangements was replaced by more regular shift working built on multi disciplinary teams. The regular “day” was extended and out of hours operations reduced. At night the focus shifted to primary care and “treat and transfer” practices.

The overall approach was developed by the Medical and non Medical Royal Colleges, the NHS trade unions and associations and NHS leaders. It was piloted over the two years from 2004 to 2006 on four sites. Staff responses and clinical results have been very positive. Initial conclusions from the from the project show that, doctors have received better support and training in reduced hours; nurses have had the opportunity to develop their skills in new areas and patient outcomes have improved significantly.

MINI-CASE ELEVEN

FRANCE - *The change process in La Poste*

The strategic change plans of La Poste cover quantitative impacts on employment; qualitative impacts on employment; and identifying and exploiting the synergies between social obligation, industrial modernisation and commercial success.

Quantitative impacts on employment – the employment effects of change in terms of staff numbers in the organisation have not been large. La Poste employed 312,439 staff in 1999 and 303,041 in 2005. There has however been a major change in the nature of jobs and the employment relationship;

- ✧ The number of civil servants has reduced significantly, being replaced by private sector style open-ended contracts;
- ✧ Unlike many of its competitors, the number of fixed term contracts in use has remained constant over the last seven years;
- ✧ Part time contracts have moved from around 8% to around 12% of the population.

Qualitative impacts on employment – training and skills development are major priorities for La Poste. The organisation's training plans have shifted from "top down menu driven" approaches to initiatives that involve and engage individuals and their managers in assuring the continuous adaptation of individuals to the needs of the organisation.

Particular areas of focus are improved flexibility; improving staff employability; and making a step change in customer service. A competency based approach to personal development is delivered through individual training plans supported by the right to receive training. Associated with the new approach to training are new approaches to reward and motivation that support the change environment.

The change process and social dialogue

La Poste has a long history of social dialogue undertaken between strong and effective social partners. The organisation views a "trust" and "confidence" system of social dialogue as indispensable to the change process. It also realises that if the social dialogue machinery is to be effective in the new competitive environment facing the organisation, practices and procedures need to be modernised. In 2004, a new agreement on the organisation of social dialogue was struck between the La Poste and the representatives of its employees. The agreement contained a number of fundamental changes to historic practice;

- ✧ If social dialogue was to be effective in a decentralised business, then the social dialogue process itself had to be relevant at the points where decisions were taken. This called for a decentralisation of the process;
- ✧ To be effective, the issues discussed in the social dialogue had to change to match the new environment and business agenda. The subjects covered in meetings had to become more diverse;
- ✧ If social dialogue is to be based on trust and confidence, then both parties must respect the commitments made;
- ✧ To assure concrete outcomes in negotiations on complex subjects, decisions have to be made by majority and respected by all;
- ✧ Where there will inevitably be disagreements between the parties on issues that affect adversely some parts of the La Poste workforce, the role of the social dialogue is to act as a "social alarm".

Réussir ensemble - Effective social partnership underpins the major initiative, réussir ensemble (succeeding together). A number of elements are built into the initiative;

- ✧ The employee relations framework is underpinned by a general collective agreement;
- ✧ As the nature of work and contracts gradually change, commitments have been given on the limitation of the use of fixed-term contracts;
- ✧ The need to improve the skills and capacities of employees through training is reinforced by an agreement to provide lifelong training for employees;

- ✧ Internal promotion and development systems are made more simple and based on the recognition of skills achieved;
- ✧ If employees are to “care more” about customers, this attitude needs to be reflected in the organisation’s “care for” its staff. Consideration for employees moves up the organisation agenda. One manifestation of this in the area of improved safety and health provisions;
- ✧ The organisation’s reinforced commitment to social obligations are reflected in increased attention to equal opportunities in employment, focused in particular on women and people with disabilities;
- ✧ Social benefits, and particularly those related to worklife balance, are moved up the agenda.

La Poste clearly bases its future success on building the skills and commitment of its workforce through initiatives that reinforce the importance of the relationship between the company and individual employees (training, development, employability, empowerment) and also the relationship between the organisation and those who are elected to represent employees in the new social dialogue processes.

Small and micro companies - change below the radar.

