Retraining, Redeployment and Retrenchment Practices

A Review of Recent Overseas Literature

John Buchanan
Debora Campbell

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July 1992

An ACIRRT & NKCIR Joint Project undertaken for the Office of Labour Market Adjustment (OLMA), DEET
Retraining, Redeployment and Retrenchment Practices

Different Ways Enterprises Adjust Labour to Changing Economic Circumstances

A Review of Recent Overseas Literature

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Background: OLMA Project on Labour Displacement Associated with Structural Change

This Working Paper is part of a consultancy, for the Office of Labour Market Adjustment (OLMA), investigating innovative practices for handling labour displacement associated with structural change. The other aspects of the research project include interviews with experts in retrenchment and 'downsizing' processes, interviews with retrenched and seven case studies of firms undertaking best practice in their approaches to employment security and/or retrenchments.

OLMA is located within the Employment Programs and Services Division of the Commonwealth Department of Employment, Education and Training (DEET). It administers the Training and Skills Program or TASK which provides assistance to companies going through restructuring to, where possible, retain and retrain their staff. The program aims to improve human resource management practices in industry, in particular with regard to retraining, redeployment and retrenchment by assisting with the establishment of in-house consultative mechanisms, development of human resource management strategies and the development and delivery of training.

The research for this project is being undertaken by the Australian Centre for Industrial Relations Research and Teaching (ACIRRT), University of Sydney and the National Key Centre in Industrial Relations (NKCIR), Monash University. As this paper is a report on work in progress any comments would be most welcome. Debora Campbell of NKCIR had prime responsibility for the section on the United States in this working paper. John Buchanan of ACIRRT was responsible for the other countries. Contact details are as follows:

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John Buchanan
Debora Campbell
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Overview

Until the mid 1980's most studies on labour adjustment focussed on the problem of displaced workers. Particular attention was devoted to assessing the impact of plant closure on individuals and evaluating initiatives designed to mitigate the affect of large scale job shedding.

This literature review deals with another aspect of the labour adjustment process. It examines how overseas enterprises either prevent retrenchments arising or how they reduce their negative effects if they are unavoidable.

Details of how labour adjustment occurs within enterprises in over a dozen countries are provided in this paper. This overview summarises the key findings, drawing on experiences from all the countries considered.

The major findings are as follows:

1. **The context in which enterprises operate sets significant constraints on their ability both to provide employment security and undertake soundly based retrenchment practices.** These constraints are economic, legal and bureaucratic in nature. The powerful nature of such constraints is most clearly demonstrated in the case studies from South America.

2. **Within general constraints, however, enterprise level initiatives can make a difference.** Limitations faced by firms are not totally determinant. This is clearly established by the experience of firms considered at length in this paper, especially in Germany, France, the US and India.

3. **There can be major benefits for employers in adopting innovative approaches to employment security and retrenchments.** These include fostering loyalty to the company, instilling confidence and trust in management, greatly reducing resistance to technical change, reducing staff turnover and improvements in employee relations.

4. **Considerable time and resources are needed to establish structures and practices that underpin employment security and more desirable approaches to shedding labour.** We found no documented cases where successful enterprise labour adjustment had been achieved quickly or cheaply.

5. **Successful approaches to adjustment involve more than changing the workforce: product diversification, investment, and skill formation are of equal importance.** The significance of improvements in a firm's product range, capital stock and skill formation arrangements cannot be over-emphasized. The starkest example of success reported in this paper, the closure of the Oresund shipyard in Sweden, involved the successful
creation of over 2000 jobs on the basis of co-ordinated initiatives in the capital, product and labour markets.

6. **Co-operation between firms increases the options available to them in providing employment security and adjusting their workforces to changing demands.** The importance of multi-employer cooperation was particularly evident in the experience of some firms in the UK and Sweden. The findings of the research into enterprises in the ASEAN region also highlighted the need for improved coordination for the adjustment process in that region.

7. **Changing enterprise level labour adjustment practices will require significant reorientations in policies and practices among all parties.** Government intervention alone will not be sufficient. Reliance on 'impersonal' market forces will not be adequate either. Employers need to break with their short run, ad hoc approach to the issue. Unions need to move beyond a concern with notification requirements and the size of severance payments. Governments need to devise policies that are more than palliatives designed to mop up problems after they have arisen.

Such changes will require leaders in government, business and the labour movement to promote new practices and the development of new competencies amongst workers and managers at workplace level so that people on the job can identify when potential problems are emerging and adopt appropriate initiatives to address them.

8. **New initiatives in this area should focus on reforming redundancy management processes.** Ideally firms should consider the issues of employment security and redeployment options as a matter of ongoing business operations. Unfortunately, most only consider the issues when the possibilities of redundancies arise. Moreover, it is in crisis situations that people have most interest in learning new approaches.

9. **The study also identifies a range of related issues that need to be examined by those with an interest in improving firm level labour adjustment practices.** Researchers from France have identified the importance of changes in labour relations as an issue requiring further examination in the context of large scale redundancies. Swedish researchers have identified significant gender inequalities associated with the labour adjustment process. German researchers have highlighted the importance of local labour market dynamics. UK scholars have established that there may be serious problems in the plant closure process, with less efficient plants closing after more efficient ones have withdrawn from an industry. All these issues deserve closer scrutiny if improved employer, union and government policies are to be devised.
Introduction

'Continuing microeconomic reform is necessary to shape an economy which can deliver durable improvements in the day-to-day lives of Australians - more jobs, more work satisfaction, greater growth, fewer people dependent on welfare and capacity to afford adequate assistance for the truly needy. Micro reform serves, very profoundly, human needs.'

Bob Hawke, Statement on Microeconomic Reform, 10 April, 1989

'My kids are starting to realise that it's either food on the table or things they want. They know now that it has to be the food.'

Retrenched female textile worker, St Arnaud's late 1991

'Few firms considered what they were trying to achieve by cutting jobs or closing plants; they just said it would make them 'more competitive', without explaining how or why. Put bluntly: if you merely downsize GM, the result may be a smaller GM, with all the problems it had when it was bigger.'

'Pink-slip productivity', The Economist, 28 March 1992 p71

'Beyond some point, no rational economic action can sustain a plant. The message is to encourage recognition of such a point - before it is reached - and to do something about it.'

P F Gerhart, Saving Plants and Jobs, 1987 p32

This paper is about how to increase efficiency and minimise suffering when firms restructure. For all the rhetoric about 'microeconomic reform' and 'structural

adjustment’, there is a disturbing lack of interest in the detail of how our economic performance can be improved. Yet it is in the detail that things go wrong. Potential efficiency gains are lost because the change process is poorly handled. People get needlessly hurt. Others are damaged more than is necessary.

An important source of inefficiency and suffering arises from organisations' propensities to shed labour when 'times get tough.’ This paper examines measures taken by firms overseas to prevent retrenchments occurring. As it is sometimes impossible to avoid shedding labour the paper also examines measures taken to reduce the dislocation associated with retrenching employees. This research has been undertaken to determine how Australian job security and retrenchment practices may be improved.

Despite the importance of this topic, literature on the subject is patchy. Much of it focuses on manufacturing establishments and the blue collar occupations within them. It has received differing degrees of attention from researchers in the disciplines of labour economics, industrial relations, organisational behaviour and management. Research techniques have included detailed qualitative case studies, technically sophisticated econometric analysis and large scale surveys. Some of the best material has been produced by international organisations such as the ILO, OECD and the World Bank.

In making sense of this disparate material, brief country reports on how structural change is handled at enterprise/workplace level have been prepared. These reports provide information on how enterprises adjust their labour in response to changing economic circumstances. Activities at enterprise level require an understanding of the labour market and regulatory context within which firms operate. Each of the country reports therefore includes an overview of the labour market and policy environment prevailing in each country. The quality and extent of data available for different countries varied enormously. The findings of this review therefore reflect the disparate nature of this material.

The paper begins by considering the academic and policy debate on labour adjustment and enterprise restructuring. This is followed by reports on how structural adjustment occurs in enterprises in over fifteen countries. The paper finishes with a brief conclusion.

One of the most consistent findings was the great diversity of outcomes at workplace level within common national legislative frameworks and within industry sectors. This highlights how firms operating within common legal and economic constraints can undertake initiatives that have major effects on employment security and the retrenchment process. The different country studies also reveal that planning and notification of possible job losses appears to enhance both employment security and the re-employment prospects for displaced workers.

2. At the time of writing we had been unable to locate any published material in English on the situation prevailing in any African country.
Introduction

Given the depth of the problem of retrenchments and the importance of labour adjustment for firms' business strategies we believe it is worth learning what we can from the experience of others. If we can improve our current approaches the benefits in terms of both economic efficiency and reduced suffering could be immense.
1. Understanding labour adjustment and enterprise restructuring

Until the mid 1980s most work on labour adjustment associated with enterprise restructuring focused on displaced workers. As Gerhart argues attention was devoted to two issues: (1) assessing the impact of plant closure on individuals, and (2) evaluating responses to deal with the consequences of large scale job shedding.\

While the literature on these issues is enormous, it is, however, of marginal relevance to this project. Insights into the adverse consequences of displacement for individuals give relatively few insights into how firms can improve their practices to prevent or mitigate the effects of shedding labour. Central to this debate has been the issue of compulsory notification requirements, which has highlighted the importance of extended notice for improving individuals' chances of re-employment. The focus of this research, however, has continued to be the labour market experience of individual workers rather than the practices organisations use for adjusting their work force to changing circumstances.

A number of authors have argued that the pre-occupation with displaced workers has limited the range of issues considered by both policy makers and researchers. Ettlinger notes that it is important to consider the displaced worker in the context of the circumstances generating the displacement and not just as particular problems of individual workers. Piganiol has drawn attention to the need to broaden the ambit of collective bargaining on the issue of restructuring beyond haggling over legally enforceable minimum notice and severance payment requirement to include bargaining over issues associated with the prevention of redundancies.

1. Throughout this paper the term enterprise or firm refers to a business unit that organises production on the basis of a common management structure. Enterprises can have one or more workplaces (ie physical units of production or service provision). They can also be independent legal entities or part of a wider business or enterprise group. Further details of how workplaces, enterprises and enterprise groups are defined can be found in the Australian Bureau of Statistics, Australian Standard Industrial Classification - Volume 1: The Classification, ABS Catalogue No 1201.0, Canberra, 1985.
2. P F Gerhart, Saving Plants and Jobs, Upjohn Institute, Michigan, 1987 pl
The need to broaden the frame of reference of both policy and analysis has been most clearly recognised by US labour market researchers. Gerhart argues that it is necessary to reorient research in this area towards the issue of how to prevent job loss. In this context he argues it is important to note that job shedding does not arise from 'one simple "point-in-time" decision.'\(^5\) The decision results from earlier practices and decisions. Particularly important are decisions about investment in new equipment and commitments to product diversification to spread the risk of fluctuations in demand for goods or services produced by the firm. Gerhart notes that these are critical to ensuring job security.\(^6\) For Gerhart the critical issue is timely recognition of potential trouble. It is 'never too early to think about preserving plant and jobs... Beyond some point, no rational economic action can sustain a plant. The message is to encourage recognition of such a point before it is reached - and to do something about it.'\(^7\)

Arguably the most comprehensive assessment and reformulation of the research issues has been provided by Paul Osterman.\(^8\) He highlights how the problem of worker displacement should be understood as a symptom of wider restructuring within the labour market. This is creating problems for management as well as workers. These problems can therefore only be successfully addressed if the needs of both are considered. Dealing with the issues in isolation weakens the ability of initiatives to successfully address either problem.

Osterman argues that adjustment in the labour market has become more difficult because of independent changes in both labour supply and demand conditions. This is because, in the past, much structural change in the labour market was facilitated by new entrants taking up positions in areas of expanding demand. Experienced workers were not required to move from established jobs. Instead they mostly worked in internal labour markets where on-the-job training and not mobility ensured the adequate provision of skilled labour.\(^9\) This state of affairs worked well as long as demand steadily expanded and there were plentiful supplies of new workers. Neither of these conditions now prevail. As young workers decline as a proportion of the workforce the supply side of the labour market is becoming less flexible in terms of the number of new workers available

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5. Gerhart (1987), *op cit*, p2
7. Gerhart, *Ibid*, p32. A further development in the literature on labour adjustment and enterprise restructuring is provided by Susan N Houseman, *Industrial Restructuring with Job Security: The Case of the European Steel Industry*, Harvard University Press, Massachusetts, 1991. Her study is a rigorous blend of historical and econometric analysis that examines how different approaches to labour adjustment affect production, investment and closure decisions. While not directly relevant to this paper her research provides material relevant for developing policy on this structural change more generally as it examines the effect different plant level practices have on wider economic variables.
9. Osterman acknowledges that this generalisation needs qualification. He argues, however, that it accounts for a large enough proportion of the labour market to account for a large share of the problems of displacement witnessed today. For his qualifications see *Employment Futures* at pp 46-47 and Ch 4 as well as his 'Choice of Employment Systems in Internal Labour Markets', *Industrial Relations*, 26 (1) Winter 1987 pp46-67.
to fill vacancies. On the other hand, the nature of demand for labour has increased the need for greater flexibility within organisations as a result of new technology and greater competition in product markets. There is, consequently a growing need for more workers to be able to change tasks and jobs within enterprises quickly and efficiently.

Osterman argues that displaced workers have a difficult time finding new employment because of the operation of internal labour markets. Once displaced there are few 'ports of entry' to new jobs available for them. On the other hand employers need changed internal labour markets where tasks are less rigidly defined if they are to respond more effectively to changed demand conditions. In this context it is very hard for individual firms, on their own, to provide the conditions necessary for such flexibility. On the one hand they need to have workers skilled enough and jobs defined broadly enough to make redeployment easy in response to changing demand conditions. Such redeployability is only possible if strong guarantees of employment security are provided. On the other hand they often feel the need to have the right to retrench labour if labour demand drops dramatically. Commitments to employment security pose a major fetter on this right.

For Osterman, the only way to address these problems is to develop a comprehensive employment policy that engages with the needs of firms' internal labour market policies. The key elements of such a policy are

1. Enhancing the prospects of intrafirm mobility for the incumbent workforce

2. Improving the efficiency with which interfirm mobility occurs

3. Assisting individuals in persistent labour market difficulty

4. Acting as midwife to the reform of internal labour markets so they provide both employment security and labour than can be flexibly deployed to meet changing conditions.\(^\text{10}\)

Osterman's argument is thorough and well documented. He argues that the changes in the nature of labour supply and demand will not lead to a sharp crisis. Many people will still hold secure jobs and move successfully from job to job. Over time, however, the proportion of workers in this situation will decrease. To use his words, we are likely to see 'a slow accumulation of difficulties' and the level of insecurity will increase throughout the workforce as the number affected increases.\(^\text{11}\)

The issues raised by Osterman highlight the importance of locating the issues of labour adjustment at firm level in wider debates about enterprise restructuring and employers' labour use strategies. Whilst it is not necessary to consider this debate

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11. *Ibid*, p58
in detail some of its key findings are relevant to this issue at hand because an understanding of how firms currently operate is vital when formulating ideas for change.

Much of the current debate on how enterprises respond to changing economic conditions began with Piore and Sabel's controversial text *The Second Industrial Divide: Possibilities for Prosperity*.\(^{12}\) Whilst it suffers a number of limitations, its critical strength is its analysis of the policy environment created to nurture certain forms of economic organisation, especially mass production in manufacturing. In the area of social security law unemployment benefits are usually framed in a way that only provided income support to workers who are retrenched or laid-off. No provision was made for other forms of income support such as compensation for short time working or job sharing. Such a legislative environment has limited choices open to both employers and employees in how they could negotiate severe downturns in demand.\(^{13}\) The limitations of such policies have become increasing apparent since the early 1970s and the issue of how firms respond to changing circumstances has become a matter of intense concern ever since.

The OECD has played a prominent role in this process. In the mid 1980s the Dahrendorf Report highlighted the need to balance employment security with flexibility in the labour market.\(^{14}\) More recently attention has moved to the micro processes operating at firm level.\(^{15}\) A study by Brunhes examined how enterprises are introducing greater flexibility in their use of labour in response to economic, technological and sociological changes.\(^{16}\) This issue was examined by documenting practices prevailing in innovative firms in four European countries focusing on five different types of flexibility. These were:

1. External numerical flexibility (ie recruiting and firing workers in response to demand fluctuations)
2. externalisation (ie contracting non-essential tasks of an enterprise)
3. internal numerical flexibility (ie varying working hours but not changing the number of employees)
4. wage flexibility (ie move workers between tasks as the demand for different types of labour changes)
5. functional flexibility

\(^{12}\) Basic Books, New York, 1984
\(^{16}\) B Brunhes, 'Labour Flexibility in Enterprises: A comparison of Firms in Four European Countries' in OECD (1989) op cit, ...*Trends in Enterprises* p11
Brunhes's study highlights the diversity within and between countries in enterprise labour deployment practices. He concludes that if flexibility is taken too far it could segment the workforce dramatically, leaving many workers without the skills necessary to promote economic development. As such the study highlights the importance of public training policy. Of particular relevance to this project he notes 'the issue of the respective roles of in-company training and external training will require further study.'

The preoccupation with flexibility has attracted some strident criticism. One of the most strident has been Anna Pollert. She argues that the excessive emphasis of flexibility has hindered rather than helped our understanding of the nature of structural change at enterprise level. Pollert emphasises that continuity as well as change underpins many current management practices. In particular, traditional developments in economic downturns such as increased managerial prerogatives and intensification exploitation of labour are being sanitised by the pre-occupation with 'flexibility'. She argues that more precise concepts are needed to inform policy and analysis.

Strong support for Pollert's position has been provided by a special workplace survey and an extensive series of case studies commissioned by the UK Department of Employment. This rich set of empirical studies has revealed the role of inertia in employment practices relative to that of conscious labour use strategy. As Hunter and McInnes note 'employers rarely had an explicit manpower strategy as such, rather they pursued a range of employment practices which were derived from the needs of the business.' Firm's decisions were almost always practical and ad hoc in nature. The findings that most managers appear to muddle through most of the time has a long tradition of empirical research behind it.

Osterman too notes that without significant changes in the way both internal and external labour markets are organised we are likely to witness a wide range of unsatisfactory outcomes in management's deployment of labour. Current ad hoc arrangements will not facilitate efficient and fair adjustment processes.

Firms' labour use practices are more than just the accumulation of experience over time modified in light of changing demand conditions and business strategies. A group of French researchers examining why wage structures differed between Germany and France conducted detailed case studies of matched plants in the similar industries using similar technologies in the two countries. They identified how firms' practices were intimately related to the environment in

17 Ibid, p36
which they operated, especially the education, training and wage determination system. For instance, a strong vocational training system ensured German employers had a steady supply of technically competent workers who could be flexibly deployed in changing work settings. France’s generalist education system meant employers there had to rely on internal labour markets and closer supervision arrangement to ensure work was performed at an efficient level. This puts the recent UK findings in context: employers’ labour use practices and habits are not accidents, they are structured by a wider setting. This theme is developed further by A Pettigrew and R Whipp. Their detailed case studies of seven firms in four industries examine how enterprise level decisions and practices both influence and are influenced by the external environment. They argue it is important to note that firms do not compete amongst themselves, they simultaneously compete within sectoral, national and international structures and relationships.

