Restructuring in Ireland

Eurofound
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Abstract
Ireland’s economy is relatively small and trade-dependent and is considered one of the most globalised and open in the world. It suffered disproportionate damage following the 2008–9 global recession as a large construction and financial sector bust revealed widespread misallocation of resources – human and financial – in the preceding boom. Over 60% of construction sector employment has disappeared since 2008 and employment levels have shrunk by 15% overall.

On the positive side, unemployment – while high at 14.6% – has been stable since late 2011 and the economy is experiencing output growth – unlike other Member States in financial assistance programmes of the EU, IMF and ECB Troika. Cost-competitiveness has improved since 2008 and Ireland continues to attract both high levels of foreign direct investment and foreign human capital. In 2012, 18% of the workforce was foreign-born and 44% of foreign-born workers were graduates.

This restructuring information sheet draws on Eurofound data sources to describe recent developments in the Irish labour market. The European Restructuring Monitor (ERM) comprises a series of databases covering restructuring activity as well as related policy and legal instruments throughout Europe. Restructuring activity in 2012 tends to support the relatively positive prognosis for the Irish labour market; there were more announced job gains than losses in large-scale restructuring events. The European Jobs Monitor (EJM) uses EU Labour Force Survey (EU LFS) data to identify changing structural trends in employment by sector and occupation using various proxies of job quality. It highlights that the sharp losses in Irish employment experienced in the period 2008–10 were concentrated in the middle of the wage distribution.

Keywords
Ireland, trade, unemployment, restructuring

Comments
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Introduction

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On the positive side, unemployment – while high at 14.6% – has been stable since late 2011 and the economy is experiencing output growth – unlike other Member States in financial assistance programmes of the EU, IMF and ECB Troika. Cost-competitiveness has improved since 2008 and Ireland continues to attract both high levels of foreign direct investment and foreign human capital. In 2012, 18% of the workforce was foreign-born and 44% of foreign-born workers were graduates.

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Job creation and job losses at a glance

The ERM contains data on large-scale restructuring events (generally involving at least 100 job losses or gains) reported in the principal national media in each EU Member State. The ERM has recorded 347 restructuring cases for Ireland since 2008, involving announced creation of 40,626 jobs and announced loss of 50,724 jobs. The predominant types of restructuring are business expansion (46% of cases) and internal restructuring (30%), while bankruptcies and closures amount to a combined 19% of all cases. More recent data from 2012 shows a more positive balance – 62% of the cases recorded over the last year were of business expansion.

![Announced job loss](chart1)

![Announced job gain](chart2)

About EMCC

The European Monitoring Centre on Change (EMCC) is an information resource established to promote an understanding of changes in the world of work, employment and restructuring. It was set up in 2001 within the European Foundation for the Improvement of Living and Working Conditions, Dublin, with the full support of the European Parliament, the European Commission and the social partners. EMCC’s mission is to cast a spotlight on the economic and social developments that drive change in European labour markets. It highlights the role of shifts in technology, production models and regulation in a context of developments in the global economy.

EMCC provides up-to-date news and analysis on company restructuring and relevant policy initiatives through the European Restructuring Monitor. It presents relevant information on the major trends and drivers of change in European labour markets through the European Jobs Monitor and it identifies emerging and potential labour market trends.
Top six cases of job loss and job creation

<table>
<thead>
<tr>
<th>Date</th>
<th>Company</th>
<th>Job losses</th>
<th>Sector</th>
<th>Type of restructuring</th>
</tr>
</thead>
<tbody>
<tr>
<td>01/11/2012</td>
<td>Eircom</td>
<td>2,000</td>
<td>Telecommunications</td>
<td>Internal restructuring</td>
</tr>
<tr>
<td>12/04/2011</td>
<td>Allied Irish Bank</td>
<td>2,000</td>
<td>Financial and insurance activities</td>
<td>Internal restructuring</td>
</tr>
<tr>
<td>19/10/2011</td>
<td>Aviva</td>
<td>950</td>
<td>Financial and insurance activities</td>
<td>Internal restructuring</td>
</tr>
<tr>
<td>10/04/2012</td>
<td>Electricity Supply Board</td>
<td>700</td>
<td>Electricity, gas, steam supply</td>
<td>Internal restructuring</td>
</tr>
<tr>
<td>11/01/2012</td>
<td>Ulster Bank</td>
<td>600</td>
<td>Financial and insurance activities</td>
<td>Internal restructuring</td>
</tr>
<tr>
<td>06/09/2011</td>
<td>Talk Talk</td>
<td>575</td>
<td>Telecommunications</td>
<td>Outsourcing</td>
</tr>
</tbody>
</table>

The most prominent case of job losses recorded between January 2011 and December 2012 is that of Eircom, the biggest indigenous telecommunications operator in the country. Eircom dismissed 2,000 employees, out of a workforce of 5,700, upon emerging from examinership, in an attempt to reduce operational costs in the framework of a broader restructuring. Troubled AIB also reduced its workforce by 2,000 employees in 2011, followed by another 500 job cuts in 2012. Ulster Bank is another financial institution that had to restructure its operations in 2012, reducing its personnel by 600, in order to maintain its competitiveness.