Small and medium sized enterprises constitute the vast majority of businesses in the ten participating countries and in the EU as a whole. Of an estimated 23 million European enterprises, more than 99% are small and medium sized (SMEs)¹². Nine out of ten SMEs are micro enterprises employing less than 10 workers and these businesses employ 30% of the European workforce. The illustration below reproduced from the introductory section of the paper shows that a substantial volume of net job creation in Europe takes place in “small” and “young” enterprises.

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

Source: ECB based on Amadeus database

In sectoral terms, SMEs are most likely to be found in construction, hotels and restaurants and the distributive trades. Companies employing less than 10 workers make up between 40% and 50% of Europe’s businesses in these three areas. Companies employing less than 50 workers make up almost three quarters of construction and hotel and restaurant businesses and around 60% of employers in the distributive trades.

¹² Employing fewer than 250 people and an annual turnover of less than €50m

The distinction between the contribution to national GDP, employment and job creation between “micro”, small and medium sized enterprises deserves comment. The long standing and commonly adopted definition of an SME is a company employing less than 250 workers. This is not a very practical definition for the employment policy maker as it comprises three important subsets with very different characteristics and deserving differing policy treatments.

- ✧ The first category is the sole trade or “one person” enterprise. The numbers of these enterprises are growing and they typically make up around a half of SMEs;
- ✧ The micro enterprise, employing less than ten workers, typically makes up around 40% of SMEs;
- ✧ Medium sized enterprises are generally considered to employ more than 50 workers make up 1% to 2% of SMEs. Today, in many industries, a factory or office employing more than 100 workers would often be considered to be a “large” business and may well be a subsidiary of an important multinational company. Indeed one of the “small company” case studies in the project was a subsidiary of one of Europe’s largest companies that was being restructured as a result of an international transfer of production.

If substantive work is to be undertaken with the SME in mind, the primary focus should be centred on the needs of “one person” enterprises and micro companies employing less than say 10 or 20 workers. It is these companies that are not covered by legal commitments for dealing with mass redundancies; where job losses are likely to be created as a result of financial difficulties being faced by businesses that cannot afford expensive severance payments or job transition arrangements; where there are less likely to be legal requirements relating to systems for social dialogue; where trade union membership and representation tends to be lowest; and who find it more difficult to invest in staff training.

For those seeking an in-depth analysis of restructuring in SMEs, a good summary of research and the available literature is contained in the report prepared for the European Commission Restructuring Forum held at the end of 2007 titled “Adaptation of SMEs to change”¹³

The report conducts a thorough analysis of current writing and thinking - but notes that the subject is under researched compared with its actual and potential impact on the European economy.

In the national seminars, the amount of discussion and focus on small and micro enterprises was limited and reflects the point made on the need for more substantive work to be undertaken. Three important issues did however emerge;

- ✧ “One person” enterprises are much more likely to grow in some countries by “trading” rather than “employing”;
- ✧ In some countries and sectors, the role played by companies in similar sectors in the same geographic which are acting cooperatively in “clusters” or “industrial districts” to promote innovation and to support transition has been important;
- ✧ Although small companies are generally less inclined to dismiss their workers, when they do run into financial difficulties, the speed of change in small companies

¹³ European Commission Restructuring Forum “Adaptation of SMEs to change” 26th and 27th November 2007 – “Background document” edited and prepared by Eckhard Voss

is high, and where job losses are concentrated in many businesses in a sector or region, its impact on the broader economy can be significant.

Growth and the “one person” enterprise – whilst the number of “one person” enterprises is growing, these companies rarely expand in employment terms. It would seem from the anecdotal data presented at the seminars (and emphasised in Sweden) that “one person” enterprises frequently grow and develop their revenues without turning into “employers”. This is achieved by growing their business through trading with other small companies rather than employing workers. In the cases of Austria and Italy, it was suggested that “owner-only” enterprises today frequently purchase goods and services at home and abroad rather than grow their organisations as employers. This suggestion is a very significant one so far as employment creation is concerned and would benefit from further and more detailed analysis to establish whether it is a fact, and if so, why entrepreneurs are reluctant to grow through employing workers.

Industrial Districts – during the national seminars, examples of cooperative behaviour by large numbers of small and micro enterprises in the areas of research and development, innovation, training and the management of job transitions were presented in Italy (the textiles district of Prato) and in Austria (the plastics cluster in Upper Austria). Mini-case twelve below describes the Austrian initiative.

