ERM Quarterly, Quarter 3, October 2015

Eurofound
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Abstract
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Comments
Suggested Citation
Macroeconomic trends and prospects

Economic anxiety has resurfaced during the summer months and threatens to undermine the emergent European recovery. All of the things that should be helping to boost growth – ECB quantitative easing, the weak euro, low interest rates, cheap oil – appear to be having limited effect in the face of a slowdown in developing economies. And increasingly these are seen as manifestations of an underlying malaise affecting the global economy. The Chinese economy has entered a phase of turbulence with sharp recent falls in an overheated equity market. Chinese difficulties are reflected in the recent decline in industrial production in Germany (for which China has been an increasingly important export market). German industry is likely also to be further dented by repercussions from the recent Volkswagen emissions scandal. In 2013, the company was number one globally for investment in research and development (over USD 13 billion, just over 5% of revenues – €11.4 billion as at 19 October 2015). Some retrenchment here will affect the company’s various brands – including Audi, Seat and Skoda – in Germany, eastern Europe, Spain and elsewhere.

Meanwhile, the latest IMF World Employment Outlook, published in October 2015, has revised forecast growth downwards – ‘marginally, but nearly across the board’.

Job creation and job loss at a glance

The ERM recorded a total of 205 cases of restructuring between 1 July and 30 September 2015. Of these, 82 were cases of announced restructuring involving job loss and 120 were cases involving announced job creation; 3 cases involved both job loss and job creation. In total, 28,873 job losses and 52,008 new jobs were announced. Internal restructuring accounted for 57% of the announced job losses, down from 79% in the last quarter. Offshoring, outsourcing and relocation accounted for 19% of the announced job losses – a marked increase from the previous quarter when the figure was 4%.

In terms of geographical distribution, the UK again reported the greatest job losses (6,073 jobs), followed by Germany (4,323) and the Czech Republic (3,400). Italy recorded the largest job gains (26,396 jobs) followed by Poland (5,765 jobs).
**Top 5 cases of job loss and job creation**

<table>
<thead>
<tr>
<th>Date</th>
<th>Company</th>
<th>Job losses</th>
<th>Location</th>
<th>Sector</th>
<th>Type of restructuring</th>
</tr>
</thead>
<tbody>
<tr>
<td>10/09/2015</td>
<td>Česká pošta</td>
<td>3,000</td>
<td>Czech Republic</td>
<td>Transportation and storage</td>
<td>Outsourcing</td>
</tr>
<tr>
<td>07/07/2015</td>
<td>Orange Poland</td>
<td>1,500</td>
<td>Poland</td>
<td>Information/communication</td>
<td>Internal restructuring</td>
</tr>
<tr>
<td>01/09/2015</td>
<td>Vodafone Spain</td>
<td>1,059</td>
<td>Spain</td>
<td>Information/communication</td>
<td>Merger/acquisition</td>
</tr>
<tr>
<td>02/07/2015</td>
<td>BBC</td>
<td>1,000</td>
<td>UK</td>
<td>Information/communication</td>
<td>Internal restructuring</td>
</tr>
<tr>
<td>18/08/2015</td>
<td>Wood Group</td>
<td>1,000</td>
<td>UK</td>
<td>Mining and quarrying</td>
<td>Internal restructuring</td>
</tr>
</tbody>
</table>

In the third quarter of 2015, the largest case of job loss was that of the Czech state-owned postal company Česká pošta, which announced the planned dismissal of 3,400 people (more than 10% of its current workforce). This is due to the company's plan to change 2,526 of its 3,200 existing branches into franchises, through its project Posta Partner. Direct termination of employment will affect 1,350 employees. In early September, Vodafone Spain announced a planned 1,297 redundancies following a merger with cable operator Ono. Of these redundancies, 805 were to be made at Ono. The company has been in talks with the trade unions since the initial announcement; in negotiations, the number of intended job cuts has been reduced twice. The company now intends to reduce employment by 1,059, and is offering severance pay of 33 or 45 days per year worked, up to a maximum of 24 months. A voluntary retirement process will also be set up for those employees aged 55 years or older on 30 June 2016.