The debate on enterprise restructuring and flexibility highlights a number issues. First, an analysis of the labour dimension of structural change must involve a consideration of more than the issue of displaced workers and retrenchment practices. As Pignaniol has noted 'restructuring does not necessarily mean redundancy or loss of acquired rights.' Second, in focusing on adjustment at enterprise level we must understand the enterprise practices involved. Preoccupation with the issue of flexibility can blind us to the importance of continuities. Current practices are deeply entrenched, changes will not come easily given the constraints many enterprises work under. Third and related to this is Osterman’s insight that many of the constraints faced by firms are beyond their control. Adjustments within firms are often helped or hindered by the labour market and policy environment in which they operate. Fourth, policy needs to recognise the diversity of situation and practices: no one set of initiatives or policies will be relevant for all enterprises. These considerations inform the discussion of enterprise level labour adjustment provided in the following chapters.

24. Ibid, p27
25. Pignaniol (1988), op cit, p633
2. Overseas experiences: major research findings

Within the OECD there are, broadly speaking, three approaches to the handling of the issue of structural change.¹

1. The US approach where the burden of displacement is borne primarily by the individual

2. The European approach where the State plays a key role in supporting displaced workers and depressed regions

3. The Japanese approach where the enterprise has the prime responsibility for containing the impact of structural adjustment.

WESTERN EUROPE:

GENERAL CHARACTERISTICS

The European Community has always recognised the need to spread the burden of structural adjustment if trade was to be liberalised. Indeed, policy in this area has assumed that it is impossible to separate the industrial from the social and regional aspects of the adjustment process. Originally policy promoted training, resettlement and income support. In more recent times the emphasis has been on early retirement and regional policy. There have also been significant initiatives relating to reorganisation of working time arrangements involving short time compensation, changing shifts patterns and overtime limitations to ensure that whatever possible adjustment occurs through hours worked rather than numbers of people employed².

Within this broad framework, however, there have been differences of approach

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at enterprise level. Brunhes in his recent study of advanced forms of flexibility in four European countries argues that employers understood the meaning and significance of flexibility at enterprise level differently. In the UK and France most employers interpreted it as meaning external numerical flexibility (ie hiring and firing workers as demand fluctuates). In Sweden and Germany managers thought in terms of multi-skilling, training and the acquisition of qualifications. Osterman supports this characterisation of the situation prevailing in Sweden and Germany. He argues that internal labour markets in these countries are more flexible because of the widespread and deep seated commitment of many employers to employment security. In this context it is important to note that this situation prevails not simply because of a coercive legislative environment. Much European legislation simply codifies customs that predate current statutes, with some customs having prevailed for more than 100 years.

**FRANCE**

**Policies on labour market flexibility and labour adjustment**

In recent times the prime force behind moves towards greater flexibility in France has been Government initiatives rather than collective bargaining. It has been argued by some that French employers have approached the issue in too narrow a way. For example, Brunhes speculate that French managements' continual demands for short-run flexibility may simply reflect the fact that employers are 'seeking an easy solution to the lack of long-term flexibility caused by the fact that France has not placed sufficient emphasis on occupational training.'

Laws regulating redundancy in France have undergone significant change in the 1980s. Some earlier initiatives required firms to acquire administrative authorisation prior to dismissal. The law now aims to make enterprises more aware of their responsibilities, promote enlightened human resource management and reinforce rights for displaced individuals. The legislation covers prevention of redundancies, redundancy procedures and the right to 'conversion' or assistance with retraining and redeployment.

If workers obtain 'conversion leave' they are entitled to the following benefits:

- entitlement to full pay for the first two months and 70% for the next three
- an evaluation of their skill and potentials by a reskilling team

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5. US Department of Labour, Economic Adjustment, App3-4
7. Ibid, p31
rights to training of up to 300 hours where appropriate
redeployment aid.\textsuperscript{10}

In May 1989 a series of amendments were introduced aimed at strengthening measures against redundancy. The focus of these initiatives was to establish 'new mechanisms for discussion and prevention of redundancies...'.\textsuperscript{11} Key features of this initiative have been described by Brunhes as follows:

- 'greater joint union-employer control over economic redundancies'
- 'preparation of a 'social plan' detailing how structural change is to occur in the case of redundancies involving 10 or more employees in enterprises with 50 or more employees, even where staff representatives are not present'
- 'government right to make suggestions concerning the redundancy plan and the right of staff representatives to be involved in the execution of the plan'
- 'extended periods of delay, allowing the works council to hold internal discussions and to consult an expert'
- 'the supply of more detailed information to works councils concerning longer-term employment planning and the measures envisaged to prepare the workforce for change especially training.'\textsuperscript{12}

Labour Adjustment in French Firms

\textit{Successfully Handling Ongoing Structural Change.}

The legal situation in France provides a distinct environment for the handling of structural change and retrenchments. Two cases reported reveal how, despite formal requirements, different processes and outcomes are possible.

The first case involved a construction enterprise and illustrates, in some ways, the limited relevance of formal workplace representative structures.\textsuperscript{13} The context for the restructuring of this enterprise was the shake out in the building industry in 1980s. The industry has never been regarded as a pacesetter in matters of employment policy and practice, with training provided for workers having been

\textsuperscript{10} \textit{Ibid}
\textsuperscript{11} Brunhes, op cit, p26
\textsuperscript{12} Brunhes, op cit, p28
\textsuperscript{13} C Pigniol, 'Industrial relations and enterprise restructuring in France', \textit{International Labour Review}, 128 (5) 1989 pp624 - 627
traditionally poor.\textsuperscript{14} Individual employers have often been able to evade the effect of national laws and agreements either due to the nature of their industry or due to provisions limiting the coverage of such laws in this sector.\textsuperscript{15}

The enterprise examined was the SCIC (Societe centrale immobiliere de la caisse des depots et consignations), which was established in 1954 as a private subsidiary of the French Deposit and Consignment Office (CDC). As the largest property developer in Europe, the SCIC manages 450,000 private and publicly subsidised low-income dwellings and 200,000 moderate rent flats that run at a loss and are subsidised by the Government. Sixty per cent of its workforce of 5000 were engaged in maintaining the flats. With the slow down in economic activity the SCIC found itself with 11,000 (excess) dwellings. Drastic restructuring was necessary.\textsuperscript{16}

Restructuring involved carrying out market research and identifying an opening for its basic activity. One of the major outcomes involved a 20\% reduction in staff over three years. The social plan included early retirement at 56, retraining leave, assistance for those wishing to start up a small business, and 'sizeable voluntary redundancy payments (up to one year's pay.)'\textsuperscript{17}

There were no disputes associated with the restructuring. Piganiol attributes this to management's communication policy which involved significant openness with employees directly, as well as with their representatives. It should be noted, however, that the unions made little practical contribution, preferring to denounce capitalism in general.\textsuperscript{18}

On the basis of this case study Piganiol argues that the reality of French workplace industrial relations is that despite formal rights of consultation for unions, management can still take the leading role in restructuring. In this case the union, while recognised by management, made no interventions. As he notes although 'statutory bodies representing the workers exist in the enterprise and management was prepared to engage in a constructive social dialogue, the weakness of the trade union representation has reduced these bodies to a mere cipher. Moreover, the sizeable benefits granted to the redundant workers were sufficiently attractive to undermine any attempted opposition to the social plan.'\textsuperscript{19}

The second case demonstrates how an ongoing process of negotiated structural change can be undertaken to prevent retrenchments. The case involved Electronique Serge Dassault (ESD) formerly a manufacturer of hi-technology military equipment with a workforce of 4,000: 50\% were engineers, 30\% were technicians.\textsuperscript{20}

\textsuperscript{14} Ibid, p624
\textsuperscript{15} Ibid, p625
\textsuperscript{16} Ibid, p626
\textsuperscript{17} Ibid
\textsuperscript{18} Ibid
\textsuperscript{19} Ibid, p627
\textsuperscript{20} Ibid, p631
In 1972 when ESD had only 1,700 staff 'a small team of ten suggested applying the enterprise's expertise to non-military activities in order to reduce its dependence on government orders.' 21 This underpinned the company's change in direction. The first big change involved modifying employee outlook. To begin with they needed to develop greater sensitivity to marketing and cost control issues. This required, inter alia, obtaining better information on customer needs and close co-ordination of the firms' marketing and production wings.

Personnel and human resources policies were very important in this change. A key factor in the success was the reliance on a highly skilled workforce 'maintained thanks to an active programme of continuous training.' Individual involvement and commitment to the firm was promoted by wages that 'reward [ed] individual merit, various types of profit-sharing and shareholding.' There was also reliance on pooling and rotating staff. Open management practices and direct communication structures were also used. A staff bulletin, circulation of company accounts and regular meeting between senior managements and staff also helped. 22 As Pignaniol notes: '[t]his case study shows at least that restructuring does not necessarily mean redundancy or loss of acquired rights.' 23

Redundancy and Retrenchment Practices in the French Steel Industry

The steel industry has been a pace setter for the development of redundancy rights in France. Many of the developments here have been precipitated by the large scale of dislocations involved: 200,000 jobs lost in 1979 and 96,400 in 1986. The restructuring precipitated strikes and riots. 24

Personnel management changes that occurred over this period included: the introduction of quality circles, workshop councils and extensive management consultation with the workforce. This openness, along with a generous financial adjustment package financed by the State facilitated the development of the tripartite 'social collection' agreement in 1984 and major labour shedding in 1985. Key features of the package included:

- redundant workers were able to maintain social security benefits granted to those still employed (survivors' benefit, supplementary pension, housing, social services),
- income guarantees above statutory rights. These included:
  - early retirement at 55
  - deferred-benefit retirement at 50

22. Ibid, p632
23. Ibid, p633
24. Ibid, p628
- retraining for workers under 45 (two years' training and two outside job offers)

- voluntary redundancy payments or repatriation grants for immigrants

the program was administered by bipartite panels at national, regional and enterprise levels

in Lorraine three tripartite committees were established to assist with local employment creation initiatives.

there were also initiatives for the remaining workforce. These involved enterprise agreements covering such issues as 'reductions in hours of work, cuts in pay or individualised wages, profit-sharing, interim compensation to offset pay losses in the event of transfer, and vocational training when new technology was introduced.'

Key features of this deal were extended to other workers displaced by structural change and informed much of French public policy in the area details of which were summarised earlier.

The restructuring of the French steel industry has received particularly close analysis from scholars working in the Regulation approach to social and economic analysis. These researchers highlight the importance of changes in modes of labour relations as an important dimension of economic development. Villeval has highlighted these issues in an analysis of the transformation of the steel industry in Lorraine. He argues that restructuring involves more than just financial and technological change: it also involves the restructuring of employment relations. This entails breaking down established wage earner groups, managing workforce flows as workers leave a sector and the reorganisation of worker relations in new firms.

Of particular interest is his documentation of how different groups of workers use different adjustment mechanisms and employment rights in a labour shedding situation. His findings can be summarised as follows:

- Transfers tend to be used by professionals, the middle aged and French nationals

25. Ibid, p629
26. Ibid, p630
Direct capitalisation (ie cashing out) income support and training rights is used 'by French employees, clerical workers, and maintenance and other blue-collar workers with transferable skills, but also by workers without any certificate and with very low skill levels'.

CFC training courses (ie those associated with 'Conversion Leave') are used by large numbers of blue-collar workers. The skilled up grade their qualifications or learn new occupations, the unskilled do not acquire qualifications but attend short courses intended to speed up the re-employment process.

the disabled have a special category of services

foreign nationals are poorly catered for and are usually encouraged to take grants to return home

others can take the subsidy to the next job, thereby reshuffling the queue of unemployed people.29

He notes that differences in managing the adjustment process for different groups contributes to the shaping of new forms of labour relations. This was particularly stark in the case of the steel industry with many workers leaving work situations with stereotypical industrial relations institutions to new jobs in the small to medium sized firms with quite different management and employee relations.30

Insights from the French Experiences

Although the legal rights available to employees and their representatives are quite developed in France, the case study from the large building maintenance and property development firm indicates that management still has significant control over the restructuring and retrenchment process. Structural adjustment in the French steel industry over the last decade and a half reveals that restructuring can involve an extremely wide range of initiatives for both displaced workers and those remaining in the sector. The restructuring can extend to labour relations and involve more than changes in the industrial and occupational composition of employment in a region. Finally, the ESD example shows that with planning and imaginative organisation, product diversification underpinned by new approaches to personnel management and new investment can not only preserve jobs but actually support employment growth.

29. Ibid, pp364 - 365
30. Ibid, pp370 and 373.
GERMANY

Labour Market and Industrial Relations Context

Prior to unification with East Germany the Federal Republic of Germany (FRG) had one of the most prosperous economies in the world. The ability of the FRG workforce to respond to changing circumstances has been an important component of the policy mix responsible for this success. Many of these arrangements are underpinned by a strong vocational training system and an industrial relations system which provided the framework for the efficient skill formation and deployment of workers on a multi-employer basis. Flexibility at workplace and enterprise level is provided by industrial democracy structures that allow change at the lowest level of the economy to be negotiated with workers and their elected representatives.31

Policies on labour market flexibility and labour adjustment

German job protection rights are amongst the most advanced in Europe, if not the world.32 At the core of these rights are entitlements for employee representatives to be consulted and involved in decision making at workplace and enterprise level. At workplace level, the works council, with equal management and employee representation, is involved in many matters relating to the operation of particular work sites. Union representation is also provided on supervisory boards that oversee the operation of particular enterprise or business units.33

Situations involving potential workforce reductions involve several stages of consultation. First works councils are consulted about alternatives to or the process for handling workforce reductions. Second, approval for closures or retrenchments must be provided by the supervisory council. Third, if such


33. Althanassios Papicamou, 'The Duty to Bargain. Over Layoffs in Other Western Countries: A View from an American Perspective', Hofstra Labor Law Journal, 6 (2), Spring 1989, provides details on how the nature of works councils and union representation on corporate boards varies on the basis of employment size and industry of workplaces and enterprises at pp 254 -5 and 264 -5.
approval is obtained social plans of the processes involved are devised by work councils in negotiations with management. Workers have the right to appeal for judicial intervention if these procedures are not honoured. In addition, public authorities must be informed within one month of an impending mass layoff under the following circumstances

- in enterprises with less than 60 employees, if five or more dismissals are planned
- in enterprises with between 60 and 500, if 10 percent or at least 25 dismissals are planned
- in enterprises with more than 500 employees, if 30 or more dismissals likely.

This legislative environment gives employees and their representatives (potentially) considerable bargaining power when faced with an impending redundancy situation. Several authors have argued that this gives management a very strong incentive to avoid retrenching staff.

In addition to specifying processes for handling workforce reductions, German law also provides a number of rights to income support that assist firms in managing potential redundancy situations. For example workers engaged in short time working may be entitled to unemployment benefits for the time they are off work. This option has been available in Germany since the 1920s. Current requirements are that an enterprise's workload must have fallen off temporarily, for a period of more than four weeks and less than two years (three years in the steel industry). The assent of the works council is required. The social security system also supports early retirement in some situations. In recent times the Germans have introduced 'part-time retirement' schemes. These were first introduced in the chemical industry in 1985: after the age of 58, the employee could choose to work part-time for a wage equal to 75% of his (sic) gross full-time wage (in practice nearly 85% net.) Options for part-time retirement have recently been extended by law to cover all industries. It appears that some aspects of German job security laws are being weakened,

34. Houseman (1991), op cit, p 34
35. Herman Kothoff, 'Participation of works councils and trade unions in staff reduction measures in the Federal Republic of Germany', Labour and Society, 13 (3), July 1988 p311
36. See for example Ibid, p305 and Papaioannou (1989), op cit. See also Ibid pp306 - 7 for a discussion of how even though formal obligations can be reduced by employers in a number of ways, (eg individually based termination agreements) the fact that a redundancy scheme can be enforced by works council at law gives employees considerable influence in bargaining over other approaches to workforce reductions.
39. Brunhes (1989), op cit, p21
40. Ibid, p21
with the legal obligations of small and new firms to notify and consult with their employees having recently been reduced.\textsuperscript{41} Overall, however, the regulatory environment still remains one of the most extensive in the world.

**Labour Adjustment in German firms**

A number of studies have been undertaken into labour adjustment processes in German industries and firms. This section reports on case studies undertaken into the steel industry, two plants in manufacturing and the impact of a shipyard closure on the Bremen local labour market.

**The German Steel Industry**

As in all countries with a steel industry, Germany has had to grapple with increased world capacity, variable demand and changing production techniques, all of which have resulted in a declining demand for labour in this industry. Adjustment in the German steel industry was conducted on the basis of a framework agreement settled at industry level, with details on implementation negotiated at enterprise level. Workforce reductions were achieved with limited recourse to retrenchments. The practices adopted included 'early retirement, the reduction in hours worked, the transfer of younger workers into positions vacated by retiring workers, and job buyouts.'\textsuperscript{42} There was also extensive reliance on short time work. 'In 1984, for example, in the German steel industry as a whole, 27 percent of the paid hours were not worked. Workers received benefits from the state social insurance scheme for the shortfall in hours. Steel companies typically supplemented this benefit.'\textsuperscript{43} The standard working week in steel has also been reduced twice since this period: at 36 1/2 hours it is currently the shortest in Germany.\textsuperscript{44}

A 1984 survey of firm level practices revealed how different adjustment techniques were used in the steel and metalworking industries. Just on three quarters of those surveyed gave an extra day of leave, while half made working hours flexible by calculating average hours worked over a two-month period and just under a fifth (17%) of firms surveyed reduced working time.\textsuperscript{45}

**Differences in the operations of the formal system: contrasting workplace case studies.**

Herman Kotthoff has provided some illuminating insights into how the labour adjustment process at enterprise level varies because of the level of union organisational effectiveness, the extent of the workforce reductions, local labour market conditions, the financial health of the firm concerned and the level of

\textsuperscript{41} Houseman (1991), *op cit*, p133
\textsuperscript{42} Ibid, p34
\textsuperscript{43} Ibid, p36
\textsuperscript{44} Ibid
government involvement (eg provision of subsidises). He provides two case studies to show how differences arise as a result of these factors.

The first involved a metal processing plant with 700 employees. Although fundamentally sound financially, it faced a decrease in orders for its output. Plant management initially informed workplace union leaders, in confidence, of possible problems that could mean the loss of 80 jobs, involving 20 retrenchments. Half the retrenchments would involve foreign workers, the other half early retirement. The union representatives indicated support for maintaining firm viability, but indicated they would bargain hard to protect those displaced.