<table>
<thead>
<tr>
<th>Date</th>
<th>Company</th>
<th>Job gains</th>
<th>Sector</th>
</tr>
</thead>
<tbody>
<tr>
<td>11/10/2012</td>
<td>Paddy Power</td>
<td>800</td>
<td>Arts, entertainment and recreation</td>
</tr>
<tr>
<td>01/02/2012</td>
<td>SKY</td>
<td>800</td>
<td>Administrative and support service activities</td>
</tr>
<tr>
<td>01/11/2012</td>
<td>McDonald’s</td>
<td>700</td>
<td>Accommodation and food service activities</td>
</tr>
<tr>
<td>01/03/2012</td>
<td>Comfort Keepers</td>
<td>545</td>
<td>Human health services</td>
</tr>
<tr>
<td>12/08/2012</td>
<td>Bluebird Care</td>
<td>510</td>
<td>Human health services</td>
</tr>
<tr>
<td>21/04/2012</td>
<td>Apple</td>
<td>500</td>
<td>IT and other information services</td>
</tr>
</tbody>
</table>

It is worth noting that all six largest cases of job creation were announced in 2012, an indication that Ireland is attracting investment once more. Indigenous bookmaker Paddy Power increased its workforce by 800 employees, undergoing its third business expansion in four years. Comfort Keepers and Bluebird Care announced recruitment of over 500 new employees each, confirming that the healthcare sector is, together with ICT, expanding in Ireland. One of the largest ICT companies worldwide, Apple, has also increased its personnel by 500 employees in 2012.

Sector in Focus

Construction

The Irish construction sector enjoyed buoyant growth from 1995 until 2007 when it reached unprecedentedly high levels of output with a workforce of 269,000 (13.4% of total employment). However, this proved to be unsustainable and the construction sector has slowed down dramatically since then. The sector now accounts for less than 5% of GDP and employs fewer than 100,000 people. The collapse of the real estate and construction bubble accounts for over a half of all recent net job losses in Ireland, with many skilled workers seeking employment overseas.

Employment levels are unlikely to return to their peak high as the sector is still suffering from high debt levels, delayed payments, industry decline in associated consumer products as well as high production costs and low tender prices. Lower income and reduced employment have led to a large supply of unsold property, mortgages that could not be met and forced or liquidation sales to cover debts. The majority of the estimated €110 billion-plus lent to builders and developers has become bad debt, undermining in turn the stability of the native financial sector and the state’s finances.

The collapse of the construction sector has mostly affected SMEs, but larger cases of job losses are also reflected in the ERM. Howley Civil Engineering was declared bankrupt in 2008 which resulted in all 250 employees being dismissed. The company once had a workforce of 470, but after undergoing examinership it became clear that there were no prospects of survival. In the same year, construction company McInerney dismissed 225 workers due to the significant drop in demand. The decline in the construction activity has led to job losses in manufacturing and real estate as well.

The low level of formal education amongst construction workers makes retraining problematic. Nonetheless, FÁS – the national training and employment agency – provides a number of ‘green’ training opportunities, as hope of recovery comes in the form of refitting buildings to make them more energy efficient. In addition, it has launched a Construction Skills Certification Scheme in order to help construction workers to get formal recognition for their skills.
SECTOR IN FOCUS

ICT

The ICT sector has proved to be resilient to the crisis and has recorded growth even in times of recession. Currently, 5,400 companies (over 200 of which are foreign-owned) provide employment for approximately 78,000 people and generate 25% of Ireland’s turnover. The ERM has recorded 49 restructuring cases since 2008, 71.4% of which concern business expansion resulting in 6,323 jobs created. The most noteworthy cases involve multinationals such as Google, HP and Apple, with each company creating 500 jobs in major recent waves of recruitment.

The Irish ICT sector is driven by foreign direct investment and the majority of the large global ICT enterprises are present in Ireland. Dublin is the European base for ‘born on the internet’ companies such as Google and Facebook. There are a number of factors such as low corporate tax, R&D provisions and access to the European market that make Ireland attractive to multinational companies. In addition, the skilled workforce and the high productivity in combination with falling labour costs make the Irish ICT industry one of the most competitive worldwide. The ICT Skillnet collaborative training initiative is highly active in Ireland and among other activities it provides formal training for graduates in innovation and technology as a means of maintaining a highly skilled young workforce.

Restructuring support instruments

Irish enterprises undergoing restructuring and their affected employees can take advantage of a variety of support instruments offered by the government, employer and employee organisations as well as non-governmental organisations and private consultants in the anticipation and management of change.

An example of the free support available in the field of anticipating restructuring is Skillnets, which provides a platform for firms to cooperate for training purposes and to facilitate the development and exchange of skills and knowledge, benefiting employers and employees alike. Additionally, measures such as the Innovation Voucher programme, run by Enterprise Ireland – the state enterprise agency – encourage the exchange of knowledge between public knowledge providers and small businesses. The vouchers are worth €5,000, are easily accessible and can be exchanged for expert advice.