The largest-scale restructuring event reported in the third quarter was the announcement of over 25,000 new teaching jobs by the Italian Ministry of Education, signalling a large restructuring of the country's public education system (see 'Case in focus'). Car manufacturer Renault has announced the creation of 1,000 jobs in France. The expansion is related to an earlier competitiveness agreement made with trade unions in 2013. This led to wage concessions and a reduction of approximately 7,500 positions, achieved through non-replacement. A commitment to hiring new employees was part of the agreement; the increase just announced will exceed the minimum number of new hires agreed to in 2013.

A further 1,000 manufacturing jobs were announced in the quarter by Siemens; these will be in its new wind turbine blade manufacturing plant in Hull (UK). The range of jobs will include factory, engineering, managerial and warehousing roles.
RESTRICTING SUPPORT MEASURES IN FOCUS

Public and social partner-based instruments to facilitate networking

Cooperation and networking have become increasingly important in modern economies. Consequently, across Europe, governments and social partners have implemented support instruments to ‘matchmake’ – both between companies, and between workers and employers in a range of circumstances, including restructuring.

Concerning the anticipation of change, a variety of instruments to support innovation and internationalisation aim to bring potential business partners together. Public or social partner-based ‘business angel’ platforms (such as those in Austria, Germany or Spain) help companies liaise with investors who provide capital, expertise and experience to support the company’s further development. In a different vein, succession bourses seek to link entrepreneurs who want to sell their business – because they are getting old, for example, or have health issues – with people interested in taking over an existing firm and further developing it. Examples of these can be found in Austria, France, Germany and Luxembourg.

A number of public and social partner-based support instruments focus on the labour market and aim to assist the unemployed to identify potential new employers. The Austrian implacement work foundations, for example, offer active job searches and work experience programmes, supplemented by other services such as career guidance and training. The Croatian business advice for employers initiative takes a different approach by helping companies identify their future staff needs and by supporting cross-regional job advertisements.

Emphasis on workers is stronger in the networking support instruments related to managing restructuring. Various outplacement bodies have been set up in Austria, Belgium, France, Germany, the Netherlands and Sweden to offer workers affected by restructuring psychological support, assistance in social and administrative affairs, training, information on the job market and contacts with potential employers. Similar services can also be specifically targeted at employees of a particular company (notably in cases with large numbers of redundancies), as done by the mobile teams of the Croatian employment service, the response service to collective redundancies in Estonia or the mini labour exchange in Lithuania. More information is available at Eurofound’s restructuring support instruments database.

CASE IN FOCUS

25,000 new teaching positions in Italy

The largest case of job creation this quarter was the announcement by the Italian Ministry of Education, University and Research – following a major reorganisation of the public education system – of 25,596 new teaching positions. The reform addresses the issue of precarious employment of teachers in public schools by ensuring a minimum period of employment – in particular, for substitute teachers. The new jobs will include positions for 10,849 teachers and 14,747 support teachers.

The government plan is divided into two phases. During the first phase, which ended on 15 September, 10,849 new teachers were hired and, separately, 21,880 were selected as replacements for public teachers who are due to retire. The selection was restricted to candidates from two groups: one comprised teachers with precarious contracts who were selected on the basis of their previous work experience. The other group comprised teachers who had passed an open competition (a public examination) held in 2012 but had not yet been assigned a permanent position. This first phase was organised at a regional level: teachers were hired in the same region in which they were working or had taken the public exam. The second phase involves hiring a further 55,258 teachers to carry out complementary activities planned by schools or for substitute teaching positions. This group will be recruited at a national level and on a temporary basis, despite the initial intention to offer permanent contracts.

Trade unions have expressed concerns as most of the positions available are in northern Italy, while most of the applicants live in the south. Despite the trade unions’ criticisms, most of the teachers accepted the postings offered by the Ministry. Unions have also criticised the choice of using temporary contracts in the plan; the government has underlined that all the contracts will be for at least one year with the possibility of a permanent contract in future.