Six weeks later modernisation of the workplace commenced amid rumours of impending job losses. Management responded by initiating a joint meeting of the works council and the management board. Management reported that a situation of declining sales required more than the recruitment freeze and overtime limitations already in place. They proposed the introduction of short-time work and reducing the workforce by 100. These proposals were debated by the Works Council and the following day the union lodged its claim. This included eliminating 80 not 100 jobs, a proposal that white collar as well as blue collar staff should be retrenched, principles for severance pay and principles for redeployment. The Council supported a proposal for short-time work at this session. Negotiations then proceeded in phases. Agreement was reached quickly on principles associated with early retirement. Attention then turned to processes for handling young and foreign workers. Procedures for redeployment were then settled. These ensured that workers would eventually obtain a job of equivalent classification. The formal collective bargaining process was complemented by informal initiatives involving supervisors encouraging less efficient staff to take redundancy packages when they became available.

Reflecting on this case, Kotthoff argues that it is typical of the more successful operation of the German approach to workforce reductions. Dismissals only occurred after employment stabilisation measures such as overtime reductions, a recruitment freeze and short time work proved insufficient. Second, the works council influenced the processes and outcomes of the workforce reduction exercise. Third, severance payments were made on the basis of loyalty to the company and calculated on years of service that retrenched employees served in the firm, rather than on the basis of future employment prospects.

Not all workforce reductions in Germany have had these characteristics. Kotthoff

47. Ibid, p299
48. Ibid, p300
49. Ibid, p300-1 At this stage foreign workers tended to leave the workplace of their own accord as negotiations proceeded.
50. Ibid, p302
51. Ibid, p302 - 3
provides some evidence of a contrasting case of a owner-operated workplace in the clothing industry. This plant had 120 workers, most of whom were women. The firm had been struggling for some time in a sector undergoing significant structural change and intense international competition. Faced with a significant decrease in demand recruitment was frozen. Even though this resulted in a reduction in the workforce of just under 10 percent within a month, this was insufficient. The owner then proposed to retrench 20 female employees.52

The owner notified the works council of his intention and tabled a list of 20 employees he proposed to dismiss. The employee representatives on the works council then called in a full time union official to assist them in bargaining over this matter. The official raised the possibility of both short-time work and a redundancy plan, both of which the owner said were unworkable due to the adverse state of the market and the firm's finances. Both local and full time union representatives accepted the owner's assessment. Bargaining then simply focused on the numbers and personalities to be retrenched. Approval was withheld by the works council for five of the twenty proposed retrenched. The employer accepted the suggestions concerning two staff, but then dismissed 18 employees. Although an appeal to the labour tribunal over processes was technically possible, none was lodged.53 Kotthoff notes that this case reveals that outcomes are often the result of the firm's economic performance, the state of the sector in which the firm operates and the strength of workplace union and management organisation.54

Drawing on these case studies, as well as other material on the German situation, Kotthoff argues that it is important to appreciate that the labour adjustment process varies on the basis of workplace size and industry. He notes that smaller firms have fewer options and often find it difficult to get approval for short time working compensation. Works councils often do not function in such establishments, and, where they do, have little influence. Their major contribution is advising which individuals should lose their jobs. Where large cuts are involved, the councils often have more influence. It is important to remember that where there is no works council there is no possibility of developing a redundancy scheme. In small and sometime medium sized enterprises the process is management controlled and workers often receive little or no compensation.55

Kotthoff also notes the adjustment processes of larger firms often makes adjustment more difficult for smaller ones. For example if the overall size of the market decreases the big firms can underbid, market more aggressively or encroach on markets previously supplied by smaller operators. Larger firms are also better placed to take advantage of support services provided by governments.56

52. Ibid, p303
53. Ibid, p304-5
54. Ibid, p304
55. Ibid, pp308 - 9
56. Ibid, pp309-10
He also highlights differences in adjustment processes by industry. For example bankruptcies are more common in the clothing and construction industries. Steel and coal mining have been pacesetters in developing procedures for workforce reductions. Their long established traditions of co-determination at enterprise and industry level and the strategic importance of these sectors to the economy have enabled them to perform this role. The general approach to handling redundancies codified in German law was devised in these sectors and then spread economy wide on the basis of Federal law.  

**Labour adjustment within firms and regional labour market issues**

German scholars have also undertaken research into the interaction between plant closures and regional labour markets. Heseler and Roth's analysis was of the closure of the AG "Weser" shipyard which had employed 2,100 workers in Bremen.

The researchers provide a detailed analysis of those displaced by this closure and compare them with a 'control group' of workers who voluntarily left their jobs or were dismissed. The displaced workers did better on nearly every measure. On the basis of this finding Heseler and Roth argue that adjustment processes within the labour market mean that following a large scale plant closure much of the burden of adjustment is pushed onto weaker participants in the labour market by means of the recruitment process of other firms. Surviving firms appear to prefer retrenchees to those dismissed or who voluntarily left their last job. This case, therefore, highlights that if we are worried about the unemployed we should not just focus on displaced workers. It is important to study the dislocation and adjustment process in the context of local labour market operations. As Heseler and Roth argue growing 'unemployment is redistributed within a relatively short period away from employees dismissed on account of the shutdown to the so-called "risk groups" of the labour market."  

In developing policy in this area it is important to consider improving firm level practices to ensure certain segments of the workforce do not bear a disproportionate part of the burden of adjustment.

**Insights from the German Experience**

Like the French experience, the German literature shows how the impact of the formal regulations governing labour adjustment varies significantly in its application at firm and workplace level. While it appears to have worked well in supporting employment security in the German steel industry, its impact on the

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57. *Ibid*, pp309-10


59. See also related German research that has examined how the burden of adjustment is differentially borne by workers of different ages and occupations. Jurgen Gabriel, *The impact of plant closures on workers and regional labour markets - The case of the shutdown of the AEG factory "Brunnenstrasse" in Berlin (West)*, *Labour and Society*, Vol 13, No 4, October 1988 pp 387 - 398, especially at p393.
clothing sector has been less dramatic. Variations in the application of the law appear to be related to firm/workplace size, industry and the state of the local labour market in which the firm/workplace operates. The material on the Bremen shipyard highlights the importance of understanding how local labour markets function to distribute the burden of adjustment.

THE UNITED KINGDOM

Labour Market and Industrial Relations Context

Throughout the 1980s unemployment in the UK was high caused in large part by extensive job losses in manufacturing. Industrial relations over this period was characterised by significant legislative reforms explicitly aimed at weakening union organisation. This marked a change from earlier governments which respected the widely supported policy of limited state intervention and 'free collective' bargaining as the basis for labour relations in that country.60

Policies on labour market flexibility and labour adjustment

In his overview of flexibility at enterprise level, Brunhes notes that most UK employers took the term to mean external numerical flexibility. Few employers appeared to regard other forms of flexibility, such as the ability of employees to undertake a variety of tasks (functional flexibility), as central to their concerns.61 He argues that reliance on mechanisms of short run flexibility probably arose because of the weaknesses of the UK skill formation system and that this reliance limited the development of mechanisms for longer run flexibility.62

UK employment security regulations are generally recognised as the least developed in Europe.63 This is partly the result of the commitment of both employers and unions to limit formal legal regulation of labour relations in the UK. The major law in this area is the Employment Protection Act of 1975. This was enacted as one of the supportive measures associated with the 'Social Contract' incomes policy of the 1970s. Under its provisions an employer must consult with a union 90 days prior to a dismissal of 100 or more employees and 30 days for any mass dismissal involving 10 or more employees.64 There is also an obligation to consult where ownership of a firm changes. Where ownership changes the new proprietor inherits all existing employment contracts.65

60. See for example J MacInnes, Thatcherism at Work: Industrial Relations and Economic Change, Open University Press, Milton Keynes, 1987
61. Brunhes (1989), op cit, p16
62. Ibid, p35
63. Houseman in her study of structural adjustment in the European steel industry notes that Britain was included in her research to examine what happens where job protection measures are limited. See Susan Houseman, Industrial Restructuring with Job Security: The Case of European Steel, Harvard University Press, Massachusetts, 1991 p4. See also Papaioannou (1989), op cit, p260
64. Papaioannou (1989), op cit, p259
65. Ibid p259
Limitations on the effect of these provisions have arisen from a number of quarters. Employers only have to consult with recognised unions. Not all unions with members at a workplace have such status. Moreover, the courts have interpreted employers' obligations very narrowly. Despite these limitations unions do have one major right protected by these laws: they are permitted to strike if the employer refuses to bargain over [redundancies].

**Studies of labour adjustment practices in UK firms**

Despite the extent of workforce reduction and significant changes in the bargaining environment there has been relatively little documentation of particular cases of labour adjustment at workplace level. Some survey and multiple case study activity was commissioned by the UK Department of Employment. As noted in Chapter 1 this research found that far from adopting modern or innovative approaches to human resource management most employers were relying on traditional mechanisms of labour adjustment. Even if allegedly modern forms were being used such as part time employment or contractors, this was often because of worker preference or traditional reliance on such forms of labour in many workplaces. Management appeared to be more preoccupied with meeting operational business objectives than with devising modern approaches to labour use and adjustment.

The limited adjustment practices in UK firms are documented by Houseman in her comparative analysis of the European steel industry. UK managers more than any other in Europe relied primarily on retrenchments. Few efforts were made to use early retirement or short-time work to reduce the adverse effects of workforce reductions. As she notes, on the continent adjustment primarily took the form of hours worked, while in Britain 'average hours worked remained almost constant' from the mid 1970s to the mid 1980's. After failing to change the nature of the rationalisation program after a 13 week national strike steel industry unions directed their attention to negotiating over the size of redundancy payments. The outcomes varied by plant, with the Shotton plant workers receiving a year's pay and in other cases workers received half a years pay as compensation for retrenchment. Other elements of the steel industry's adjustment arrangements were of only marginal relevance to the rationalisation process. They included:

- a facility for internal transfer which was used little as it did not protect security
- rights to 52 weeks training leave on full pay in some circumstances
- supplements to unemployment benefits for older workers retrenched paid by British Steel

66. *Ibid* p260
67. See Hunter and MacInnes (1991), *op cit*
68. Houseman (1991), *op cit*, p42
69. *Ibid*, p131
70. *Ibid*, p42
limited support for small business development.71

Inefficiencies in the plant closure process

Two statistical analyses of plant level adjustment have highlighted that it is often not the most inefficient plants in an industry that close. Nicolas Oulton provides estimates of how adjustments occurred over the period 1979 to 1986 in the largest UK manufacturing plants - ie those employing 1,000 or more employees. At the beginning of this period there were 908 such workplaces employing 42.3% of the manufacturing workforce. On the basis of his calculations he reports that 171 of these very large workplaces completely closed down. Around 500 underwent some kind of partial closure and about 150 reduced their employment size as a result of productivity improvements.72 One of his more surprising findings was that it was not necessarily the low productivity plants that closed. Indeed, he argues that there is some indirect evidence that the large plants which closed may have been of above average productivity though of below average profitability.73

A study of rationalisation in the UK steel casting industry uncovered similar findings. Between 1979 - 1983 twenty seven plants closed accounting for about a quarter of the industry's capacity. Many of the closures were not the least profitable firms. In 1982/3 a sample of 8 of the 14 closures was examined. Of these 3 had positive cash flows. Of the 28 competitors, 6 made cash losses. Baden-Fuller reports that 'firms which were diversified and financially strong seemed more likely to close than those which were not, and we speculate that in these firms there may have been fewer conflicts between the various stakeholders: owners, debtholders and managers.'74 On the basis of follow-up research he notes:

... our interviews suggested that closure was viewed as an investment decision; that in this investment decision the two major variables were anticipated profits(cash flows) from not closing and the anticipated costs of closure (chiefly redundancy pay). It seemed that financially strong firms and diversified firms were more ready to contemplate closure and that they anticipated, and to some degree achieved, lower closure costs [through redeploying capital and labour].75

This research supports similar findings on the Lancashire textile industry and the UK cutlery industry. These studies found 'evidence of unprofitable undiversified firms staying and more profitable firms quitting indicating possible inefficiencies

71. Ibid, pp.42 - 43
73. Ibid, p58
74. CWF, Baden-Fuller, 'Exit from declining industries and the case of steel castings', The Economic Journal, 99, Dec 1989, p950
75. Ibid, p956
in the closure process.'76 These other writers have argued there may need to be assistance provided to small undiversified firms 'when relocating assets out of declining industries into growing ones.'77 As Baden-Fuller observes it appears 'that some firms are better at imposing the social costs of closure onto others.'78 Diversified firms can, by redeploying staff, minimise payments to employees. While owners and managers of undiversified firms [use] limited liability as a method of shedding the risk of failure onto creditors and the public purse.'79

**Case studies of innovative approaches to enterprise level adjustment**

There are a number of UK studies into how firms have met the challenges of tight competition in the 1970s and 1980s. Gerhart provides three cases of where employee defiance in the face of impending plant closures resulted in jobs being saved. The first case involved a Scottish boatbuilding yard. When the employees were told that their workplace was going to be closed 80 of them proceeded to 'sit in' for approximately 20 weeks. Eventually the yard was bought 'by an oil exploration company and converted to the repair of boats used for a North Sea taxi service.' By the early 1980's the plant had expanded to employ 1200 people in addition to contract workers engaged in building North Sea oil platforms.80 Two key features of the 1975 deal were written agreement between the new owners and the union over disputes settlement procedures and a 'flexibility agreement' breaking down craft demarcation lines. Had the yard been broken up the new buyer would probably not have been attracted to it. In addition there would have been costs associated with starting up a new business. As Gerhart notes it 'is reasonable to conclude that the industrial action (sit-in) led to a socially desirable result.'81

The second case concerned a Capacitor Division of Plessey Co Ltd. In the 1970's it had employed over 2000 workers. By 1982 employment was down to 400. Management decided to close it in January 1982 due to market conditions. Local union representatives did not accept the decision and ignored national union advice that the decision was 'irrevocable'. In February local union delegates staged a sit in, which resulted in considerable acrimony between local and national officers of the union. 'Eventually, a Dutch company, Arco Tronics, purchased the facility. With 80 employees, it is continuing to produce capacitors at a reduced output.'82

The final case involved a Motherwell shirt factory. Here 300 workers arranged a 24 hour picket when the company decided to close the plant. This prevented removal of plant and equipment. Thereby frustrating the owner's desire to shut

76. *Ibid*

77. *Ibid, p958*

78. *Ibid*

79. *Ibid*


81. *Ibid, p470*

82. *Ibid,*
the workplace down. This period of delay allowed enough time for a successful management buyout to be arranged.83

On the basis of these studies Gerhart concludes that sometimes confrontation can result in a better outcome than cooperation. Such confrontation is more likely to be initiated at the local level. In all these cases, had the unions cooperated, this would have allowed management time to strip the workplaces of assets and thereby reduce union bargaining power.84

A recent monograph prepared by Pettigrew and Whipp provides information on more orthodox approaches to enterprise adjustment. These researchers examine ways in which UK firms responded to the challenges of competition in the last two decades and how the change process is managed within enterprises.

Pettigrew and Whipp's analytical perspective is broader than that used by most researchers into management and organisational behaviour. They are critical of the fact that the ability of managers' to assess, formulate and implement strategies is more often assumed rather than scrutinized.85 Seeking to address this weakness in the literature their research focuses on how managerial capacity to achieve successful change is generated and how the context in which management operates changes over time.86

The study is based on seven detailed case histories of firms in four industries: automobile manufacturing, publishing, banking and life assurance. The research was conducted over three years and involved collecting data on firm activity and performance over, in some cases, several decades.

On the basis of this detailed research Pettigrew and Whipp argue that five interrelated factors underpin firms' ability to successfully negotiate change. These are:

- the quality of their assessments of the environment in which they operate,
- the ways in which leadership is provided by management in undertaking the change process,
- the linking of strategic and operational change,
- adopting an approach to human resource management that recognises the difficulties of the learning process, is developed over a number of years and evolves through successive stages87
- coherence or 'the ability to hold the organisation together while

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83. Ibid, p471
84. Ibid,
86. Ibid
87. Ibid, pp.236 - 238
simultaneously reshaping it.'88 Such integration involves links both within an organisation and between the organisation and others in its sector.

In identifying these factors Pettigrew and Whipp emphasise that they are not prescribing a 'laundry list' of management practices that will guarantee success. On the contrary, throughout the book they emphasise the complexity of the issues involved. The successful firms in their study took years to develop the myriad of practices that underpinned their performance and 'in terms of competitive success, the management of strategic change is the result of an uncertain, emergent and iterative process.'89

In their conclusion the researchers emphasise that it not enough for management to identify problems and prescribe solutions. A far wider range of activities must be undertaken. These include the need to

raise the energy for change; justify the need for change and legitimize chosen courses of action; negotiate the pathways of change for the organisation; stabilise successful programmes; set in motion processes which will lead to the generation of relevant knowledge; and resolve the many contradictions which arise between these sub-processes.

How management meets these requirements will obviously vary from situation to situation. It is important, however, to recognise the importance of addressing issues such these and developing the capacity to undertake them. It cannot be assumed that most organisations have developed the managerial capacity to undertake each of these tasks.

Conclusion

Although documentation is limited, the UK experience provides a number of valuable insights into issues associated with labour adjustment at enterprise and workplace level. The underdeveloped legislative environment has provided management with few incentives to consider alternatives to retrenchment. Moreover, the poorly developed skill formation system has, according to research commissioned by the OECD, meant that UK managers have relied more on short term avenues to flexibility such as sub-contracting and retrenchments than other countries in Europe.

Studies of adjustment in manufacturing highlight that there may be major inefficiencies associated with the plant closure process, with less efficient plants surviving while more productive ones close. In this context, the findings of the 'sit-in' success stories indicate that questioning and delaying managements' decisions may sometimes provide useful breathing space during which alternatives to plant closure can be arranged.

Pettigrew and Whipp's most recent research provides important points to the

88. Ibid, p266
89. Ibid, p7
requirements for maintaining employment security. Their sensitivity to the complexities and length of time required to achieve competitive success warn against searching for simple 'best practice' codes that will prevent the problem of possible retrenchments emerging.

SWEDEN

Labour Market and Industrial Relations Context

Along with Japan, Sweden has had one of the lowest unemployment rates within the OECD. Until last year, it had hovered at between 1 and 3 per cent of the labour force for most of the post-war period. This outcome has arisen from policies devised initially by the Swedish trade union movement and modified and implemented by various governments since. A key feature of this policy mix was the active promotion of structural change in the economy. In return for pursuing high wages and reducing wage differentials the Swedish union movement accepted that there would need to be significant structural change in the economy if Swedish industry was to remain competitive. To ensure those displaced by such change were adequately protected the government pursued an active labour market policy.

This approach to economic development has meant that Sweden now spends three per cent of GDP on retraining schemes and assisting workers move to areas of growing employment. As labour market programs are regarded as an essential element of the Swedish social welfare system, this high level of expenditure is funded out of taxation revenue. A tripartite National Labour Market Board, with its extensive network of local employment boards, plays a central role in implementing this policy. All job losses and vacancies must be notified to this body to allow the employment service to devise its training programs and provide mobility assistance.

