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Socially-Sensitive Enterprise Restructuring: lessons from International
Experience

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UNITED NATIONS

Socially sensitive enterprise restructuring

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Interregional programme “Socially Sensitive Enterprise Restructuring” has been for a long time one of the key projects of the ILO Job Creation and Enterprise Development Department.

The world is constantly changing. It is not the same as 10-15 years ago. Nowadays the enterprises have to face the following trends that they can not ignore:

- Globalization
- Technological change
- Changes in corporate ownership (now we see all over the world a growing number of mergers and acquisitions, management buy-outs, privatization programmes)
- Industrial society is being replaced by informational society
- Demographic changes
- Growth of Foreign Direct Investments

But, perhaps most importantly, we witness the changes in demands and expectations that the civil society have regarding the role of business in society.

In general, it is hard to deny that nowadays business in the society plays a much more important role than 10-15 years ago. In the situation society's trust in political parties, religious organizations, governments and other institutions of the civil society, is diminishing, business becomes a dominant institution in the society. Needless to say, a dominant institution in any society should accept certain responsibilities and obligations. However, business does not have such a tradition, and it still has to realize its new role in the society. Here I am talking not only about the CIS countries, but about the whole world.

The International Labour Organization (ILO), in general, and its Job Creation and Enterprise Development Department, in particular, is trying to help business to realize this role.

A lot of companies now are marketing themselves as the socially responsible enterprises. However, whether or not the company is indeed a socially responsible one, i.e. whether or not it is responsible not only to their shareholders and the fiscal police, but also – to their employees, local community, and other stakeholders, could be told only at the times of economic slowdown.

When everything is fine, it is not so difficult to be socially responsible, especially if it does not cost too much. The real test is how company behaves with regards to its employees and with regards to the society at large, when the things are not going well. This brings us to the issue of socially sensitive enterprise restructuring.

What is restructuring? This term is used in many different ways. First of all, restructuring is a profound change in the ways company operates. This involves changes in company's strategy, structure, etc. This term is also used when it comes to downsizing. However, from my point of view, restructuring is a much broader term than downsizing.

Of course, companies go through restructuring when they have to. Very often, the purpose of restructuring is not only financial and economic improvement of enterprise performance, but the very enterprise survival.

We are far from saying that the companies could and should not go through restructuring. In many cases, restructuring is the only solution. However, we believe that restructuring should be carried out in a socially sensitive way. In other words, companies should try to maximize economic benefits and, at the same time, minimize social costs of restructuring.

Such position is grounded in the ILO International Labour Standards (ILS), known as Conventions and Recommendations. In particular, one should mention here Convention No. 158 on Termination of Employment, which is accompanied by the Recommendation No. 166. Both documents were adopted by the International Labour Conference in 1982, but are still very much relevant. In these documents it has been emphasized that the ILO recognized that termination of employment could take place for economic reasons. It is also stressed that this decision could be made by the enterprise management. At the same time, the ILO emphasizes necessity of a long-term approach to the HR planning, and importance of creating and maintaining multifunctional workforce, its continuous training and development. The ILO also emphasizes importance of:

- Consultations between workers and employers before, during, and after the period of restructuring
- Creation of the most preferential conditions for the workers affected, so that they could continue their professional career
- Non-discriminatory policies and practices in restructuring, based on such characteristics as age, gender, union membership, etc.

Convention No. 158 has been ratified by many countries, recently – by Ukraine, Moldova, Latvia).

There are also some other instruments of the international law, such as the ones of the European Commission, that regulate restructuring process. In many countries, national law also regulates restructuring and calls for a socially sensitive approach to it.

However, in practice socially sensitive approach to restructuring is not always the case. On the opposite, very often we see the following trends:

- Downsizing is often the first thing that company is doing when economic situation deteriorates
- Downsizing is often the first thing that the new owner is doing when he/she acquires another company
- Often downsizing is taking place without social dialogue and taking into consideration the interest of the employees affected.

These trends exist all over the world, and, unfortunately, the CIS countries are not the exceptions.

At the same time, some good examples of socially sensitive enterprise restructuring do exist, and the job of our programme is to make sure that these examples are advocated and promoted. Our contributors will share with you such examples – not only positive, but also negative ones. Before going into specifics, please allow me, however, to share with you some data:

- Loss of job is more than just a loss of income. This means a loss of self-respect, respect of others, structure of the day, often – loss of *raison d'être*. For example, the international study “The International Social Survey Programme” shows that while for 50 per cent unemployed a loss of income remains the major problem, for 25 per cent loss of self-respect and respect from others are more important than a loss of income.
- It is often believed that downsizing has a positive impact on the performance of the company and the so-called “survivors”. This is not always true. For example, the data of the AMA (American Management Association) shows that one year after downsizing:
 - 69 per cent of companies that went through downsizing, reported work-related morale among survivors
 - 42 per cent of such companies experienced increased voluntary staff turnover
 - 13 per cent – reported an increase in the amount of occupational diseases
- Recent study has shown that 1 per cent rise in the national unemployment rate in the US leads to:
 - Almost 40,000 more deaths
 - More than 20,000 more heart failures
 - Almost 5,000 more mental hospital admissions

- Almost 1,000 more suicides

Moreover, such increases were reported for both unemployed and employed people.

Let me now share with you some of the lessons that we, in the ILO, have learnt by carrying out our activities in more than 30 countries all over the world:

- In order for restructuring to be successful, it should be linked to the long-term strategy of the development of the company, country, region
- Company management should always know what to do if restructuring is inevitable. This concerns, first of all, company's human resources
- Restructuring should be based on the joint agreement between employers, workers and the government
- Consider ALL the options before downsizing, try to use less painful options
- If downsizing is necessary, carry it out in a socially sensitive way, using some tools, proven to be successful all over the world. The most wide-spread of these tools are:
 1. Internal and external job search help
 2. SME creation help
 3. Mobility
 4. Pre-retirement
 5. Vocational training
 6. Alternative work schedules
 7. Flexible leave
 8. Psychological help
 9. Severance packages
- Restructuring should be viewed as a process. That means that it is not recommended to get into restructuring without consideration. It is necessary to:
 - Consider before restructuring all the different options of restructuring
 - Prepare the company and employees for restructuring, and carry out restructuring only while this is done
 - Evaluate how effective restructuring has been carried out.
- It is critical not to forget about the costs of restructuring, and only – about the positive outcomes that the company could obtain if restructuring is carried out in a socially sensitive way. Unfortunately, the ILO research done in Western Europe shows that so far even the most responsible companies are not able to produce the full evaluation of these outcomes.

I would like to end my intervention by quoting Mr. Fred Langhammer, CEO of Estée Lauder. He said:

“So far, I haven't seen a single company which produces great ideas while people are afraid of their future or their job.”