Enterprise Ireland is also involved in the implementation of various instruments such as First Flight (supporting first-time exporters) and seed capital for new entrepreneurs (promoting investment in start-up and early stage enterprises), thus playing an active role in supporting business. Professional advice can be sought through initiatives such as its Mentor Network and company development ‘cluster’ programme, which are designed to aid the strategic development of the firm. These two measures, along with the city and county enterprise boards, acting as one-stop-shops referring companies to appropriate support providers depending on their specific needs, focus their attention on SMEs, which constitute the largest part of Irish businesses.

The legal framework of restructuring is also important especially in relation to collective redundancies. Employment law contains a mechanism to examine the nature of collective redundancies to ensure the genuineness of the restructuring, meaning that restructurings are not undertaken to replace workers made redundant with lower-paid labour.

An important legal provision in restructuring cases is examinership, whereby courts offer insolvent companies protection from their creditors for 100 days. During this period all possibilities that could safeguard the future of the company are explored in collaboration with an examiner (usually a practising accountant). A positive example of a company emerging from insolvency via this route is Jo’Burger Ltd, a Dublin-based restaurant chain. The SME underwent restructuring during an examinership period in 2009 after one of its two Dublin outlets recorded large losses. All 15 jobs were saved at the time as new investment was sourced and existing liabilities settled. The chain has subsequently grown and now numbers five outlets. In August 2012, the company announced the creation of 120 new jobs during 2013 in at least three planned new restaurants.

Sources:

This ERM restructuring fact sheet was compiled by Andrie Kyprianou.

EF/13/28
Restructuring Irish SMEs

SMEs constitute 99.8% of enterprises in Ireland. They provide 62% of private sector employment, and account for 52% of turnover and 51% of gross value added (GVA). The SME share of GVA fell from 53% between 2007 and 2010, suggesting that SMEs were hit the hardest by the economic downturn. During this period the SMEs lost 15% of their workforce and their output decreased by 18%, while larger enterprises lost 9% of their workforce but output declined by a relatively modest 6% (GVA). A quarter of the jobs lost in SMEs were in construction, followed by real estate. Overall, small firms experienced the greatest decline in employment. Experts suggest that SMEs established during the pre-crisis boom years suffered from lack of organisational capacity to deal with the sudden and severe market conditions which arose at the outset of the recession. The evidence suggests that there is a need to improve the awareness and knowledge of SMEs on the restructuring options available to them.

There is comparatively little published information on SME restructuring so it is hard to determine the reasons for and results of such restructuring. Two-thirds of companies in Ireland were reportedly planning restructuring in 2012, and 87% of those surveyed reported that their business was more viable after restructuring. There has been a marked increase in bankruptcy and insolvency since the onset of the crisis in 2008. Examinership is in theory accessible to all insolvent firms that wish to explore all viability prospects, yet it is argued that a certain level of assets is required due to the cost of the process. This tends to rule out this process for smaller SMEs and micro-firms. Two-thirds of small family-run firms have stated that they have no exit strategy, indicating that SMEs are ill-prepared for this kind of restructuring.

Irish SMEs are facing unfavourable credit conditions, as post-recession national policies focus on export-led recovery while many SMEs depend on the domestic market. Many businesses associated with the boom sectors – real estate, construction – account for a large number of non-performing loans, explaining in part the reluctance of banks to provide new loans. A new initiative, designed to provide funds to SMEs is being launched in the second quarter of 2013, where up to €850 million from the National Pension Reserve Fund will be used to provide capital to cash-strapped SMEs with good viability prospects.

Source: Eurofound (2013), Restructuring in SMEs: Ireland, Eurofound, Dublin (forthcoming)

What kinds of jobs were created and destroyed in Ireland?

The European Jobs Monitor (EJM) tracks changes in the structure of employment over time in European countries by classifying the net jobs created (or destroyed) according to their wage level. The first figure shows that during the impressive expansion that took place between 1995 and 2007, Ireland created many jobs across the whole wage spectrum, although they tended to be concentrated in the top two quintiles (40% of employment with higher wages), with a small gap in the middle.

There was, then, a relatively mild process of job polarisation (which was much stronger in other EU countries). During the first two years of the crisis, there was a very intense destruction of employment that was concentrated in mid-low paying jobs, whereas the occupations and sectors with higher wages were much more resilient (hardly losing any employment at all). The next two figures show the specific patterns of change in two broad sectors which experienced the most significant changes over this period. The recession precipitated a complete reversal of structural trends in both cases. Construction contributed very strongly to the expansion of the fourth quintile (jobs with wages above the median but below the top), adding 10,000 jobs a year between 1995 and 2007; but in the crisis it destroyed more than 40,000 jobs a year in the middle quintile. Low knowledge-intensive services were responsible for most of the job creation in the lower layers of employment in the good years, and for a very significant destruction of the same type of jobs during the recession.


Fig. 1: Structural employment change in Ireland, 1995–2010
Fig. 2: Construction
Fig. 3: Low knowledge-intensive services

Average yearly change in employment in 1,000s by wage quintiles

1995–2007
2008–2010