Policies on labour market flexibility and labour adjustment

While the overall approach to economic development has remained fairly stable, its contents have evolved over time. In the 1960s there was an outburst of wildcat industrial action, much of it directed against the official leadership of the union movement as well as employers. Many workers were not happy being

90. Sweden has one of the highest rates of taxation in the world.
91. Details of the Swedish approach to economic development are available from a number of sources. A good introduction is provided by one of the trade union economists who developed the key ideas of the Swedish model of economic development G Rehn, The Swedish Approach to Labour Market Policy, Swedish Institute, Stockholm, 1985. A recent overview and evaluation is provided by J Johansson, On the Outcome of Swedish Labour Market Policy, EFA - The Expertgroup for Labour Market Policy Evaluation Studies, Ministry of Labour, 1991.
92. A lot of this stability is attributable to the Swedish Social Democratic Party’s long period in Government. This party lost the most recent national elections in late 1991. It remains to be seen whether the new centre-right coalition government will change key aspects of labour market policy.
treated as flexible factors of production that could be retrenched, retrained and redeployed at will.93 Among the responses to these disputes was the enactment of employment security legislation (LAS) and laws increasing unionists' rights to involvement in decision making at the firm level (the so-called Co-determination Act (MBL)).

Papaioannou argues that Sweden's Co-determination Act of 1976 'is probably the most advanced piece of legislation in Europe concerning the employer's duty to bargain with employees.'94 There is duty to bargain on 'any matter relating to the relationship between the employer and any member of the organisation who has been employed by that employer.'95 Despite providing such a broad ambit of issues covered by an obligation to bargain, the law does recognise that the employer still has ultimate decision making authority.96 In the area of bargaining over layoffs national guidelines were finally settled in 1982 after years of negotiations. These related to the procedures to be followed at workplace level in bargaining over workforce reductions.97 Swedish unions are also entitled to nominate two representatives to the board of directors in firms with 25 or more employees.98 This gives them access to all information used by management and can enhance the unions' bargaining power when negotiating over workforce reductions or company level restructuring. In the event of such a situation unions can also use their presence on the board to present alternative ideas. These are often based on ideas developed by consultants commissioned by the unions.99

Sweden's employment security legislation requires notification of retrenchments to be provided to both the individual affected and the National Labour Market Board. The length of notice for workforce reductions is between two and six months depending on the size of the proposed job losses. Notice rights for individuals depends on age and length of service.100

In addition to these laws, firms in Sweden are subject to a range of other regulations influencing their behaviour. These include laws banning the use of fixed term contractors in some sectors of the economy101, limiting the hiring of temporary employees so that they can only be engaged through the public employment service102 and giving unions the right of veto over the engagement of

94. Papaioannou (1989), op cit, p257
95. Section 10 of the Act, quoted in Ibid, p257
96. Ibid, p258
97. Ibid
98. Ibid, p265
100. Ibid, pp5 - 6
101. Brumh (1989), op cit, p18
102. Ibid, p19
sub-contractors in the workplace. Brunhes has argued that this regulatory environment has circumscribed the option of short-term numerical flexibility and forced firms to place more emphasis on personnel planning and training. Indeed he reports that 'training is seen as the top priority by all enterprises, government programmes, employers' organisations and unions.'

A number of programs actively involve businesses in the labour adjustment process. These include subsidies for employers to retrain potentially redundant employees on the job or to take on displaced workers and train them in the workplace. Income support payments to the unemployed are rare and regarded as a measure of last resort.

Studies of the adjustment process in practice.

Sweden has one of the most developed sets of laws and policies regulating the adjustment process. It is, however, difficult to ascertain their impact. Papaioannou has noted the difficulty in assessing the duty to bargain over actual layoff practices at workplace level. Osterman has been less reticent in reaching conclusions on the impact of employment security legislation. He argues the Swedish and US realities are not all that different in this regard. For him

The effect of the legislation is simply to require advance notification and some negotiations over which workers will be let go. Indeed, after accounting for the higher rate of temporary layoffs in the US, the Swedish and American layoff rates are comparable.

Gonas goes so far as to argue that unions and employees often have little impact on the nature of workforce reductions and plant closures. Whilst employers have an obligation to negotiate, the decision is still theirs to make and these are usually 'pivoted on considerations of business economics and corporate policy.'

Gonas's conclusions are based on research into the Swedish structural adjustment process. She and fellow researchers have examined both the process of workplace decision making surrounding labour shedding and the fate of retrenched workers. This project, spread over a number of years following the downturn in the early 1980s, examined 17 firms and the employment histories of just under 3,400 employees.

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103. Papaioannou (1989), op cit, p258 - 9
104. Brunhes (1989), op cit, p20
105. Ibid, p19
106. A useful summary of specific details of Swedish labour market programs for those affected by structural change can be found in OECD, Measures to Assist Workers Displaced by Structural Change pp20 - 21 and 23 - 27. These are also considered in OECD, Employment Outlook, July 1990 p69.
107. Papaioannou (1989), op cit,p266
108. Osterman (1988), op cit, p144
110. More details on the sample of case study firms and employees are provided in Ibid, Attachment 1 and discussed at pp8 - 11.
The findings highlight the diversity in Swedish practice at workplace level. For example, some large scale workforce reductions and plant closures involved limited notice to all concerned and a unilateral approach to decision making by management. In other cases, union action delayed closure or reduced the number of retrenchments. In still other instances active involvement by unions, employees, local authorities and management resulted in product diversification and development of new employment opportunities.\textsuperscript{111}

On the basis of this research Gonas notes that a 'great deal depends upon the relative power of the different actors, and, whether or not it is possible to establish cooperation between the employees, the local authority and the state.'\textsuperscript{112} Increased cooperation can reduce the extent of displacement and can often ensure plant survival, even if with a significantly reduced workforce.\textsuperscript{113}

Gonas argues that the nature of ownership arrangements is an important determinant of the influence workers have in a situation where retrenchments are likely. Firms owned by the Government and producer cooperatives are often less difficult to reach and influence than privately owned firms. For example in the Scan Vast Farmers' Cooperative.

The management and the Swedish Farmers Meat Marketing Association were forced to agree to some joint demands put forward by employees and the farmers in order to prevent the farmers leaving the association.\textsuperscript{114}

Her other key conclusion on this matter is that reversing a decision by management relating to a plant closure or workforce reduction appears to depend on the strength of resistance that can mobilised. It is also depends on options available to the firm, the ability of the firm to undertake changes to achieve those options, 'the strength of the counter-action, and the ability of the other actors to coordinate their efforts.'\textsuperscript{115}

Most of Gonas's research dealt with the impact of retrenchment on the workers concerned and highlights the gender dimension of the adjustment process, something few other researchers have examined. Her findings in this regard are striking. After two years 54 percent of displaced men in her sample had found new permanent jobs. Only 36 percent of displaced women had obtained similar employment. Women suffered longer and more frequent periods of unemployment. Of those displaced, about 20 per cent from both sexes dropped out of the workforce altogether in the 2 year period. As a result just over a quarter (28 percent) of the men and just over two fifth (43 percent) of the women were still in the workforce but without stable employment.\textsuperscript{116} Gonas attributes these

\textsuperscript{111} \textit{Ibid}, pp14 - 16
\textsuperscript{112} \textit{Ibid}, p15
\textsuperscript{113} \textit{Ibid}
\textsuperscript{114} \textit{Ibid}
\textsuperscript{115} \textit{Ibid}, p15 and pp 34 - 35
findings to changed labour market behaviour for women: they no longer appear to be content to move in and out of the workforce as the demand for labour fluctuates. In her most recent paper she has argued that there is a need for policy to address the sexual division of labour in the workplace and the home. While there have been policies designed to addressed gender based inequality they have been pitched at a general level, with questions of everyday life practices being 'left to be solved by unions and employers [at work] and by women and men in the family.'

Best practice Swedish style: enterprise restructuring and labour adjustment at Oresand shipyard

One of the most innovative approaches to structural adjustment at firm level involved one of the largest industrial closures in Sweden: the running down of the Oresund shipyard in Landskrona, Sweden. This involved two processes: the first associated with closing down a large scale industrial operation and the other involving the development of new business and employment opportunities. The success of the project can be ascertained from the employment statistics. Despite that fact that the shipyard had been the largest employer in an isolated region, only 15 per cent of its former workforce had drawn unemployment benefits by the time it closed in December 1983. While 2,322 redundancy notices were issued in August 1981, by December 1983 1,600 (69%) had found alternative employment, a further 201 were undergoing training, military service etc, 367 were in state-assisted labour market programs and 320 were drawing unemployment benefit (266 of these were on special arrangements for early retirement).

This outcome was the result of extensive cooperation and planning. It involved establishing a new venture capital firm with joint public and private sector equity, an advisory council of private sector business people to assist in the establishment of new enterprises and the active involvement of the unions and employment service to ensure that the labour force was well trained and ready to support new job opportunities arising from the adjustment program.

At the core of the adjustment process was a strategy that used the shipyard as a base for developing new employment opportunities. New ideas from the workforce were scrutinised by a Development Foundation established by the local council. This Foundation was well resourced, receiving 15 percent of all local

117. Gonäs (1990), op cit, p2
118. Lena Gonäs, 'Connecting two worlds - or quantitative equality and still a reserve army?, Models and strategies of women's integration in working life, the Swedish example,' Manuscript from the Swedish Centre for the Study of Working Life, 17 November 1991 p1.
119. Details of the relative importance of this closure in Sweden can be found in Malmöhus County Council, Case Study Report: The Oresund Shipyard in Landskrona, Sweden. Experiences derived from the closure of the shipyard and the development of new industries prepared for the OECD's Group on Urban Affairs Project Group on Urban Economic Development, UP/E (84)40, November 1984 p54
120. Ibid, pp49-51
government revenue to do its job.\textsuperscript{121} Where ideas had merit the Foundation developed them by identifying the entrepreneurial, organisational and capital requirements for them to succeed commercially. It then provided assistance preparing proposals in a form that could then be referred to money markets for critical examination. Financial risks associated with a new venture were reduced by the provision of support available from a contact network of local businesses and the injection of share capital from the regionally based, venture capital firm containing both public and private sector equity.\textsuperscript{122} If enough capital could be raised a company was then formed to execute the original idea and commence production. An environment of ongoing support was then provided by the network of local businesses formed to assisted in economic diversification, the local government and the Development Foundation. This support included arranging trade fairs and other projects involving commercial promotion.\textsuperscript{123}

Within the shipyard itself support for this process was provided in the form of advisory services, training services, rights to use shipyard space to work, administrative support and in some cases, skilled employees working at the yard were made available to assist new firms at critical stages of development. The yard also helped with market surveys, real-estate management and the evaluation of new product ideas.\textsuperscript{124} Special attention was also devoted to developing options for disabled workers. Special workshops were established that provided the capacity to manufacture 'products for companies that lacked the capacity to do it themselves.'\textsuperscript{125}

Reflecting on this experience, the Malmohus County Council report of this experience identifies seven factors that were crucial to this adjustment exercise. These were as follows:\textsuperscript{126}

1. Managing the reduction of a firm requires different skills and organisational arrangements to managing its expansion. In particular the process needs to be planned to ensure it is orderly and balances the interests of employees, customers, vendors, suppliers and other parties.

2. Organisational units need to be broken up and given the opportunity to develop in new ways ie break down centralised enterprise structures in the winding down phase. Smaller production units need to be adequately funded for this task.

3. Active co-operation and a shared sense of purpose between management, unions and local government was critical to successfully developing this adjustment response.

4. The innovative nature of the special purpose venture capital firm was vital.

\textsuperscript{121} Ibid, pp31 - 33
\textsuperscript{122} Such capital support was sometimes provided in association with funds supplied by other banks. Ibid, p34
\textsuperscript{123} This process is discussed at Ibid, pp33 - 34.
\textsuperscript{124} Ibid, pp 20, 21, 30, 31
\textsuperscript{125} Ibid, p35
\textsuperscript{126} These have been summarised from Ibid, pp54 - 59
It was small and responsive to new ideas. It also mobilised the potential contribution of shipyard employees and the locality around a common task of innovative employment growth. The fertile skills base of the area also helped.

5. The long lead time was crucial. The venture capital firm was formed two years before the closure. This allowed for innovative redeployment and labour sharing arrangements where skilled staff moved between fledgling firms and a plant in decline.

6. The size of venture capital available was important. (SEK 100 million)

7. Special recognition should also be given to the significance of the 'business development system'. This drew together all the separate initiatives and maximised the chances of potentially successful ideas achieving viability in the market place.

Reflections on the Swedish experience

Structural adjustment has been a central part of Swedish economic policy for decades. Modifications in policy in response to worker concerns over excessive reliance on mobility and retraining have changed the regulatory environment for firms. The impact of these changes have varied from firm to firm and it is clear managers still have considerable influence over the adjustment process. The findings concerning the gender dimension of structural change are instructive as this dimension of the problem is often ignored by researchers. The experience of the Oresund shipyard closure, clearly demonstrates what possibilities exist for improving the plant closure process. In particular it reveals how creative and critical thinking about new products can, with a supportive business and capital market environment, ensure a situation involving massive job losses results in successfully diversifying the economic base of a locality.

NORTH AMERICA

UNITED STATES

Introduction

The issue of plant closures has generated considerable controversy in the United States in recent times. Both the extent and varied nature of the problem has resulted in the development of an extensive literature on the issue. The major elements of this are considered below.

When examining the US experience it is important to appreciate the context within which structural change occurs. The research is not just concerned with plant closures and their implications for America's relative decline as an economic
power. Much of it also examines laying off workers for short periods in difficult times and then re-employing them. In addition, the receipt by US workers of fringe benefits such as health insurance coverage paid for by the employer makes the social cost of any lay offs very high. Therefore, worker dislocation in the United States is not, as it is in Australia, just the result of industry restructuring and re-orientation, but also part of the on-going custom and practice of US industrial relations.

Policies on Labour Market Adjustment and Flexibility

Labour Market Policy and the Legislative Framework

There are three elements to employment policy in the US. These are training for the disadvantaged, the general mass education system and the government's employment exchange service. Osterman argues that public policy has not served its clients well and concludes that the three strands of labour market policy remain uncoordinated and insufficiently focused on the real objective - sustained and genuine improvement in clients' income, employment history and way of life. One of the major legacies of this poor coordination has been the irrelevance of public employment policy to firms' labour policies and practices.

As with labour market policy generally much of the US's legislative framework operates at a distance from the labour adjustment policies of the firm. In essence the legislation seeks to ameliorate conditions created by plant closures and layoffs, not to act in conjunction with firms in preventing these occurrences. The legislation like the labour adjustment programmes seeks to provide 'bandaid' solutions, not preventative 'medicine'.

Much of the plant closure literature from the early and middle 1980s analyses the usefulness of Title III of the Federal Job Training Partnership Act. This Act was replaced in 1988 by the Economic Dislocation and Worker Adjustment Assistant Act. The new Act

improves on the past fragmented approach to worker readjustment by establishing closer links with the unemployment insurance system and Trade Adjustment Assistance, responding earlier and more quickly to workers needs once they are laid off improving the targeting of funds to areas of greatest need, emphasising training and re-employment rather than income support and facilitating labour/ management/community/corporation in responding to plant closing and lay off.

As Bednarzik and Schiells note, in the US emphasis is on reaction to a closure rather than regulation to prevent, limit or structure closures.

The US federal legislative framework was changed recently to regulate for

advance notice in some cases. In 1988, Congress enacted the Worker Adjustment and Retraining Notification Act which stipulates, inter alia, that employers with 100 or more employees must provide 60 days notice in advance of closing or relocation. Such notification, it is believed, reduces the extent and duration of post displacement unemployment. In a recent literature review on this issue Nord and Ting argue the legislation appears to have the desired effect, even if only slightly.\textsuperscript{129} It should be noted, however, that several states have had their own advance notice legislation for some time.\textsuperscript{130} Further, surveys by American manufacturers in 1987 and 1988 indicate that most companies claim to provide advance notice even without legislation.\textsuperscript{131}

\textbf{Management policy approaches}

The debate about plant closures in the United States has been vigorous. American Management Association surveys in 1987, 1988 and 1990 indicated that the issue has been on the management agenda for some time.\textsuperscript{132} On the basis of data collected in 1987 Greenberg uncovered some interesting management attitudes about "downsizing". In brief, he found that 16 per cent of managers believed that profitability was more important than job security, and just over 60 per cent regarded job security as more important and would make reasonable efforts to retain employees. They found just under a third (29.6 per cent) believed job security was important for morale and productivity and that companies would do everything to avoid lay offs.\textsuperscript{133}

On the basis of factor analysis of survey data on management approaches to retrenchments, Lawrence and Mittman's identified five types of downsizing practice.\textsuperscript{134} Of 249 companies surveyed which downsized in 1990, 37 percent were Preventionists, 23 percent were People Pushers and 40 percent were Parachute Packers. These categories were defined as:

- \textit{Preventionist} - act to minimise or prevent closures and lay offs by using pay cuts, freezes, job sharing, short working weeks, part time work.

\begin{itemize}
\item \textsuperscript{133} E Greenberg, 'Downsizing Results of a Survey by the American Management Association', \textit{Personnel} Oct 1987, 64 (10), pp.35-37.
\item \textsuperscript{134} A Lawrence & B Mittman, 'What Kind of Downsizer are you?', \textit{Management Review}, Jan 1991, 80 (1), pp.33-37.
\end{itemize}
People Pushers - try to push people out of surplus jobs by using early retirement, voluntary redundancy, outplacement assistance, relocation and retraining.

Parachute Packers - layoff employees but with enough severance pay and extended health benefits to give them a "soft landing".

Two other categories of management practice were also outlined by Lawrence and Mittman:

Purgers - managers who just "cut their employees loose", and

Perfectionists - those who provide all types of assistance outlined above.\(^\text{135}\)

Case Studies

A large number of case studies have been undertaken into various aspects of plant closures and layoffs in the US. Most, however, deal with the experience of individual workers - not workplace processes. Publications by Gerhart\(^\text{136}\), Cook\(^\text{137}\), and the US Department of Labor\(^\text{138}\), do, however provide many insights into plant closures and details of the various attempts to either prevent those closures or to assist in finding permanent unsubsidized employment for the displaced workers.

Gerhart's analysis compares cases of plant closures with cases where potential closures were avoided by various initiatives. He concludes that a number of the non-closure cases involved viable plants surviving because local loyalty by corporate management was strong and improved labour relations were crucial to the decision not to close. He notes, however, that positive labour relations alone may not be sufficient to prevent closure. However, the converse is not the case. Negative labour relations can, of themselves, be the deciding factor in a plant closure decision. Gerhart also argues that key features of the plants that survived threats of possible closure were that they had diversified the range of products they produced and had maintained and improved competitiveness by investing appropriately in new productive equipment.