MINI-CASE TWELVE

AUSTRIA – The Plastics Cluster in Upper Austria

The plastics cluster initiative in Upper Austria is an example of successfully dealing with challenges in the context of structural change and globalisation faced by companies in the sector which overwhelmingly are small and medium sized companies. The plastics cluster is part of Clusterland Upper Austria (*Clusterland Oberösterreich GmbH*) which is an umbrella organisation organising five different clusters and three networks in Upper Austria with more than 1,300 individual firms and 217,000 employees.

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

- ✧ About 255 partners are members of the *Automotive Cluster*, the biggest network in the automotive supplier industry in Austria. Since 1998, the Automotive-Cluster is working with manufacturing and service companies as well as research & development facilities in the area of street-bound vehicles (passenger cars, trucks, special vehicles, motorcycles).
- ✧ In 1999, Upper Austria established a *Plastics-Cluster*, which concentrates on combining the energy of businesses in this sector and is an example of successful cluster policy with international acceptance and 400 partners;
- ✧ More than 200 partners are cooperating in the *Furniture & Timber Construction Cluster* and form a network of carpenters, furniture-, wood- and component producers, their suppliers and education and research facilities;
- ✧ About 160 partners are cooperating in the *Health Technology Cluster* – a network for medical technology and for companies

in the industry of medical technology, their suppliers, relevant education- and technology facilities, and health facilities;







- ✧ About 220 partners are cooperating in the *Mechachtronics Cluster* - the biggest network in the mechatronic industry in Austria. Since 2003, the Macaronis-Cluster is working with companies in the areas of mechanical engineering, plant building, equipment and apparatus construction, special technological supplies and services, and R&D and training facilities.

From 2004 onwards three networks have been established in Upper Austria as platforms of inter-branch information, communication and competence development. In cooperation also with competent partners from science and practice, these networks support the competence of the Upper Austrian economy, especially of small and medium-sized businesses: the *Network Human Resources*, the *Network Design & Media*, and the *Network Environmental Technology* as a platform for suppliers, know-how-carriers and technology-users in the fields of water, waste, air, noise and soil.

All clusters and networks, which were directed by Upper Austria's location and innovation agency (TMG) till the end of 2005, are now part of the Clusterland Oberösterreich GmbH which was formed in January 2006. Legitimate owners are the "Technology and Marketing Association Upper Austria" (TMG) with 61%, Upper Austrian Chamber of Commerce, and the Federation of Austrian Industry with each 19.5%.

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

The Profile and structure of "Clusterland Upper Austria"

		Start	Partner	Sales (bn) €	Employees ('000s)
Automotive		07/1998	255	16,5	85,9
Plastics		04/1999	410	13,7	55,0
Furniture & Timber Construction		01/2000	231	2,3	19,3
Health Technology		03/2002	169	3,1	22,5
Mechatronics		01/2003	234	4,6	27,1
Networks Design & Media, Human Resources and Environmental Technology		2004 & 2006	57	1,6	7,8
Total (cum.)			1.356*	41,8*	217,6*

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

Background and driving forces of restructuring

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

- ✧ Strong medium-sized structure of enterprises but only few bigger companies;

- ✧ Privatisation of former public companies (e.g. "Chemie Linz") had negative effects on the enterprises as suppliers and customers;
- ✧ No regional research and training institutions – existing institutions are focussed on big chemical companies.

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

Against this background, the Upper Austrian government together with business partners established the plastics cluster initiative in 1999 as a part of the wider Upper Austrian Cluster Initiative. The basic idea of the cluster initiative has been to strengthen the competitiveness and innovation potentials of enterprises in this industry by cooperation and various services which are provided by the Clusterland initiative. The overarching philosophy is that strengthening the competition base of the companies will only be possible on the basis of quality, a qualified workforce and innovation but not on the basis of price competition.

Main areas of activities are:

- ✧ Information and communication;
- ✧ Know-how transfer and qualification;
- ✧ Cooperation and networking;
- ✧ Support for marketing and PR;
- ✧ Support for entering international markets and stronger export orientation.

Today, there are around 400 companies cooperating under the umbrella of the plastics cluster initiative with nearly 60,000 employees. The cluster is including all segments of the value-chain including plastics production, machinery production and manufacturing as well as business orientated service providers and research and development institutions.

Results and outcome of the initiative

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

- ✧ More than 330 companies have been involved in around 80 different innovation projects of which the overall majority would not have been taken place without the cluster initiative;
- ✧ Around three quarters of the companies involved in the cooperation projects have continued cooperation and networking after the formal ending of the project;
- ✧ The plastics industry developed significantly better in recent years than other industrial sectors in Upper Austria with annual turnover growth of 7-8%;
- ✧ During the last three years around 750-800 new jobs have been created as an annual average by the plastics industry.

