SESSION 1. COOPERATION OF GOVERNMENTS AND PRIVATE SECTOR: OUTSTANDING ISSUES

The ILO Project on Socially Sensitive Enterprise Restructuring:
Lessons Learnt

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ILO and SSER

Interregional programme “Socially Sensitive Enterprise Restructuring (SSER)” is one of the programmes of the Employment Sector of the International Labour Organization (ILO). Its importance has been emphasized by the ILO Director – General Juan Somavia in its recent Report to the International Labour Conference. That is what he said, reflecting the official position of the ILO on an issue of enterprise restructuring, downsizing, and, eventually, unemployment:

“The focus on the enterprise will be a key element in the ILO approach to job creation, an important aspect of which would concern enterprise restructuring. In many countries structural adjustment and changing competitive advantage seem to be driving a continual process of restructuring of larger enterprises, which generally means downsizing. This has affected millions of employees, particularly in North America and Europe, but also in many middle-income countries. However, studies now show that the way this occurs often adversely affects organizational performance and results in repeated downsizing. Senior managers report that downsizing has not just eroded morale and trust, but also reduced productivity. All this suggests that there is both employer and worker interest – and hence prospects for partnership – in developing restructuring strategies that maintain the human resources and energies of the enterprise by giving adequate attention to the human and social side of restructuring”. (p.24).

Although our programme is primarily looking at the enterprises, we are working in the context of the overall ILO strategy, aimed at promotion of social dialogue and decent work for all. It means that we view ourselves as a part of the ILO team. In practice it means that when we at the ILO are dealing with a particular issue, such as, for example, health and unemployment, we are trying to make sure that such issue is addressed from different angles. In this particular case this issue is addressed by the ILO programmes dealing with job creation, employment promotion, social protection, occupation safety and health, etc. Our programme approaches this issue from the enterprise point of view in the context of economic restructuring. The growing importance of this approach is explained by the fact that in today’s world the role of business is growing day by day.

The world is constantly changing. It is not the same as 10-15 years ago. Nowadays the society in general, and enterprise in particular, have to face the following trends that could not be ignored:

- 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, more important role is being played by the institutional investors, such as pension funds).
- Industrial society is being replaced by informational society
- Demographic changes
- Growth of Foreign Direct Investments

But, perhaps most importantly, we witness some serious changes in demands and expectations that the civil society has 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 when in many parts of the world 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.

The International Labour Organization (ILO) is trying to help business to realize this role.

What is the ILO?

The ILO is a tripartite organization. This means that all decisions are made by representatives of governments, employers and workers. Consequently, a “reality check” is built into international labour standards. From its inception the ILO recognized the importance of creating win-win strategies for workers and employers, as well as for society as a whole. The ILO works to promote equality of treatment, social justice, and improved working and living conditions for all. It does this through:

- international labour standards (ILS) which are benchmarks for good governance in both the public and private sectors;
- technical assistance to help governments implement ILS; and
- education and promotional activities to raise awareness and understanding of ILS.

The ILO covers a broad range of topics. Today my focus is on one of such topics – social aspects and consequences of enterprise restructuring.

Why is it important to look at restructuring?

Enterprise restructuring is one of the key topics covered by the activities of the ILO Employment Sector. In general, this sector looks at what we define as Global Employment Agenda, which highlights a number of the major challenges that current labour markets present all over the world. It emphasizes that such problem as unemployment could no longer be solved only by what we call government active labour market policy. Globalization expands labour market beyond national boundaries, government funds are no longer sufficient to cover the programmes of vocational training and re-training. Due to these and other factors, it is becoming increasingly difficult not to look at what the enterprises could do voluntarily, beyond the legal requirements, in order to help the societies address a number of social and economic problems, unemployment being one of those.

A lot of companies now are marketing themselves as the socially responsible enterprises. It has become a commonplace for a company to state: “employees for us are not costs, they are our assets”. However, whether or not the company is indeed a socially responsible one, 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

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 issue than downsizing.

As we investigated the approaches that various companies, large and small, public and private, adopted in their efforts to restructure, what became obvious to us was that companies differed in terms of how they viewed their employees. Indeed, they almost seemed to separate themselves logically into two groups. One group, by far the larger of the two, saw employees as costs to be cut. The other, much smaller group saw employees as assets to be developed. Therein lays a major difference in the approaches they took to restructure their organizations:

- **Employees as costs to be cut.** These are the “downsizers”. They constantly ask themselves, “What is the minimum number of employees we need to run this company? What is the irreducible core number of employees the business requires?”

- **Employees as assets to be developed.** These are the responsible restructurers. They constantly ask themselves, “How can we change the way we do business, so that we can use the people we currently have more effectively?”.

The downsizers see employees as commodities – like microchips or lightbulbs, interchangeable, substitutable, and disposable, if necessary. In contrast, responsible restructurers see employees as sources of innovation and renewal. They see in employees the potential to grow their business.

The legitimacy of the latter position seems to be grounded in the recent global market trends, such as easier access to finance, inability of many companies to protect their technological advantage in a long-term, etc. In such a situation human and social capital, or, to put it simple, the way company treats workers and community, become important sources of competitive advantage.

Of course, even the most socially sensitive 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 could be carried out in a socially sensitive way. In other words, companies could try to maximize economic benefits through restructuring and, at the same time, address the needs of employees and communities.

Such position is grounded in international standards adopted at the European level and in other parts of the world, and also – 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.

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 West European 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.

The ILO is involved in a number of training, promotional, research and policy-related activities on socially sensitive enterprise restructuring.

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 and workers, and, in some cases, the government
- Estimate not only costs, but also – benefits of SSER
- Consider ALL the options before downsizing, try to use less painful options
- If restructuring is inevitable carry it out in a socially sensitive way

There are certain tools of SSER that we are promoting. These tools include external and internal job search help, psychological help, early retirement, voluntary redundancies, mobility help, SME creation, severance packages, etc.

However, it is important to note here that these tools should not be viewed as some sort of an “emergency kit”. On the opposite, we believe that these tools should be a part of the company’s long-term HRM strategy.
Conclusion

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.”