Cook\(^\text{139}\) provides greater details about projects established by various companies, unions and communities to assist workers about to be, or already displaced, by plant layoffs and closures. He found that it is possible to materially assist displaced workers, even those with few recognised skills in areas of high

\(^{135}\) Ibid, pp.33-36.

\(^{136}\) P Gerhart, Saving Plants & Jobs, Upjohn Institute, Michigan, 1987.


\(^{139}\) R Cook, Worker Dislocation: Case Studies & Courses and Cures Upjohn Institute, Michigan, 1987.
unemployment, if there is a will to assist. He argues that the greater the levels of commitment and involvement from all parties: companies, unions, the community, local and state governments, the better the chances of constructive and appropriate use of the Federal Government's *Job Partnership Training* Act Title III funds.

One of the best examples cited by Cook is The Missouri Displaced Worker Project, a state government-based programme involving over 1,000 unionised and non-unionised dislocated workers. Support provided by this project included job search assistance, classroom and on-the-job training and skill assessment. Of the 963 participants who attended job search assistance, 576 left the programme for an unsubsidised job. Overall the project appears to have been particularly successful. The initial goal was to find unsubsidised jobs for 1250 workers in one year and after only six months 1017 unsubsidised placements had been made.

Another successful project was instigated by the Teamsters Union in Cleveland Ohio, also using Title III funds. This project assisted 1100 workers from a variety of industries. Worker Dislocation Assistance included skills assessment, job search assistance and classroom and on-the-job training. Although it was estimated that the project would have an intake of 700 workers, in fact 1083 workers and their families were assisted by the project. Two thirds of them were non union members.

The project operated on a sequential basis by taking unskilled and semi-skilled workers through a skills assessment, followed by classroom or on-the-job training or a direct job placement sequence. Most participants used the assessment and job search assistance components. Twenty local firms provided on-the-job training places in the clerical, insurance, steel and public utilities sectors. Just over 150 participants were involved in classroom training in a wide range of subjects. Counselling in various areas formed a central part of the project. At the time the case study was written in 1987, 468 unsubsidised job placements at appropriate wage levels had been made.

A particularly powerful case study is analysed by Yoder and Stau doher. They examined the very different roles played by the management of General Motors and Ford when each closed a plant in the San Francisco Bay area of California in the mid 1980s. While GM provided minimal (three weeks) notice and little initial support for workers, Ford, building on its pre-existing Employment Involvement Programme, provided six months notice of the closure to employees and established elaborate programmes for testing, stress counselling, training and job placement (which) were fully operational when the plant closed. There were important differences in the circumstances of each closure. GM had to layoff in excess of 5,000 employees, Ford had only 2,300. In addition, by the time of the Ford closure, new employment prospects were increased by an upturn in local economic conditions. Nevertheless the vast differences in approach by the two


141. *Ibid*, p51
companies was reflected clearly in the subsequent employment and personal histories of former employees. With their heavy emphasis on retraining and personal counselling, Ford employees were much more successful in obtaining new jobs (63% had succeeded after 15 months, 46 per cent of GM employees after 2 years). In addition, Ford reported no suicides while at GM eight former employees suicided. Numerous other deaths were reported from heart attacks and cirrhosis of the liver among GM former employees. Child abuse incidences reported to local police increased 240% in the first four months after the plant closure.142

As Yoder and Stauoher note, the closings present interesting contrasts in the operations of management policy.143 While the authors argue for advance notice legislation and retraining assistance, other conclusions pertinent to management style and corporate culture can also be drawn. In particular, the authors note, that while the GM plant was characterised by "acrimonious labor relations"144 with the union filing several hundred grievances annually - the highest rates per employee in the GM system, Ford had in 1980 begun an extensive programme of Employment Involvement. By the time of the closure in 1983, nearly all employees participated in that programme regularly.

It is this key issue of management style and corporate culture which has a significant effect, not only on minimizing employee distress on plant closure, but also seeks to - and succeeds - in minimizing or preventing plant closures and subsequent worker dislocation. Some US examples of such prevention are provided below.

In the early 1980's the Xerox Corporation worked, with its union, to solve problems in its manufacturing division by making better use of its employees' skills.145 This strategy emerged when the Corporation decided to increase its competitiveness by saving $3 million in production costs. At first the only solution seemed to be to close down one department and layoff 180 employees. However, with a good labour-relations culture and group problem-solving already in place Xerox management was persuaded by the union to try the "unorthodox" route of collaboration to solve economic and production problems without layoffs.

Problem-solving teams of six or seven workers and one manager had been operating in all Xerox plants since 1980. By 1981 over 90 teams, solving significant problems were operating throughout the Corporation. When the need to save $3 million or lose 180 jobs arose in October 1981, management and the union decided to address the problem directly. A Study Action Team (SAT) of eight people from management and the shop floor were given six months full-time (and the relevant training and facilities) to solve a problem by looking at ways to

142. Ibid, p52
143. Ibid, p53
144. Ibid, p46
restructure and reorient the workplace. The SAT had the freedom to investigate any activity whose reform might help reduce the cost of production, even in areas which were traditionally off-limits to the Problem-Solving Groups.

Overall, the programme was a success. The final recommendations of the SAT proposed a highly integrated set of changes: the skills of the employees were closely linked with new work procedures, production equipment and computer systems. Because of the extensive ongoing communication with the SAT and their involvement in the project, department employees were willing to accept expanded job responsibilities and increased accountability for their work. All the key recommendations of the SAT (which saved a total of $3,642,000) were implemented by the Executive Labour Management Policy Committee over a period of eight months and 180 jobs were saved.

This detailed and useful case study clearly demonstrates how integrated and committed management and unions can achieve significant change in an organisation. It provides evidence that employee needs and business realities can be dealt with simultaneously if effective labour-management teams with sufficient responsibilities and access to appropriate financial and technical resources are established in enterprises.

Another alternative to worker dislocation is an employee buyout, where employees take over the company themselves and operate it on a democratic basis. One such buyout occurred at the Seymour Speciality Wire Company. In 1984 the company's parent organisation decided to 'get out of the wire business', citing price competition from the aluminium and plastic sectors as the primary reason. The company's employees and their union turned to the Naugatack Valley Project (a Title III and local government funded body) for assistance. With the help of that Project, the parent company itself and state and local governments, a feasibility study and proposal for an employee buyout were put to the company. With further assistance from expert consultants, accounting firms and legal advisers, a Board of Directors was elected and a financial package involving $11 million was negotiated with a bank and accepted by the vendor. As Hansen and Adams point out:

Workers who own their own businesses, then use the principles of democracy to manage them are refashioning the meaning and managing of work making it, ever so ambivalent and haltingly, into new accommodations between the market-inspired premises for efficiency and workers' aspirations for job safety and health, employment security and greater control over their work.146

Hansen and Adam's detailed case study then charts the serious problems and difficulties which arose at Seymours as the workers who were now owners and the union officials who were now Board members came slowly to terms with the marriage of their new and old roles. Lessons to be learned from the Seymour

experience, include the importance of ongoing education about all aspects of financial ownership, work design and production changes as a necessary prerequisite for success. There is also a need for ongoing wider-ranging training in problem-solving skills at all levels of the workforce on a continuing basis.

In concluding the authors quote a local historian who had observed the Seymour buyout from its beginnings:

The most obvious lesson of Seymour Speciality Wire is that, under favourable circumstances, a buyout can be an effective solution to the threat of plant sale or closure. But "buyout" is only the starting point for a process of transformation that cannot be expected to proceed without false starts and conflicts. The structure and practices of a workplace, evolved over generations, cannot be overcome simply by having workers elect a Board of Directors. Seymour's forthcoming attempt to develop new ways of running the company may be the most significant part of the entire effort.147

Theoretical Perspectives: The Wider Debate

One of the major characteristics of the US literature on enterprise restructuring and labour adjustment is the explicit consideration of wider theoretical and policy implications of the issue. Further details of this literature are reported here because, while the general US approach to labour adjustment at firm level offers little of interest in the way of best practices, reflections on, and analyses of, the US experience are amongst the best in the world.

The Industrial and the Salaried Models

Paul Osterman's lengthy analysis of corporate culture suggests the problem arises because most companies still operate on the basis of 'an industrial culture'.

An industrial model represents the manner of organising blue collar work that became the norm as a result of the unionisation drives of the great depression.... work is organised into a series of tightly defined jobs with clear work rules... wages are attached to jobs, therefore an individual's wage is determined by his or her classification. Management's freedom to move individuals from one job to another can vary from one situation to another but the typical case is that both promotions and lateral shifts are limited by the seniority provisions, and by requirements that workers agree to a move. Finally, there is no formal job security and it is understood that management is free to vary the size of the labour force as it wishes... when lay offs do occur they are generally organised according to reverse seniority.148

Osterman argues that the US needs to move to what he calls 'the salaried model'

that involves a change in the direction of management to allow

a more flexible personalistic set of administrative procedures with greater
commitment to Employment Security. Although individuals have job
descriptions, those descriptions are not intended to have legal or
customary force. They are subject to revision by superiors and employees
are prepared to take on new activities as demanded.... the flexible career
lines and job descriptions are consistent with another aspect of this
employment system: the greater role of personalistic considerations in
wage settings' [money for the skills of the person not for the job itself].

In this model employees can, after probation, expect lifetime employment. IBM
has been an example of the salaried model for both blue and white collar
workers.

The key difference between the industrial and the salaried model is the flexibility
each provides. For firms using the industrial model to reduce staffing levels
almost at will, the price is narrow job classifications. The salaried model provides
much greater flexibility in job assignment and job definition. The 'cost' is that
staffing levels cannot be easily reduced.

Osterman also examines what he calls the core-periphery model which can 'offer
the best of both worlds'. A core of workers on the salaried model and a periphery
of part time or temporary workers which can be reduced at will. He argues,
however, that while this model seems increasingly popular in the US, the cost of
the high turnover/low commitment workers can be high in terms of
productivity.

Osterman believes that on-going technological change is making the industrial
model irrelevant and inappropriate for American firms, and there are pressures
on management to move all employees and all branches of organisations to the
salaried model. Such organisational change will necessitate flatter management
structures.

After analysing the relatively high cost of the core-periphery model, Osterman
argues that the salaried model is America's best option for the future. However, 'a
combination of ignorance, uncertainty and risk prevents firms from taking action
that, if taken, would ultimately improve their performance'. Osterman also
indicates the need for government support for these changes by re-orienting the
education system to emphasise internal mobility for employees within firms and

149. Ibid, p65.
150. Ibid, p66.
152. Ibid, p68.
153. Ibid, p70.
155. Ibid, p79.
156. Ibid, p91.
by providing assistance to companies to reform their internal labour markets.\textsuperscript{157}

\textbf{Employment Security: What is it and is it Desirable?}

Osterman's comprehensive analysis is complemented by the work of other theorists, in particular, the Work in America Institute project directed by Rosow and Zager\textsuperscript{158}, Gerhart in \textit{Saving Plants and Jobs}\textsuperscript{159} and Hansen in \textit{Preventing Layoffs}.\textsuperscript{160} Each of these authors emphasises the need for firms to move to a policy of Employment Security. Rosow and Zager advocate

not a guarantee of lifetime employment with one employer or permanent rights to a job, but a steadily growing opportunity for employees to continue in gainful employment, preferably within the same organisation, for as long as they wish.

Employment Security is seen not as an impediment but as a spur to corporate prosperity.\textsuperscript{161}

Rosow and Zager avoid the term job security because it often implies the right to a particular job, irrespective of economic circumstances.\textsuperscript{162} Their study outlines strategies to prevent or minimise temporary declines (lay offs) or permanent declines (closures). These strategies include those considered in other studies such as short time working\textsuperscript{163}, and early retirement\textsuperscript{164}, phased retirement, sharing work with other local or sector companies\textsuperscript{165} and retraining.\textsuperscript{166} The Institute report also suggests actions which management can take. These include intensifying marketing efforts, developing new markets, establishing subsidiaries

\textsuperscript{157} Ibid, p150.
\textsuperscript{159} P Gerhart, Saving Plants & Jobs Upjohn Institute, Michigan, 1987.
\textsuperscript{160} G Hansen, Preventing Lay Offs US Department of Labor, Washington DC, 1988.
\textsuperscript{162} Ibid, p2.
and productivity enhancement programs.  

Rosow and Zager define Employment Security as a continuum, rather than a single fixed state of affairs. The extent of Employment Security in a given organisation should be measured by the extent to which employees have assurances that, regardless of internal or external changes, they will continue in employment as long as they meet their obligations under their employment contract. That is, Employment Security is never absolute. Employees may be assured of permanent employment, but not necessarily in their current position or occupation, or at the current wage level and not necessarily with their present employer or location. Security may be contingent on certain conditions, such as undertaking mandatory overtime or internal transfer at management’s discretion.

Commenting on the Western European practice of regulating for employment security, the report notes ‘it is unfortunate however that the procedure (in Europe) has to be enforced by severe penalties and be subject to bureaucratic and traditional obstruction’. The Institute argues that, conversely, in the long run enlightened employers will choose Employment Security because it induces employees to support continual change and creates and sustains a more competitive company.

G M Hansen in Preventing Lay Offs argues that employment security is an appropriate policy for American business for a number of reasons. They key ones include:

- reducing costs (retraining staff is expensive),
- preserving a workplace’s skills base, (layoffs have serious operational disadvantages, skilled and experienced employees are often lost to the organisation);
- creating a climate for change and growth;
- employees and unions growing demand Employment Security;

Hansen examines the options available for handling labour when employment levels come under threat within a firm. His synthesis of the findings from the literature provides a useful summary of options available to firms wishing to

170. Ibid, p27.
171. Ibid, pp.32-33.
173. Ibid, pp.3-5.
avoid or minimise the damage done by retrenchments. He classifies the many options available as falling into one of four general approaches. These arise because restructuring can involve processes either internal or external to the firm, and can involve initiatives dealing either with workers or jobs. His four general approaches are; improving enterprise viability, implementing new human resource management techniques, preparing workers for labour market re-entry and the fostering of local economic development. \(^{174}\) The nature of these options are summarised in Table 1.

**Dimensions of an Effective Economic Adjustment Program**

<table>
<thead>
<tr>
<th>FORMS OF RESTRUCTURING</th>
<th>TOOLS OF EFFORT</th>
<th>WORKERS</th>
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<tbody>
<tr>
<td>Internal</td>
<td>a) Improve Enterprise Viability</td>
<td>b) Implement New Human Resource Techniques</td>
</tr>
<tr>
<td>External</td>
<td>d) Foster Economic Development</td>
<td>c) Prepare Workers For Labor Market Re-entry</td>
</tr>
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</table>

*Source: G.M. Hansen, Preventing Lay Offs*

The options available within these categories can be summarised as follows.

*Improved enterprise viability* can involve direct cost cutting (eg reducing overtime worked or wages and conditions), improving productivity, developing alternative products, locating a new workplace in the area or changing the ownership structure of the enterprise.

*Implementing new human resource management techniques* can involve initiatives to reduce workforce size without relying on involuntary redundancies (eg staffing freeze, early retirement), limiting the need to retrench staff by establishing employment practices that allow workplaces to adapt rapidly to changed circumstances (eg multiskilling) and worksharing (eg short time working).

*Preparing workers for labour market re-entry* where retrenchments are unavoidable, this involves options including providing bridging financial support, organising support services for displaced workers and motivating

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\(^{174}\) *Ibid*, pp.5-7.
and preparing employees.

*Fostering job creation and economic development* can involve firms assisting other firms and public authorities in diversifying the economic base of a region and thereby enhancing employment prospects for employees they displace.

Hansen concludes that while layoffs can be financially costly, disruptive of operations, destructive of morale and detrimental to productivity, employment security creates a climate of growth and change, two essential elements for success in a highly competitive and constantly changing business environment. Greater flexibility and adaptability, increased loyalty of workers and higher productivity and profitability are some of the direct benefits to firms arising from employment security.\(^{175}\)

In the conclusion to his study into employment options for the future Paul Osterman analyses the employment security concept and asks 'Can employment security be provided by firms on their own?\(^{176}\) In answering this question, Osterman uses the case study of a firm with a long and very deep commitment to employment security. Almost all staff described this commitment as one of the key values of the organisation. Nevertheless the company found, in the early 1980s, that it had become a high cost producer as technological change reduced unit labour requirements while staffing remained high. In addition, sharp downturns in the product market resulted in several very bad quarterly results. Although operating an internally flexible 'salaried' model organisation, the company was forced to reduce the size of its labour force. It did this by providing a combination of voluntary retraining and job search assistance to selected employees in order to help them find jobs first within the company - albeit at different locations - and then outside it. The company also provided pension sweeteners and other inducements to potential early retirees and substantially reduced its contract and temporary labour force.\(^{177}\) Osterman draws several lessons from this case study. First, the policy entails very substantial resources and other organisational costs. Only a firm which is highly committed to such a policy is likely to undertake it. Second, it is clear, at least to those who managed the transition (downsizing) process, that if a firm wishes to avoid crises in the future it must change in fundamental ways how it manages its business. (In this case, a corporate-wide primary emphasis on the capacity to provide delivery anywhere, any time actually encouraged overstaffing). Third, even with a high level of commitment the firm cannot provide employment security.\(^{178}\)

Like other commentators, Osterman does not believe that absolute employment security can be achieved by firms acting alone. He argues that there needs to be better co-ordination and co-operation between firms and public policy, especially education and training policy, in order to enhance both intra and inter-firm

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employment mobility.  

Insights from the US experience

The policy and legislative environment in the US is underdeveloped compared to continental Western Europe. Moreover, much of the US literature addresses measures to soften the effects of closures. Issues such as short time compensation, retraining in the classroom or on the job, corporate pay outs to communities in lieu of taxes in closure situations and active participation in management/union/local government projects after the closures are all options canvassed in the literature. The sheer size of the US economy, however, has ensured that there are many examples of creative and imaginative approaches to labour adjustment at enterprise level in response to changing economic circumstances. Cases like Xerox’s Study Action Team and Seymour Specialty Wire’s buyout provide clear insights into how management, union and employee co-operation can enhance firm performance when jobs are under threat.

The most important contribution from the US experience has arisen from researchers who have examined the issue of employment security. The analyses of Osterman, Rosow and Zager, and Gerhart and Hansen can be synthesized to produce an integrated strategy for the minimisation of worker dislocation. Key findings from this literature highlight the importance of enterprises adopting employment security philosophies; redesigning work along salaried model rather than industrial model lines and, if necessary, negotiate genuinely in the event of potential lay offs or closures.

CANADA

Material on structural change and labour adjustment in Canada is particularly comprehensive. It includes a survey of those who lost work through dislocation in the early 1980s. In addition, the Canadian Government has been active in the area since 1963. This involvement has increased following the recent ratification of the Free Trade Agreement with the US. There are also some useful case studies of enterprise responses to situations involving potential job loss.