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

Small and micro-enterprises and the speed of change

Whilst it is generally accepted that small and micro enterprises are less likely to dismiss their workers¹⁴, when they face financial difficulties job loss can be implemented rapidly. The heavy concentration of workers in large numbers of enterprises in particular sectors mean that the cumulative effect of the actions of employers in the face of economic problems can be extremely damaging.

Of particular concern today is the concentration of small and micro companies in the construction sector which, in some countries, is facing an economic crisis. During the months of April and May 2008, the Economist magazine and BBC World respectively suggested that during the coming year between 400,000 and 900,000 jobs would be lost in the Spanish construction sector. The Republic of Ireland may face a similar, albeit less extensive, problem. Were the same challenges to be faced by larger companies, the process would be slower, as a result of the needs for consultation of representatives of employees; social plans would be put in place to deal with issues of redundancy payments and the management of job transitions; and the media attention given to the subject would be enormous.

Territorial pacts and cluster initiatives form a part of the answer, but the social partners might wish to consider more in depth the forward looking implications of the increasing incidence of large clusters of small and micro employers.

¹⁴ European Commission Restructuring Forum "Adaptation of SMEs to change" 26th and 27th November 2007 – "Background document" edited and prepared by Eckhard Voss

Concluding comments

Whilst it will be the purpose of the final synthesis report to be produced early in 2010, and following completion of the national reviews in every one of the EU's 27 member states, some brief concluding comments on the role the social partners play in restructuring can be made at the end of this study of ten countries that vary in size and economic make-up.

- ✧ It would appear that the most effective and sustainable approaches to flexicurity are based on a comprehensive and consistent approach to overall labour market policy;
- ✧ Not all innovative or effective initiatives and approaches are directly transferable from country to country. For transposition to be effective, the often unique national "pre-requisites" for effective social partner engagement and influence have to be taken into account. Examples illustrated in this report include the long and generally successful history of social dialogue in Sweden; the approach to innovation and risk in Denmark and the role played by government in the United Kingdom.
- ✧ In some countries there is a clear conflict between the objectives of negotiating job transition plans and agreeing monetary compensation for job loss. In other countries there is a distinct difference in emphasis between managing transitions and protecting existing jobs;
- ✧ Important pre-requisites for effective social partner engagement in the anticipation and management of change are the development of a shared diagnosis of restructuring challenges; agreement on the broad policy responses required; and provision by government of an appropriate "space" for social partner initiatives.
- ✧ In the development of a shared diagnosis and agenda, national or industrial observatories that are independent in nature have helped to change the traditional agenda of employee relations in some countries;
- ✧ Success in achieving the Lisbon agenda objectives relies on excellence in the formal education and training system; the relationship between the needs of employers and the skills of students; vocational training; ongoing "lifelong" learning, the role of informal learning and on the job training. The social partners can play an important role in shaping these facets of the educational system;
- ✧ In the short term, the migration of workers will be important in the filling of skill gaps at various levels in the labour market. The social partners have an important role to play in helping to balance the economic and social debate that is taking place on the subject in almost every European country;
- ✧ Introducing qualitative change in circumstances where workers have experienced a long history of job security and little change, and where the economic imperative driving change is less clear, is particularly difficult. Where the future restructuring agenda in many countries will be associated with an increased focus on public sector service improvement and productivity, positive engagement of the social partners will be particularly important;
- ✧ The social partners in most countries have limited influence in the important area of small and micro-enterprises where job losses can take place in a particular

sector or region very quickly and with dramatic aggregate effect. This issue is particularly important as micro-enterprises are less likely to be able to afford high levels of compensation or to establish job transition schemes. An area where social partner action may be more straightforward is to engage on this subject when small “supplier” and “subcontracting” companies are affected negatively when a major or sole customer faces restructuring.

Following the discussion of this paper at the final synthesis seminar in Brussels, seminar notes have been drafted to reflect the discussions held and comments on the four themes made in interventions by the invited discussants; in the plenary sessions, from those attending the meeting; and the presentations made by the leaders of the EU social partners and the European Commission. This note should be read in conjunction with the synthesis report as it contains relevant reflections on the content of this document.