CASE IN FOCUS

Refugee crisis creates 100 new jobs at the Swedish Migration Board

The impact of the ongoing refugee crisis has led to the announced recruitment of 100 new staff by the Swedish Migration Board in Stockholm. Approximately 100 people per day are seeking asylum in Stockholm’s reception centres, and new administrators and assistants are needed to cope with the increased demand. The announcement calls for recent graduates with any university degree. Authorities have had difficulty assessing for how long this increased inflow will continue. However, it is likely that Sweden will see a record number of asylum seekers this year. Data released at the beginning of October showed that more than 74,000 people have sought asylum in Sweden since the beginning of the year – 24,000
sought asylum in September alone. Given that there is little sign of the crisis abating, it can be expected that increased capacity in public organisations dealing with migration and asylum will be necessary.

RESTRUCTURING APPROACHES IN FOCUS

Restructurings involving management ‘delayering’

The past few months have seen a number of restructuring exercises involving workforce reduction by means of management delayering – in other words, reducing the number of levels in the organisational hierarchy. This is at least partly in response to the impact of new technology on the way that businesses interact with their customers, particularly in the broadcasting and retail sectors, where online services are gaining an ever-increasing profile.

In July 2015, the UK public broadcaster BBC announced that senior management would be reduced from ten layers to a maximum of seven across the organisation. The restructuring is in response to a shortfall of £150 million in funding as viewers switch to online viewing. This will mean that over 1,000 jobs will be cut, representing more than 5% of the BBC’s total workforce of around 18,000.

In the UK retail sector, online shopping has had a significant effect on businesses, lessening the need for in-store management. Supermarket chain Morrisons has carried out pilots of three possible management structures. In June 2014 it announced that it would introduce a new management structure, removing at least one level of store management; this would result in 2,600 redundancies. Most recently, in April 2015 it announced that it would cut 720 jobs from its headquarters in Bradford, in the north of England, in order to create a simplified management structure. These cuts will be achieved through voluntary redundancies and redeployment to other parts of the business. At the same time, the company is creating 5,000 vacancies for shop-floor staff.

Many other retailers in the UK have announced job cuts and management restructuring over the past year or so, largely in response to a shift to online shopping, coupled with increased competition from discount supermarkets. For example, in July 2014, Asda, one of the UK’s big four chains, announced that it was cutting 1,360 jobs from its middle-management tier. Delayering management is, of course, nothing new: it achieved popularity in the 1990s as a way of reducing bureaucracy, speeding up decision-making, shortening communication pathways, stimulating innovation and encouraging a high-involvement style of management. However, research from the Institute for Employment Studies points out that delayering on its own is unlikely to achieve much, and that in order for it to be effective, it should be accompanied by one or more of the following: a greater emphasis upon team working; cross functional working; and employee involvement or empowerment. These factors function as replacements for the coordination and controlling role of hierarchy.

The debate about the merits or otherwise of delayering continue: for example, a report from 2012 examines whether delayering has delivered on its promises: it found that ‘flattened’ firms can actually exhibit more control and decision-making at the top, resulting in the opposite of what delayering promises. The report concludes that ‘the flattened firm also appears to rely on more coordination among the top team and a different role for the CEO. The evidence is at odds with simply pushing decisions down. Flattening at the top is a complex phenomenon that in the end looks more like centralization’. The UK Chartered Institute for Personnel and Development (CIPD) has also sounded a note of caution, quoting its own research on sustainable organisation performance, which found that middle managers can play a key role in managing change and organisational transformation: ‘Much of this can be lost if change simply involves “delayering” this middle-management tier, rather than refocusing, retraining and drawing on their skills and experiences’.

About the ERM

The European Restructuring Monitor (ERM) is a unique EU-wide dataset on larger-scale restructuring events. It monitors the announced employment effects of restructuring in the EU28 and Norway. The ERM is updated on a daily basis and data can be used for statistical analysis. It relies on reports in selected media titles. The data for this report were extracted on 12 October 2015. For more, visit the European Restructuring Monitor web page.

This issue is based on contributions from Lena Jacobs, Valentina Recalcati, John Hurley, Irene Mandl and Andrea Broughton (EU-level correspondent).