Between 1981 and 1984 approximately one million Canadian employees lost their full-time jobs. Plant closures/relocations was the largest single cause, accounting for 36% of cases. Amongst those losing their jobs, only 17% moved to find

179. Ibid, p15.


181. Details of the dimensions and extent of the problem of worker displacement were collected from supplementary information obtained from the Canadian Labour Force Surveys of the early 1980s. A comprehensive
work and a similar proportion undertook some kind of training.\textsuperscript{182} This highlights the limited nature of geographic mobility and training as adjustment options and the importance of enterprise level initiatives as factors influencing the adjustment process. Picot and Wannel argue that on the basis of their analysis it is important to distinguish between the extent of groups displaced and those having adjustment difficulty. Older workers and those with lower skill levels are disproportionately represented amongst those facing prolonged displacement once they lose their jobs.\textsuperscript{183}

Policies dealing with labour market flexibility, labour adjustment and redundancies

There are four elements of Canada's comprehensive and integrated approach to labour market policy: First programs that involve working with clients, partners and the community, second, programs that assist workers, third, programs for employers and fourthly, the Community Development Program.

These programs were finalised after extensive consultations and specialised reports, one of which dealt explicitly with policies required to complement the Free Trade Agreement between the United States and Canada.\textsuperscript{184}

This framework provides the context for a variety of measures which facilitate the process of structural change and support those displaced by it. The major program components are as follows:

\textbf{Income support}

In addition to normal unemployment benefit there are several programs designed especially for displaced workers. These include the Displaced Older Workers Program (worth C$100 million in 1989)\textsuperscript{185} and the Program for Older Worker Adjustment (worth C$70million in 1991)\textsuperscript{186}.

commentary on these data is provided by Garnett Picot and Ted Wannell, 'Job Loss and Labour Market Adjustment in the Canadian Economy: Findings From a Special Survey', \textit{The Labour Force}, March 1987 pp.85 - 151.

183. \textit{Ibid}, p126
185. For details see Employment and Immigration Canada, \textit{Success in the works, op cit}, p 8
Work Sharing/Short Time Compensation

Firms facing a transitory decrease in demand for their output can move to short time working. Provided certain conditions are met their workers may be entitled to unemployment benefit for the time they are off work.

For example, if employees work a four day week they may be entitled to receive unemployment benefit for the one day a week they are unemployed. The key features of the work sharing scheme are as follows:

- it is only available where output will be down between 10% and 60% for six to 26 weeks (a 12 week extension is possible in some cases)
- proposals for work sharing must be jointly agreed between management and its workforce
- there is no waiting period for unemployment benefit
- workers receive full unemployment benefit for the time they are off work. They are taxed on the benefit as if it were income
- higher income earners may have to repay some of the support when settling their income tax for the year
- it is possible for workers to receive training on the days when they are not at work and their employers to get some government support of this.187

In 1989 C$21,154,549 was spent on this program and 37,487 participants were involved. The last evaluation of the program was in 1984 and revealed widespread support of the program amongst management and workers. In 1983 the program had been 'relatively successful in averting up to 88 per cent of expected layoffs.'188

Industrial Adjustment Service (IAS)

This is a key element of the Canadian approach to structural change at firm level and has been running since 1963. It provides financial support and professional personnel to assist firms and localities undertake structural change. The program's philosophy is to involve those directly affected by change in initiatives to respond to it. Services offered by the IAS include:

- assisting local businesses with their human resource planning
- smoothing the transition to new technologies, production methods, or management techniques

Chapter 2

- restructuring failing businesses to meet new market conditions
- easing the process of layoffs and closures.\textsuperscript{189}

This program has attracted much attention by other Governments, especially at state and federal level in the US. In Canada it is recognised as a vital element in that country's approach to structural adjustment. Its budget has nearly doubled in recent years.\textsuperscript{190} In 1989/90 public expenditure associated with the program was just under C$12.5 million. This was used to support 660 local and enterprise based agreements for structural change.\textsuperscript{191}

**Human Resource Planning**

The most recent element of the Canadian approach to structural adjustment at firm level has been the human resource planning program. This offers assistance in

- defining business objectives
- identifying skill requirements
- identifying resources
- identifying the gaps between resources and needs
- developing a strategy to fill the gaps
- monitoring and updating the plan.

The emergence of this program indicates that the Canadians are moving from a concern with responding to crises and potential displacement to addressing the issue of ongoing adjustment arising from changing demand and production conditions.\textsuperscript{192}

**Case studies of Canadian experiences of structural change at firm level**

Despite the fact that in funding terms the Industrial Adjustment Service (IAS) is only a small component of the Canadian approach to structural change, it offers some very useful insights into how structural adjustment at firm level can be successfully undertaken.

The key features of this approach are its assumption that outside help must be invited, all involved have to agree to the process of change, the chair of the process must be independent and appointed from outside, costs are shared by

\textsuperscript{189} Industrial Adjustment Service, *Working it out*, Employment and Immigration Canada, 1991 pp 2 - 4

\textsuperscript{190} Employment and Immigration Canada, *Success in the Works, op cit*, p 7

\textsuperscript{191} Employment and Immigration Canada, *Inventory, op cit*, p 38

\textsuperscript{192} This issue appears to have been raised in Chapter 9 of the Report of the Advisory Council on Adjustment, *Adjusting to Win*, Canada, March 1989.
firms and the Government and those involved in the change must be the ones who contribute to outcomes arising from the process. The key to the success of this approach are the 70 full time professional facilitators employed by the IAS. When they hear of an impending round of retrenchments or of problems associated with the introduction of technological change they contact the firm concerned and offer their services as facilitators. If both management and employee representatives agree these professionals will prepare an agreement on how the change process will be handled. Outside chairpeople, usually retired business or union leaders are called on to assist the process. Lists of such people are kept by the IAS to help handle the work involved. This network of contacts helps spread the load of facilitating the adjustment process, especially when demand for assistance increases during recessions.

The example of Disston-Canada's closure of its plant in Acton, Ontario in July 1979 is instructive as to how the IAS works in a retrenchment situation. The day after the closure was announced a local IAS official contacted the plant to see if he could assist. His task was made considerably easier because of the advance notice requirement in Ontario law.

His first job was to establish a joint employee-management committee to oversee the closure process. This initially comprised the local president of the Steelworkers Union Delegates Committee and the production manager. Another representative from management and a representative of the unorganised clerical workforce were added and this became the nucleus of the committee. The committee agreed to the objective of helping 'interested employees obtain new jobs as promptly as possible, preferably before the plant closed.' The group also agreed to selecting a retired businessman familiar with the local labour market to chair the committee. It also settled a deal on sharing the costs: half of the C$50,000 required would come from the federal government, 10% from the city of Ontario and the rest from the firm.

Most of the committee's time was devoted to collecting information on workers likely to be displaced who had asked for assistance. In building up a picture of labour demand local employers were contacted about their staffing needs. Where the labour on site met these demands, the firms were notified. 'When it became evident that job opportunities for women were inadequate for the need, the committee interviewed women job-seekers and aimed a special initiative at companies hiring mostly female employees.'

Over 90 of the 101 workers seeking assistance were found suitable positions after five months of operation. This example is not an isolated case. The US

195. Ibid, p10
196. Ibid, p11
Congress's Office of Technology Assessment reports 'that about 95 per cent of Canadian companies with plant closings accept IAS help.'\textsuperscript{197}

The IAS does not just assist individual firms in decline. If economic diversification is feasible, the service and the committees it spurns can work to realise this potential. On occasions the Service has been involved in 'town closures' and relocating entire urban populations. Towns which the IAS has assisted in closing include Uranium City, Saskatchewan, and Schefferville, Quebec.\textsuperscript{198}

The most recent development in the activities of the IAS has involved 'association agreements'. These deal with adjustment situations involving more than one employer. Agreements at this level are designed to improve human resource planning within the private sector. They are often underpinned by sectoral level labour market studies. Long term sector level agreements have been devised for steel, automotive repair and servicing, and electrical and electronic manufacturing. Smaller agreements covering surveying and mapping, logistics, roofing, public health and engineering have also been developed. These multi-employer agreements allow common labour market and personnel issues to be addressed nationally, 'while maintaining competitiveness among individual firms.'\textsuperscript{199}

The IAS has been evaluated a number of times. A recent US Department of Labour Taskforce on Economic Adjustment and Worker Dislocation recommended that the 'US adopt an IAS-like quick response capability to respond to plant closing and mass layoffs. In Canada, the nearly 25 year old IAS program has proven to be a cost effective and worker acceptable way to reemploy those who are displaced.'\textsuperscript{200} The most recent Canadian evaluation concluded that it was a mature program needing no change in direction.\textsuperscript{201} This review did note that the program did not help all participants equally, but on balance its benefits easily exceeded its costs.\textsuperscript{202} It also noted there were differences between employee and employer perceptions of the success of the scheme. Whilst all felt it was positive, employers felt this sentiment more strongly than their workers.\textsuperscript{203} It has also been noted that the Service is very good at handling immediate crises involving impending job loss. It has been less successful in developing more longer run strategic initiatives jointly between unions and employers to improve firm viability over the longer run.\textsuperscript{204}

\textsuperscript{197} Ibid
\textsuperscript{198} Butcher, \textit{op cit}, p7 - 8
\textsuperscript{199} Ibid, pp.8 - 14, especially pp.8-9.
\textsuperscript{200} Quoted in Batt, \textit{op cit}, p13
\textsuperscript{202} Ibid, p13
\textsuperscript{203} Ibid, p18
\textsuperscript{204} Ibid, pp.11, 13, 17 and Butcher, \textit{op cit}, p15
Issues raised by the Canadian experience

The Canadian approach to handling structural change at firm level is impressive. The particular initiatives in this area are clearly placed in the context of an integrated battery of labour market programs. They are comprehensive, ranging from special income support for older workers displaced by structural change, through to compensation for short-time working and to activities to assist adjustment within the firm itself. Despite these strengths, the Canadian approach is not without its problems. The recent experience of the IAS is particularly instructive. Whilst very good at handling labour shedding it has been less successful in nurturing ongoing change to underpin employment security. Its recent initiatives into multi-employer sectoral level arrangements may offer better prospects for improving this facet of its operations. The early successes in this area are, therefore, quite encouraging. Equally, the new Human Resource Planning initiative could assist in improving this aspect of Canadian labour market policy.

But the Canadian experience also offers a more sobering insight into policy and practice in this area. While the Canadians appear to have a very well developed approach to the problem of structural adjustment, unemployment has been high and remains so. This experience cautions us against expecting too much from improved approaches to the restructuring process: efficient structural change alone will not guarantee low unemployment. Other areas of policy must also support employment growth.

SOUTH AMERICA

South American experiences in handling the challenges of structural change rarely inform public policy debate in Australia. Yet there are many parallels, for example countries such as Argentina and Chile have, like Australia, relied on exports of agricultural commodities and mineral resources for much of their export earnings and their manufacturing sector has been promoted by protection. Less well known are the public policy initiatives of the mid 1970s introduced in response to balance of payments crises and high inflation. The discussion of public sector cutbacks, tariff reductions and microeconomic reform is couched in terms almost identical to those used in Australia since the mid 1980s.²⁰⁵ There is

²⁰⁵ See V Corbo and J de Melo, Scrambling for Survival: How Firms Adjusted to the Recent Reforms in Argentina, Chile, and Uruguay, World Bank Staff Working Papers No 764, Washington, 1985 p i where they note that their volume reports on analyses of

'adjustments by firms during the implementation of liberalisation attempts. The research draws on the bold economic reform packages in Chile, Uruguay, and Argentina. Launched in the mid-seventies, the reforms aimed to achieve lower inflation and higher growth on a permanent basis. Micro-oriented reforms spanned commodity, labor, and financial markets. The breadth of the reform packages was unique and offers a rare opportunity to study how adjustment to a new set of incentives took place. An objective of the research reported in this volume was to identify those measures that facilitated adjustment and those factors that delayed adjustment or rendered it more difficult.'
potentially much to learn from the experience of these countries.

The World Bank’s publication, *Scrambling for survival: How Firms Adjusted to the Recent Reforms in Argentina, Chile, and Uruguay* provides details of how firms responded to the changing product market and regulatory environment. The researchers paid particular attention to how firms modified their production strategies, marketing and prices arrangements, labour practices, inputs and investment policy and financial management in response to these external shocks.

The studies cover the period from the mid 1970s through to the early 1980s. While they contain an overview of the macroeconomic and, to some extent, the structural context (eg industry protection levels) they are quite weak on the labour market environment in which the changes occurred. Before reporting their findings it is important to consider the labour market context in which the firm level adjustments occurred.

**Labour market and industrial relations context.**

A useful analysis of labour market trends covering 1980 - 1985 a period roughly comparable to the World Bank case studies, has been prepared by the ILO’s Regional Employment Programme for Latin American and the Caribbean. During this time Latin America became poorer. Per capita output dropped 9 per cent and and per capita income declined by 14 per cent. During the first half of the decade 4 million less jobs were created than if previous trends had continued. Moreover, there was a significant drop in the quality of jobs created. In net terms the modern private sector created no additional employment. Five million jobs were created in the informal sector, a sector notorious for low wage, low productivity employment. Over the same period public employment increased from 32 to 35 per cent of modern urban employment. Finally, cuts in wages were dramatic. On average they fell by around 27 per cent in the informal sector. In manufacturing the fall was a little less: around 8 per cent. The biggest wage cuts were in the public sector.

The ILO’s Regional Director for Latin America has been very critical of how structural adjustment has been handled in this region in recent times. He has argued that a preoccupation with balancing public sector budgets and the balance of payments limited policy makers' capacity to comprehend and address key problems in the adjustment process, especially 'the social debt incurred during the belt-tightening period.' He argued that these costs should inform policy just as much as the costs associated with structural imbalances. He is especially sceptical about the conventional approach to addressing the problem: relying on job creation in the private sector. As experience showed in the Southern cone

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206. This collection of papers was edited by V Corbo and J de Melo and published as World Bank Staff Working Paper No 764, The World Bank, Washington, DC, 1985


208. Ibid, p534

209. Ibid, p536
countries of Argentina, Chile, Paraguay and Uruguay cuts in public sector job creation were not matched by private sector employment growth. Increased unemployment was the result. Creating public sector jobs will not, on its own, be adequate to address the situation. He emphasises that policy needs to be more innovative if lasting solutions are to be found.\textsuperscript{210}

The World Bank studies document how private sector manufacturing firms responded to the conventional policy initiatives of financial deregulation, tariff cuts and balanced budgets. They provide valuable insights into the micro level processes that generated the aggregate labour market outcomes documented by the ILO.

\textbf{The World Bank Case Studies}

\textit{Overview}

The World Bank studies are based on the findings of semi-structured interviews with managers at 30 enterprises: 9 in Argentina, 10 in Chile and 11 in Uruguay. In their overview of the research findings, Corbo and de Melo note that firms adjusted in both expected and unexpected ways. The expected adjustments included firms basing pricing decisions on competitors prices rather than mark-up on cost production, improvements in product quality, introducing new products and discarding less profitable ones to meet international competition and reductions in inventories.\textsuperscript{211} They note that many of these adjustments were underpinned by workforce reductions, increased investment and imports of blueprints from foreign firms.\textsuperscript{212} Unexpected adjustments included some managers moving to make profits as financial intermediaries in the newly deregulated financial systems and importing products they had previously produced. These latter, unexpected adjustments, came at the expense of increased domestic production of manufactures.\textsuperscript{213} The type of adjustments undertaken within firms did, however, vary between countries.

\textbf{ARGENTINA}

The sample of nine firms in Argentina was based on personal contacts the researchers had in the private sector. Cases selected involved firms from industries such as farm machinery, pulp and paper, hydraulic pumps, ceramics and steel fixtures, textiles, soap, vegetable oil, road machinery and confectionary. The interviews were conducted between May and September 1983.\textsuperscript{214}

The researchers found that the most important adjustments involved management

\textsuperscript{210} Ibid, p538
\textsuperscript{211} Corbo and de Melo, Introduction, in Corbo and de Melo, \textit{op cit}, pp.13 - 16
\textsuperscript{212} Ibid, p16
\textsuperscript{213} Ibid, pp.17 - 18
\textsuperscript{214} H Petrei, F Mediterranea and J de Melo, 'Adjustment in Industrial Firms in Argentina During 1976 - 81' in Corbo and de Melo, \textit{op cit}, pp.25 - 82
exercising greater control over financial aspects related to production (eg monitoring costs rigorously), introducing new products and changed inventory policy. Marketing and reduced union activity were, on average, regarded as having some importance. Other key adjustments included introducing new product lines, especially when the economy was expanding, and increased vertical integration of production, not specialisation, as had been expected. Several firms also moved away from basing prices on production costs plus mark up to one based on competitors prices. Surprisingly, some firms met decreases in demand arising from more international competition by undertaking in-house tasks which had previously been contracted out.

Changes in labour arrangements were also a factor in many firms' adjustment practices. Petrei, Mediterranea and de Melo note that prior to the reforms of the mid 1970s unions had significant influence over wages and working conditions. Matters changed considerably under the post 1976 military dictatorship, with firms facing fewer restrictions. Indeed, firms reported that the ability to change 'labor contracts more freely and hence to reduce the labor force were the most important changes in labour practice.

In the period of adjustment, all firms studied shed labour, some significantly. The reductions appear to have been generated by the decrease in demand for the firms' output, rather than from improvements in production techniques and the introduction of new technology. Where labour shedding was limited, this was offset by increased capacity utilisation. Despite the extent of changes in employment related matters, this aspect of firm operations was not regarded as any more important than other adjustment options taken by Argentinean firms.

CHILE

The material for manufacturing firms in Chile covered the period 1976 and 1982. The ten firms involved in the study differed on the basis of ownership (ie family corporations, public companies and subsidiaries of multi-national corporations) and level of protection enjoyed prior to the reforms. Seven out of the ten were involved in production solely for the domestic market.

Change occurred in two phases during the period of analysis. General 'liberalisation' occurred between 1975 and 1979. Most pressure for change between 1980-82 occurred as a result of the peso's appreciation. Labour related changes in the policy environment were considered very important by almost all the firms studied. Corbo and Sanchez describe their findings in the following

215. Ibid, p58
216. Ibid, p57
217. Ibid, p59
218. Ibid
219. Ibid, p60
220. V Corbo and J M Sanchez, 'Adjustments by Industrial Firms in Chile During 1974-82', in Corbo and de Melo, Scrambling for Survival... pp.101 - 102
terms:

The most important favourable shock was new labor legislation that enabled firms to negotiate wages and working conditions with employees. As expected, this factor and the elimination of restrictions on recruitment and layoffs had more of an effect after mid-1979, when firms began to feel the effects of the appreciation of the peso.\textsuperscript{221}

They also report that many firms regarded the 'shut down of labor union activities' very favourably as it increased 'freedom in negotiating wages and working conditions.' These changes enhanced managers' power in setting wages, job definitions and redeploying/rerenching staff. Some firms regarded such changes 'essential for the change in output mix called for by the change in [external production] incentives.'\textsuperscript{222}

Almost all firms reported that they had used training as a key element in their initiatives to improve efficiency. Activities in this area were underpinned by legislation that allowed firms a tax credit of up to 1 percent of the wages bill for training related expenditure.\textsuperscript{223} Firms also reported that relaxation of price controls and a stable policy environment were 'favourable shocks.'\textsuperscript{224}

The liberalisation changes and appreciation triggered a variety of responses within firms. These included improvements in product quality, more rigorous control of inventories, competition based pricing policies and closer attention to financial management.\textsuperscript{225}

Workforce reductions were the most prevalent major adjustments related to labour issues. The ... 'In 1982 all the firms had smaller staffs than in 1976, having made rather deep cuts in employment ranging from 50 percent for the largest firms to 20 percent for the smallest....[one firm], whose production was seasonal, replaced half its permanent personnel by seasonal workers.'\textsuperscript{226} All firms reported this resulted in improvements in productivity, some of them extensive. In one textile firm, changes in labour arrangements allied with investment in new plant and equipment resulted in performance improving from 1000 metres of cloth per labourer a month to 28000 metres between 1978 and 1982. For the firm investing least during this period output per worker increased sevenfold. The spur for much of this productivity improvement came from heightened international competition.\textsuperscript{227}

Corbo and Sanchez note that the efficiency gains achieved in the initial period, primarily arising from labour related changes left little room for further efficiency

\textsuperscript{221} Ibid, pp.102 - 106
\textsuperscript{222} Ibid, p106
\textsuperscript{223} Ibid
\textsuperscript{224} Ibid
\textsuperscript{225} Ibid, pp.111 - 113
\textsuperscript{226} Ibid, pp.109 - 110
\textsuperscript{227} Ibid, pp.110 - 111
improvements when the peso began to appreciate in the early 1980s. The major consequence of this was, therefore, further labour shedding.228

URUGUAY

Information on eleven manufacturing firms in Uruguay was collected in 1983. The firms studied differed on the basis of ownership (ie family firms, public companies with dispersed shareholder and subsidiaries of overseas firms), size (some had turnover in excess of US$25 million, other less than US$10 per annum) and proportion of output devoted to export. For several of the firms detailed information on economic performance was collected in addition to the material on the firms' responses to external shocks.229

Throughout their analysis, Mezzera and de Melo highlight how firms' adjustment strategies differed between the two periods 1974-78 and 1979-82. The former involved a series of reforms directed to 'rectification of the bias against exports' while the latter period was dominated by an 'exchange-rate-led anti-inflationary policy'.230 Most performed well in the first period, nearly all suffered badly during the second.

Shocks that were perceived as positive included the more certain business environment, increased access to overseas technology, reduction in price controls and relaxation of import barriers for raw materials.231 Many of the shocks that were perceived as negative occurred in the late 1970s and early 1980s. These included the increasingly uncertain business environment, the rise in the value of the peso and the increased cost of capital and labour.232

Mezzera and de Melo report that 'retrenchment was the main form of adjustment during 1979-82'.233 As one respondent noted many firms 'retrenched awaiting better days.'234 Other changes involving labour related matters were, rare. This appears to be associated with the fact that wages were a small proportion of most firms' costs and real wages fell for much of the period examined. The authors note '[g]ains in this area were generally related to the destruction of unions in 1972-3'.235 Only two firms differed from this assessment. One reported skills upgrading was an important complement to technical change and increase quality of output. The other argued because it has good relations with its employees prior

228. Ibid, pp.114 and 109 - 110
229. This material included information on gross margins, operating margins, net earnings, gearing and net foreign assets, Mezzera and de Melo, 'Adjustments by Industrial Firms in Uruguay During 1974-82', in Corbo and Melo, op cit, p175
230. Ibid, p203
231. Ibid, p189
232. Ibid, p189 - 90
233. Ibid, p198
234. Ibid, p190
235. Ibid, p199
to these 'reforms ... it lost ground to competitors when unions disappeared.'

Once labour had been discarded, firms focused more on production strategies (especially relating to product quality), financial adjustments and pricing policies than restructuring labour's contribution to the production process. Unlike the firms studied from Chile and Argentina, few Uruguayan enterprises dropped major product lines in response to the changing policy environment. Like some firms in these other countries, several firms did, however, move to importing what they had previously produced.

Conclusions in the South American Experience

Given the small number of firms covered in the World Bank research, care must be exercised when drawing conclusions about the adjustment process at enterprise level. The information does however provide some basis for commenting on enterprise level adjustment processes in South America.

The real strength of the world bank studies is their focus: labour related adjustments are regarded as only one possible set of responses to changes in the external environment. Given this broad perspective, it is interesting to note that labour shedding was regarded by most firms as a by-product of their business strategies. In this context Corbo and de Melo argue that it appears that a 'corollary of increased firm efficiency is a reduction in the workforce' and that the case studies suggests' there is a direct relation between the extent of efficiency gain by the firm and labour dismissal.' They warn that if increased unemployment is be avoided in the adjustment process, incentives must be provided for investment in employment-generating activities. The researchers, however, provide no indication of what form such policies should take.

The aggregate employment experience for Latin America for the period covered by the World Bank studies reveals that such an omission is unfortunate. Obviously orthodox economic policies involving deregulation and prioritising low inflation and balance of payments stability are totally inadequate from an employment perspective. The firm level studies from this part of the world reveal firms' options are often quite limited and many respond in similar ways given the external environment. We could tentatively conclude that a key factor in determining the outcomes of structural adjustment at firm level is not just firm behaviour, but the context in which firms operate.

The Director of the ILOs Regional Employment Program for Latin America and the Caribbean (PREALC), Tokman has considered this issue. He argues there is a need to establish better integration of short-term measures and long-term

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236. Ibid, p199
237. Ibid, p199 - 201
238. Ibid, p196
239. Ibid, p202
240. Corbo and de Melo (1985), Introduction, op cit, p21
objectives. In particular, he argues sustainable, balanced growth could be facilitated by the creation of institutions fostering consensus and giving the weaker segments of society the means to more fully participate in social, economic and political developments. His proposals would appear to be well founded given the findings of these case studies. Clearly each individual firm had a limited range of choices available to it. Tokman's proposals would extend the range of options available by, for example, allowing firms to co-ordinate their employment policies and investment decisions in ways that benefitted both individual enterprises and the economy at large.

ASIA

Introduction

Australians usually look to OECD countries for international comparisons especially in North America and Europe. The only country outside of the 'Western Tradition' that receives any attention is Japan. Such an orientation is unfortunate. Several Asian countries, especially Singapore, are now highly advanced, industrialised economies and their experiences are relevant to the concerns of this paper. Indeed as Edgren has noted whilst there is debate on labour market flexibility within the OECD 'the Asian economies are adjusting swiftly and efficiently by means of their flexible labour markets.'

The Asian experience highlights the diverse range of options possible. Structural adjustment practices in Japan are widely recognised as integral to the economic success it has enjoyed. Practices in Thailand and Indonesia reveal how countries going through the industrialising process handle structural change at enterprise level.

Unfortunately documentation of adjustment processes in Asian enterprises and workplaces level is limited. Even documentation on Japanese experiences is partial, generally dealing only with larger firms. With regards to Japan, the discussion below focuses more on the overall structure of its labour market, with less attention given to particular case studies. This is because employment relations both within and between firms are deliberately structured to facilitate ongoing adjustment in the labour market. The discussion for India and the

241. Tokman (1986), op cit, pp.538 - 540
ASEAN countries only considers the situation prevailing in the formal sector, and primarily manufacturing. The informal sector is very large in most of the countries, and while very important to these countries' economies it is not of direct relevance to this project.

In examining the Asian experiences it is important to appreciate the industrial relations context in this region, and the operation of autonomous labour movement in particular. With the possible exception of India, governments and employers in the countries considered have either suppressed, controlled or moulded the shape of unions. It is also important to note that Government regulations, by and large, provide few obstacles to rationalisations within enterprises and workplaces. Even where regulations exist, they are often ignored by employers and not enforced by governments.

**JAPAN**

The Japanese economy is built upon a distinctive mode of industrial organisation designed to facilitate ongoing adjustment. A key feature of this structure is a segmentation of the labour force: between 30 and 40 per cent work for large firms that, until recently, guaranteed lifetime employment, wage increases based on length of time with the firm and enterprise unionism. The remainder of the workforce is employed in small firms, many of which operate as sub-contractors to the large firm sector. Employment conditions in this sector are, generally speaking, significantly worse than those prevailing in large enterprises.

Large firms provide a high level of training to their core workers. This, it has been argued, has been regarded as a major determinant of Japan's impressive post-war economic performance. This commitment to training, job rotation and seniority wages means large Japanese firms try to keep staff for as long as possible given the investment in human capital made by the firm. Where adjustments have to be made, lay-offs are rarely used. Other mechanism relied

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244. For example, the role of employers in fostering enterprise unionism in Japan is now well documented. See for example Joe Moore, 'Japanese Industrial Relations', Labour and Industry, 1 (1) No 1 October 1987 pp.140 - 155 and Joe Moore, 'Nikkeiren and the The Right to Manage in Japan', Labour and Industry, 3 (2) and (3), June/October 1990 pp.281 - 301. For a summary of some of the limitations on trade union rights in ASEAN countries see I Islam, 'Industrial Restructuring and Industrial Relations in ASEAN: A Firm-level Chronicle', in Edgren (1989), *op cit*, pp.112 - 115 and ACTU, 'Workers' (rights and wrongs) in South-East Asia', Workplace, Autumn, 1992.

245. Edgren (1989), *op cit*, p9


249. *Ibid*, p39
upon include reallocating regular workers (ie those entitled to lifetime employment) to different part of the enterprise, to a subsidiary or sometimes to a different firm. Wages and annual bonuses are also cut, as are overtime hours. Other practices adopted include holding down wage increases, slowing down promotions and encouraging voluntary retirement. Bednarzik and Shiells also report that workers are regularly informed and consulted about adjustment plans by management, ensuring an awareness of what is happening and options for the future. They also argue 'it is important to note that employment adjustment often proceeds less smoothly in small to medium Japanese firms.

While these employment practices work well for those employed in larger firms, the situation is very different for those unfortunate enough to be displaced. Government support is directed at assisting adjustment processes within firms and only limited support is provided for the unemployed. Bednarzik and Shiells argue that non regular employees 'are usually the first to be let go during an economic downturn, often leaving the labour force entirely.'

This set of labour market arrangements provides the context for Japanese public policy for workers displaced by structural change. The key elements of the Japanese Government's approach to the question are as follows:

- the subsidy is provided to employers directly, not to the workers receiving public support

- eligible employers include those forced to reduce output, those temporarily transferring or receiving workers from other enterprises or providing training for those surplus to requirements

- only limited amounts of public money are used as much of the financing comes from the Employment Insurance Scheme financed by employers.

These initiatives are of secondary importance only if the enterprise is the critical mechanism for adjustment. Where workers are eventually displaced the burdens of adjustment are borne almost solely by the individual.


251. Bednarzik and Shiells, op cit, p39

252. Ibid, p41 More detailed discussion of conditions prevailing in small and medium sized firms and for non-regular employees is provided by, Norma Chalmers, Industrial Relations in Japan: The Peripheral Workforce, Routledge, London, 1989. Her literature review also gives a critical assessment of firm level studies that have been conducted in Japan and available in English.

253 Bednarzik and Shiells, ibid. Further details are provided in OECD, Measures to Assist Workers Displaced by Structural Change, Manpower and Social Affairs Committee, Working Party on Employment, Paris, 1989 pp.18-19, 23-4,26-7

254. Dore et al, op cit, p37, Quoted in OECD, (1990), op cit, p69
INDIA

Labour Market and Industrial Relations Context

Like most other Asian countries, experiences in the Indian labour market have received little attention from Western researchers examining issues relating to structural change at enterprise level. While developments in that country's rural and informal sectors are of limited relevance to the concerns of this paper, India does have a significant 'organised sector' with 25 million workers, i.e., 6 million of whom are unionised. The ILO's Asian Regional Team for Employment Promotion has recently released some research findings on structural adjustment occurring in firms in this sector.

Policies on labour market flexibility and labour adjustment

Issues relating to restructuring and retrenchment in the modern sector of the Indian economy are regulated by formal statutes which are, in some cases, augmented by collectively bargained agreements. Indian laws which give business people licences to operate enterprises and limit competition assume that in return for such privileges owners have responsibilities for their employees. For example, 'permanent or regular employees cannot be laid off without explicit government permission'. Approval to retrench is, however, usually granted. In addition, India also has severance pay laws which usually entitle those retrenched to one month's pay for each year of service up to a specified maximum. Collective bargaining often results in levels of compensation above the legal minima.

Experiences in structural adjustment at firm level

Some parts of Indian manufacturing have handled potential redundancy situations in creative ways. For example Indian steel firms and unions developed a 'rationalisation without tears' agreement to ensure job security for all steel workers when that industry was drastically restructured. There have also been instances of firms developing offshoot organisations for displaced workers to promote employment growth. Within the automobile and electronics sector extensive approaches to redeployment, retraining and product diversification have also been documented.

The most thoroughly documented adjustment process were the responses of Indian textiles firms to the challenges of changing production and demand conditions between 1975 and 1986. These studies reveal how gradual and

255. These figures have been taken from Edgren (1989), p3.
256. Edgren (1990), op cit, p631
257. Ibid, p632
258. Ibid, pp.642 - 3
planned changes are more successful than those devised and imposed hastily. They are particularly valuable as they reveal how firms differed in their responses to common supply and demand conditions. As such they highlight how decisions taken at enterprise level can make a difference to employment security.

Firm A:

Restructuring without employment loss: the importance of planning product and production innovations.260

This case involved a large textile firm with 2000 employees. Over the period 1975 - 1986 both output and employment increased: output rose by 8 percent per annum, with employment increasing by 600 - or 30 percent - over the period. Over the previous two decades the firm had changed the composition of its output dramatically. In 1970 coarse fibre accounted for 70 percent of production, but by 1986 this had fallen to 50 percent. Production of synthetics commenced in 1972 and accounted for 12 percent of output in 1986. Over the same period fine and super-fine varieties of naturally based textiles increased from 30 percent of output to just under 40 percent.

If there had been no change in product mix and technology employment would have fallen to 1,200 instead of increasing to 2,600. Increased productive capacity also underpinned these changes, much of it in the highly capital intensive fine varieties sector. Over the period there was a fivefold increase in fixed capital investment.

Significant technological changes were also associated with this restructuring. These included a shift from 4-loom a worker to 8-loom a worker production techniques in the late 1970s and high speed spindles in the spinning department. These changes resulted in 30 percent reduction in the need for labour on the site and were accommodated by redeployment to other parts of the plant experiencing demand growth. Some natural wastage associated with retiring staff was also used. A general increase in demand for the plant's output also helped, but this resulted in the need for different types of labour, primarily involved in administrative and sales activities.

The implications of these changes for labour in the production process were profound. Labour productivity doubled in 10 years. While no workers lost their jobs as a result of the changes, the nature of work changed dramatically. These included changes in occupation and work loads. Management formally notified the workforce of impending changes on eleven occasions over the decade. Some of the changes were implemented quickly, others took up to three months to negotiate. Many of the negotiations resulted in the workers receiving wage increases of up to 30 percent, ensuring that they shared in the productivity improvements. Other changes required a more highly skilled force. Workers were sometimes retrained on full pay for a month to meet these requirements.

260. Full details of this case are reported in *ibid*, pp.53 - 54. The account provided in the text is simply a paraphrasing of what is provided there.
Papola attributes the success of adjustment in this case to a single union representing workers in the plant and its long history of sound workplace industrial relations. He emphasises, however, 'that the planning of structural and technological change in a gradual and phased manner was the most important factor in smooth readjustment.'

**Firms B & C:**

**Restructuring involving job losses**

Papola provides accounts of two cases which were not as far sighted and systematic as Firm A in their approach to restructuring. These firms experienced retrenchments, industrial action and only partial success in implementing the changes required. Mill B was established in 1914 and employed 1310 workers in 1986. Mill C was established in 1930s, was mothballed in the 1960s and employed 1076 workers in 1986. Neither firm diversified its output into synthetics, preferring to continue production of coarse to medium varieties of yarn and cloth from the mid 1970s to the mid 1980s.

Mill B's cloth weaving capacity remained fixed after 1975 at 602 looms. Output in 1986 was down 18 percent on 1975 levels, although this was offset by a 900 percent increase in yarn production. In addition, production of printed cloth ceased in 1982. Changes experienced by the mill included a decline in original output, introduction of a new line and extensive automation of another line.

The implications of these changes were redeployments and reductions of staff. In 1975 the mill had 1284 regular workers. By 1980 it was down to 1125 of whom 310 were casuals. By 1986 regular employees numbered 1040 and casuals to 270. Reductions were achieved partly by retrenchment 20 percent, natural wastage and persuading workers to quit. In addition workers were reallocated to new tasks and work intensity increased. Some of the changes were successfully negotiated jointly by management and the union. Resistance on one occasion resulted in management abandoning moves for change. In some cases negotiations lasted as long as eight months, yet this made little difference to the numbers retrenched and redeployed. Wages also were adjusted on the basis of an industry wide agreement: where the workload doubled the basic wage was increased by 75 per cent, where it trebled the base wage rose 100 per cent. By 1985 subcontracting accounted for 5 per cent of the mill's output. This resulted in 27 workers being retrenched and a dispute that was only finally settled by recourse to court action.

In Mill C there was also no change in composition of output, only in production processes. Equally there was no change in capacity: between 1975 and 1986 it remained fixed at 25,000 spindles and 500 looms. Significant technological change was, however, involved with looms per worker increasing from four to sixteen. There were also major changes in wages: they fell from 21 per cent of costs in 1975 down to 11 per cent in 1986. Skilled workers' nominal wages

261. Ibid, p54
262. The details of this case are taken from Ibid, pp.54 - 58
doubled for this period and rose by 59 per cent for the unskilled. The end result of this technological change was a 300 per cent increase in output accompanied by a reduction of the workforce by 219, of which 200 were lost by means of retrenchments.

The workforce reduction caused few problems as a result of management's consultative approach and notifying the union of the process. Most problems related primarily to the sharing of productivity gains. Changes in Firm C were not covered by the industry agreement applying in Firm B, which meant the sharing of productivity gains had to be separately negotiated at enterprise level.

**Firm D:**

**Abortive Attempts at Restructuring: problems of poor planning and competing unions**

By the mid 1980s Mill D had operated for 40 years and employed 3000 workers. It had an installed capacity of 30,000 spindles and 700 looms and had experienced steady demand for its output until the 1960s. Its market share had declined since then, and modernisation plans were proposed only in 1976. A major difficulty in negotiating the change arose from the fact that three rival unions covered the workforce.

The modernisation plan proposed that the firm be restructured to 'produce high value, high margin and low labour use categories of products and also technological change [involving] semi-automatic machines.' A consequence of the package was that it required around 1000 retrenchments over two years. One union actively campaigned against job losses, the others attempted to negotiate, but on different terms. Recognising division, management attempted to introduce change unilaterally, which in turn prompted a 35 day strike. The dispute was settled with government assistance. Management did not persist with proposals for change and as a result the mill accumulated extensive losses.

Papola notes that changes which are major and abrupt in nature are unlikely to succeed. Moreover, where rival bargaining units exists, the problems of achieving rapid change are likely to prove insurmountable.

**ASEAN**

Iyanatul Islam reports on research undertaken into 24 firms from the ASEAN region. The firms were from the electronics, textiles/clothing and sugar industries. While this sample is small, the research was also informed by information obtained from indepth interviews conducted with union and

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263. The details of this case are taken from *Ibid*, pp.58 - 60
264. *Ibid*, p59
265. The Association of South East Asian Nations includes Indonesia, Malaysia, the Philippines, Singapore and Thailand.
management representatives at industry and national level. Together those sources provide an indication of the ways in which some firms in these industries respond to the challenge of structural change.

Islam asked management for their views on what initiatives they undertook to improve firm performance. He found the most common responses were as follows: (a) reorganisation of different units under a single management, (b) development of innovative approaches to human relations, (c) development of a corporate philosophy stressing company loyalty, and (d) development of a 'multi-skilled' management team ie management personnel able to assign themselves to different functions of the company.266

The research revealed that, generally speaking, management did not regard industrial relations matters as obstacles to restructuring.267

Managers were questioned about their reliance on atypical forms of employment. Few reported resorting to or relying on 'flexible labour deployment' such as subcontracting and casualisation as an adjustment mechanism. This is probably because there are few limitations on employers' ability to retrench labour at will anywhere in the region.268 Concerns with quality also informed managers' attitudes to the use of sub-contractors. This was especially the case for multinational corporations, operating in international markets. Firms also reported that there were significant benefits in having workers with sound general and specific skills contributing to production. This was often difficult to achieve if too much reliance was placed on contractors.269

Wages are sometimes assumed to be flexible in ASEAN countries however, Islam found ASEAN employers did not rely on wage adjustments to meet fluctuating economic conditions. Adjustment was more likely to occur by varying employment levels. The ease with which retrenchment could be undertaken providing an environment supportive of such an approach. Only in the Philippines have retrenchments provoked strikes.270 Managers reported that they regarded training their staff as a more effective way to meet changing labour requirements. In this context, most indicated that they found training provided on the job more important and effective than that provided off site.271

Islam reports that ASEAN firms were more likely to upgrade their technology than diversify their product range ie they seemed more prepared to change the way they produce current output than change what they produce. Management considered that the nature of the product is often determined by factors beyond its control such as the 'prevailing demand patterns in established export markets and,

266. See I Islam, 'Industrial Restructuring and Industrial Relations in ASEAN - A Firm level chronicle' in Edgren (1989), op cit, p123
267. Ibid, pp.124, 126-7
268. Ibid, p125
269. Ibid, p126
270. Ibid, pp.131-2, 142
271. Ibid, p134
in the case of multinational subsidiaries, by the parent company. Some domestic firms also noted 'the existence of entry barriers in various export markets as the major constraint' to the potential for product diversification.272 Given the importance of product innovation and marketing as adjustment options, Islam argues '... a more conscious effort should be made to build indigenous technological, design and marketing capabilities.' For him governments have a role in providing information on options and trends that can help firms adjust to rapidly changing circumstances.273

Conclusions on the Asian Case Studies

Japan's approach to labour market adjustment has contributed greatly to its outstanding economic success in recent decades. Yet much of that adjustment has been borne by contractors and non-regular workers with limited employment security. The limited access to alternative regular employment for displaced workers makes the spectre of displacement very unattractive in Japan. Consequently, while the Japanese approach to structural change may work well for a proportion of the workforce and for some firms, it is not without limitations. As the system of lifetime employment comes under pressure from structural changes, these limitations are likely to receive increasing attention from researchers. Changes underway include both a decrease in employment security for workers in the large firm sector, but some increase in employment security for those in the small firms and contractor sector.274

In contrast the Indian cases documented by Papola indicate that it is important to recognise that even within the same industry, some firms respond more effectively than others to changing production and demand conditions. Important factors appear to be management commitment to involve its staff and their unions in the process, a shared recognition of the necessity for change given product market pressures, 'capacity to expand and diversity to absorb' potentially redundant labour, 'a gradual and planned approach to change and positive treatment of employment and wages'.275 Employer complaints about unions and regulations only appear to have foundation 'where changes proposed are sudden and drastic.'276

Papola also argues that it is important to consider issues relating to reabsorbing redundant workers into other parts of the labour market because sometimes enterprise level initiatives will not be sufficient. He notes there may be a role for restructuring to occur in the context of co-ordinated industrial expansion occurring on a regional basis. Unfortunately, he provides no details of how this could be done.

272. Ibid, pp.138 - 140
273. Ibid, p143
274. Ibid, p144
276. Papola, op cit, p78
277. Ibid,
While the data for the ASEAN countries is limited it does give some insights into how adjustment occurs in firms within the organised sector there. Most interesting in this regard is the limited reliance on wage flexibility and atypical forms of employment and the limited capacity for product diversification. Islam's suggestion concerning the information role for government could be just as relevant to Australia as it is for countries of the South East Asian region.

AUSTRALASIA

NEW ZEALAND

The New Zealand economy has undergone significant structural change in the 1980s and early 1990s. In recent times its level of unemployment has increased dramatically: between September 1990 and June 1991 it rose from 7.7 percent to 10.4 percent. Around a quarter of the unemployed were out of work as a result of dismissal or redundancy.278

Details of enterprise restructuring and labour adjustment in New Zealand are difficult to obtain. Fortunately, details of workforce reduction practices in 74 medium to large organisations have been documented by Greg McAllister and Fleur McRobie.279 Their survey had a response rate of 40 per cent and gathered information on the reasons for downsizing, the number of times firms had 'downsized', the numbers and nature of staff retrenched, policies used to manage the workforce reductions, whether different policies were applied to different types of staff and firm's policies for future 'downsizing' exercises.280

Care must be exercised in generalising from a survey which was exploratory in nature and based on a small sample of firms. The findings can, however, be regarded as indicative of the approaches used by New Zealand firms.

In the twelve months covered by the survey (August 1990 - August 1991) around two-thirds of firms had 'downsized'. Of these, just under half had done so more than once.281 Over three quarters of all displaced workers were clerical, production or trades workers.282

Organisations used a variety of policies in reducing the sizes of their workforces.

279. Details of their publication are provided in the above footnote. At the time of writing we were unable to obtain a copy of John Savage and Alan Bolland, *Turning it around*, Oxford University Press, 1991. This text reports on how firms in five industries responded to the recent rederegulatory reforms in New Zealand. The findings of this research will be incorporated into our final paper on this subject.
280. McAllister and McRobie, *op cit*, pp.5-6
281. *Ibid*, p6
282. *Ibid*, pp.7-8
Over 70 per cent relied on redundancies with just under 50 per cent using internal redeployment. Other adjustment mechanisms (all used by less than half respondents) included: early retirement, voluntary severance, retraining, job sharing arrangements and outplacement support.283

In organisations experiencing more than one round of redundancies there was reduced reliance on the retrenchment option implying that '[e]xperience from the first round of "downsizing" may have proven that severe strategies can indirectly affect organisational performance.'284 Interestingly, many of the firms surveyed that had 'downsized' (86 per cent) had recruited staff during the survey period. Most of this was done to replace skilled workers who had left the organisation as a result of 'attrition'.285

McAllister and McRobie conclude their paper by noting that downsizing by New Zealand firms appeared to follow no real pattern. The overall approach by management appeared to be reactive rather than planned.286
3. Conclusions

The retrenchment of staff is a devastating event for those losing employment and often for those dismissing them. There is extensive literature on how employers should reduce the size of their workforces and an even greater range of material on how best to help those losing work.1 If the amount of suffering is to be reduced, however, a broader range of options needs to be considered. First more attention must be given to preventing the redundancy situation arising. Secondly, if retrenchments are unavoidable, attention needs to be devoted to using the situation as an opportunity to restructure the organisation and help those displaced find other employment. It is these two issues that have been the central concern of this literature review. A number of conclusions can be drawn from our analysis.

*The context in which firms operate sets significant constraints on their ability to both provide employment security and undertake soundly based retrenchment practices.*

The studies into employers' labour use strategies in the UK in the late 1980s and the analyses of German and French manufacturing firms showed that labour market and social structures such as schools as well as the daily pressures of operating a business severely circumscribe workplace managers' options in deploying labour. As noted in the discussion of Japan it is the structure of that country's labour market that gives large firms their flexibility. They do not operate as isolated units, but depend on labour of both core employees and a contractor sector. The evidence from South America clearly established that given the scale and timing of the changes implemented by Governments, firms often had few options other than scaling back their operations and shedding labour. Where there is a sudden and significant decrease in demand, there is often little time for firms to do anything else.

*Within general constraints, however, firm level initiatives can make a difference.*

It is sometimes tempting for employers to blame factors beyond their control for retrenchments. Several of the case studies established, however, that firms facing similar situations varied in their reaction and performed differently. For example, the comparative study of the metal and clothing factories in Germany showed that despite the extensive laws regulating workforce reductions, different procedures

and outcomes occurred. Similarly the French case studies revealed that despite the detailed legal requirements for dealing with retrenchments, completely different labour adjustment practices were pursued in the building maintenance, steel and electrical engineering sectors. The very wide range of experiences in US workplaces shows that firm level decisions can make dramatic differences for both employment security and the prospects of displaced employees once they re-enter the labour market. The comparative case studies of firms in the Indian textiles industry also showed how business units evolved over two decades. Planning and joint negotiation by one plant underpinned its continuous expansion, whilst ad hoc decision making and confrontationist industrial relations were associated with the less successful firms. In short these case studies all demonstrate that where management takes responsibility it can make a difference, even in situations where the choices are limited.

There can be major benefits for employers in adopting innovative approaches to employment security and retrenchments.

Many employers often consider only the immediate costs associated with commitments to employment security and well planned approaches to retrenchments. However several of the US cases clearly established that far from costing money such initiatives delivered significant financial gains to the firms concerned. Xerox identified improvements in production processes that not only prevented the retrenchment of just under two hundred staff, it also saved the firm over $3 million annually in operating costs.

In France, the innovations with Electronique Serge Dassault not only reduced the firms reliance on defence contracts but increased turnover so dramatically that employment doubled over twenty years. The Indian textile mill that diversified output, upgraded its technology and negotiated all major changes with local union representatives increased market share and expanded employment, also demonstrated the advantages of an innovative, planned approach to enterprise restructuring. Reflecting on the extensive US experience in this area Hansen notes that the benefits arising from employers offering employment security include, creating loyalty to the company, instilling confidence and trust in management, greatly reducing resistance to technical change, reducing staff turnover and improvements in employee relations. Such benefits can contribute to increased competitiveness of the enterprise, higher productivity and profits. These benefits are additional to avoiding costs associated with retrenching staff such as severance payments. Where retrenchments are however unavoidable, it is essential that they are handled properly. Poor approach to labour shedding can reduce the morale and productivity and increase the turnover of the remaining workers. The adoption of appropriate practices and provision of adequate resources for the retrenchment process can limit these negative effects.

The literature on overseas experience also indicates that successful approaches to

labour adjustment involve more than changing the workforce: product diversification, investment and skill formation are of equal importance.

The extensive analytical debate arising from the diverse experiences in the US established the importance of considering all factors associated with production and the composition of output for employment security. Retrenchments have been avoided or minimised where firms have diversified the range of products they produced, enabling them to switch production between various goods as demand for them fluctuates. The South American case studies outside of Chile all indicated that it was often non-labour forms of adjustment that underpinned the firms that survived. The experience of the Oresund shipyard in Sweden clearly established that if a massive shut down was not to result in the decimation of a local economy, initiatives in the capital market, marketing field, business development and skills formation are needed.

Considerable amounts of time and resources are needed to establish structures and practices that underpin employment security and more desirable approaches to shedding labour.

We found no cases of successful change that occurred quickly or cheaply. All the successful cases of both retrenchment prevention and labour shedding that resulted in high and rapid rates of reemployment were well resourced and allowed time for negotiating and implementing change. These factors underpinned the outstanding success of the Canadian Industrial Adjustment Service's support for plant closures and sectoral level restructuring. The firms in the UK book, car, banking and life assurance industries all worked at developing their approaches for successfully handling structural change over many years. The factory occupations in Scotland resulted in extending the period of time over which the proposed closures were spread. This allowed various agents time to mobilise the resources necessary for the survival and growth of these workplace. The closure of the Oresund shipyard in Sweden occurred over a two year period which gave nearly all concerned a chance to develop new jobs and skills by the time the yard finally closed.

It appears that co-operation between firms increases the options available to them in providing employment security and adjusting their workforces to changing demands.

The outstanding case of employment security in a US high technology firm where all surplus staff were given a guaranteed income for two years whilst they retrained and sought new work established that no one firm, even if it is prepared to commit considerable resources, can, at the end of the day, guarantee employment security. Similarly, the Canadian experience is sobering in this regard. The Industrial Adjustment Service is obviously highly successful in easing problems associated with the plant closing process. Unfortunately, unemployment in Canada is high. Smoothing the process of structural adjustment at individual firm level does not guarantee healthy aggregate outcomes. Wider ranging initiatives, involving groups of private sector firms and government agencies are obviously essential. This was evident in the successful closure of the
Oresund ship yard. This adjustment exercise involved the mobilisation of a whole locality. Coordination within the local business community as well as funding and administrative support from national and local government were central to the success of this adjustment exercise. The need for such support and co-ordination was also identified in the ILO studies of enterprise level adjustment in the ASEAN region. Similarly, recent developments is in the analysis of successful adjustment strategies in UK firms highlighted the importance of inter-firm co-operation for enterprise survival and development.

The above conclusions may appear as nothing more than statements of the obvious. Most of the evidence, however, indicates that many managers approach retrenchments in an ad hoc and unplanned fashion. *In short, there is plenty of room for improvement in current practices.* This point was clearly made in the survey of adjustment practices in New Zealand’s firms. Moreover, the studies of UK manufacturing and steel casting revealed that these processes can also be very inefficient - productive workplaces often closed before the unproductive ones. It is therefore vital that options for improving firm level adjustment practices be considered far more systematically and rigorously. In rethinking our approach to the question of avoiding retrenchment or conducting them properly if they are unavoidable, it is essential that

a. all aspects of business operations are considered, not just labour shedding,

b. that adequate time and resources are made available to underpin the adjustment process and

c. that links are established between firms to extend the range of options available to both employers and their employees.

How these principles apply will vary on the basis of industry, workplace size and the nature of local labour markets.

It is one thing to identify what is possible and desirable. It is quite another to identify viable ways of changing current practices. *Our major finding in this regard is that changing firm level practices will require significant reorientations in policies and practices amongst all parties involved. Increased Government funding and action alone will not be enough.* The experiences of countries overseas also provide some ideas on how the reform process can occur.

*If positive change is to occur all parties must take some responsibility for improving their own approaches to labour adjustment at firm level. Reliance on 'impersonal' market forces alone will not achieve optimal outcomes.*

In their analysis of the Japanese situation the tripartite OECD study mission noted that despite assumptions to the contrary, market processes only account for adjustments in a small segment of the economy.\(^3\) The experience of the Southern

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American firms indicates what can happen when adjustment is primarily left to 'market forces': rationalisation and improved efficiency amongst those firms which survive, but in aggregate the employment situation deteriorated. Successful adjustment appears to require sensitive, skilled personnel intervening at the right moment and withdrawing after the adjustment is completed at a particular locality. The Canadian Industrial Adjustment Service reveals that while this may make the adjustment process less traumatic, it does not necessarily improve aggregate outcomes. It appears that only where extensive links are established between capital markets, the local business community and public sector agencies (as occurred at Oresund shipyard) that dramatic dislocations can be avoided. The case studies of firms from four different sectors of the UK economy also established the intricate practices involved if firms are in respond successfully to rapidly changing operating environments.

Exhortation and better provision of information about alternatives is not adequate - policies and practices need to change.

Some of the best information and analysis of the issues of employment security and retrenchments practices came from researchers based in the US. Practice at workplace level in the US, however, does not appear generally to offer many positive lessons on how to handle the process of adjustment. The problem is not lack of information but rather its application in every day life. A more systematic approach to information diffusion and promotion of improved practices is required.

A program of change cannot come from Government alone, improved arrangements at local and enterprise level must also be nurtured.

The analysis of cases in France, Germany and Sweden highlighted the diversity of practices and outcomes in these countries despite the fact all firms faced similar legal obligations. Obviously legal requirements are insufficient to guarantee improved practices at workplace level. Improvements in the adjustment process will require the establishment of new institutions and procedures. The Canadian Industrial Adjustment Services network of facilitators and retired business and union leaders offers insights into how such links can be established. The voluntary nature of this Service's facilities appears to be very important for its effectiveness.

Initiatives for change must come from leaders of Government, business and unions.

In Canada and Sweden the Government provided resources to assist firms undergoing dramatic change. The success of programs in these countries appears to be associated with the active involvement of business and unions in the operation of the programs. The success of the Oresund shipyard shows how
beneficial active business support can be. It appears from the UK research that where links are established between firms they can increase their adjustment options dramatically. Similarly, union leaders have a vital role to play. Instead of focusing demands on severance payments and notification provisions, union policies need to be broadened to address issues such as product diversification, changing production techniques to enhance job security and bargaining over the flow of investment funds to resource these changes.

Several researchers noted that the retrenchment and 'downsizing' processes require different skills to handling firm expansion and growth. Given the prevalence of fairly unimaginative approaches to preventing retrenchments and the insensitive way of conducting them when they are unavoidable it will be important to provide training to employers and unions on how to handle these issues. In Sweden, the Government has a consulting firm that helps unions prepare proposals on alternatives to retrenchment when notice of possible job losses is provided to union delegates at the workplace.

Ideally firms should be considering the issues of employment security and redeployment options as a matter of ongoing business practice. Unfortunately, most currently do not. Most only confront the issue when the possibilities of retrenchment arise. Given that limited resources will be available for any activity associated with propagating best practices it will probably be sensible to focus action on firms with a strong material interest in learning. Consequently, the focus for diffusing new ideas on improving labour adjustment at firm level should be reforming redundancy management processes. Crisis management could be used as point for promoting new approaches to firms' employment policies. This has been the experience of the Canadian Industrial Adjustment Service. This service is now branching out to assist with positive adjustment measures on a sectoral basis. In doing this it is building of the good will and reputation it has established as an agency assisting with retrenchments.

Structural adjustment at firm level is a complex process. Improving current approaches will be difficult. The next stage of our research will involve analysing Australian firms that have been particularly good at either avoiding retrenchments through effective approaches to structural change at firm level or who have conducted large scale retrenchments in a way that minimised the negative effects of displacement for the employees concerned. Such detailed analyses of what is possible in Australia will help other firms identify how they can improve their current approaches to enterprise restructuring and labour adjustment.
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