SUSTAINABILITY FOCUS

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RESTRUCTURING AND HUMAN CAPITAL

A SERIES OF RESEARCHES ON HUMAN CAPITAL

The quality of human capital management is generally recognised as an important, if not the most important, source of organisational success. Strategic management of human capital fully recognises the value of competent employees and effective human resources practices and at the same time highlights the importance of organisational support to valorise these competencies.

Vigeo is currently performing a research project on human capital. Based on our exclusive database and an extensive literature review, we selected four topics to explore how human capital practises are implemented by European companies. This current Sustainability Focus on restructuring is the first in a series of four. In the coming months Vigeo will release studies on three other human capital issues: social dialogue, the role of the Human Resources Director and coping with stress.

ABSTRACT

The persisting crisis confronts companies with balancing conflicting objectives: reorganising and restructuring and at the same time retaining their human capital base. If restructurings are not managed properly, an organisation risks to end up with high costs and a substantial loss of human capital, varying from demotivation to missing the opportunity for growth. In this Sustainability Focus we will analyse how European companies deal with restructurings. We will also evaluate if companies are capable of extending their restructuring competencies, by looking at the evolution of approaches over a three to four year period.

ECONOMIC RATIONALE[1]

The loss of critical knowledge and key people should be avoided at any time, but downsizing and retaining human capital is a difficult exercise. It is very difficult to identify critical knowledge and to decide which competencies will be needed in the future. The main risk of downsizing is that competencies are not there when the company needs them; competencies are not rapidly replaceable and companies risk missing the opportunity and momentum for growth. One of the key messages for effective restructuring is making sure that human capital which is lost, can be easily replaced. Internal mobility is often seen as one of the best instruments to maintain human capital. People who are familiar with the organisation are more capable to apply and adapt knowledge to new challenges that has already been proven to be effective in the past.

[1] This part is largely based on Schmitt, Borzillo and Probst, 2011

The second main risk is that organisations may overlook the impact of downsizing on employees remaining in the organisation. Transparency and perceived internal justice will highly impact employees' morale and motivation as well their trust in the organisation. Poorly executed restructurings may trigger a chain of undesired reactions: lack of engagement, increasing absenteeism and high employee turnover. An organisation risks ending up with high restructuring costs and a substantial loss of human capital.

VIGEO'S MAIN FINDINGS

Confronted with the need to reorganise, companies can resort to different solutions. They can opt for a rather passive approach by offering early retirement or financial compensation in the form of redundancy packages. Companies can also assist their employees in finding alternative employment outside the organisation. This will mainly take the form of outplacement. In a more pro-active approach, companies engage themselves to find internal solutions: priority is given to internal candidates, training is organised to assume new tasks and responsibilities or the working hours of (some groups of) employees are reduced temporarily or permanently.

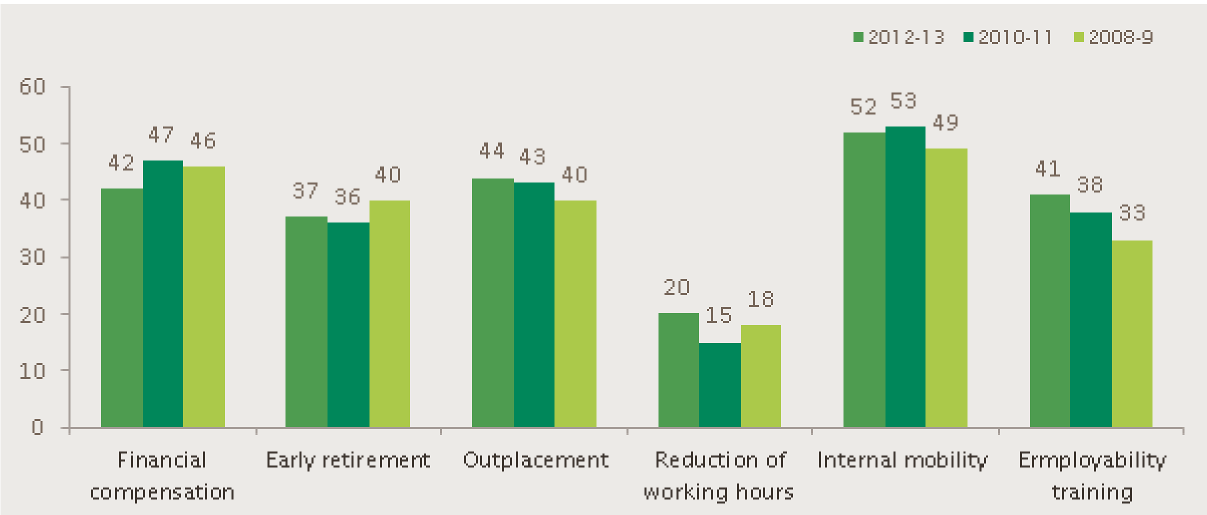
Concretely, six programs were reviewed in this analysis:

- Passive measures: redundancies packages, early retirement
- External solutions: outplacement
- Internal solutions: reduction of labour time, internal mobility, and training.

A first evaluation can be made based on the comprehensiveness of the restructuring programs. In the most recent review, about one-fifth of the companies (21%) adopt a broad approach to limit the impacts of restructurings: they resort to both passive measures, as well as to external and internal solutions (active approach). Another 30% rely on passive measures and partially on internal solutions (mixed approach). One quarter mainly reverts to passive measures (passive approach), and another quarter does not report at all on their restructuring programs.

A more detailed analysis reveals the occurrence of specific restructuring programs. The most frequently used program is internal mobility (52%). Four other measures are applied in (almost) four out of ten companies: outplacement, redundancy packages, employability training and early retirement. Only one-fifth of the companies have implemented forms of (temporary) reduction of working hours. The combination of training and internal mobility is observed in 32% of the companies. When only taking into account the companies who report on this subject, these percentages increase to 69% for training and 26% for reduction of working time.

Percentages of applied measures during three research cycles



The following observations can be made on programs related to internal solutions:

- Reduction of working hours is not considered as an option. At the beginning of the crisis European and national authorities promoted temporary labour time reduction in combination with further training. Dynamic human resources management should take up this idea again: periods of reduced working time are a useful instrument to employee retention.
- At 42%, training is not used at its full potential, not only to better prepare employees assuming future responsibilities, but also to extend the knowledge base of the company. Investments in training are costly and lack a return when employees leave the organisation. Other companies will then benefit from that investment. On the positive side, those companies who conceive training as an instrument to cope with restructurings, most often combine it with internal mobility.
- From a human capital point of view the high frequency of internal mobility is a positive observation. To maintain the organisational knowledge, there is a need to fill positions with internal candidates at least partially.

TREND

The use of reorganisation programmes remains rather stable (see graph). There is one exception: reliance on employability training has increased from 33% in 2008-9 to 41% in 2012-13. On the one hand, reliance on passive measures has slightly decreased: -4% for financial compensation and -3% for early retirement. Companies behave largely the same before, as well as during, the crisis. There is some progress, but most of it has been made in the period 2008-2011. On the other hand, the slight increase in the use of active measures and the small decrease of passive measures, may point out an increased awareness of the relevance of human capital.

To find out if there has been a learning effect, we have compared the types of approaches over the last three rating cycles for individual companies (No information: NI, passive: 2, mixed: 3, broad: 4).

Comparison between the approaches between most recent and previous review (t-1)

2012-13/2010-11	NI	passive	mixed	broad
NI	29	13	4	3
passive	14	28	11	1
mixed	9	9	44	6
broad	1	0	23	28

The dark green cells show the number of companies that adopted the same approach at both points: they account for 129 out of 223 companies (58%) adopted the same approach. 56 (25%) companies expanded the range of restructuring measures, while 38 (17%) reduced it. For companies with different approaches in both reviews, 76 out of 94 companies (81%) saw their score increase or decrease by one level (cells in light green).

The comparison between the N and N-2 review, a period spanning more or less three years, results in different trends: 40% of the companies maintained their approach, while also 40% adopted a more comprehensive approach.

From a human capital point of view, organisational knowledge tends to reproduce itself in the short term. In a longer term perspective, however, some companies rely more on internal solutions and therefore improve their management of restructuring.

DOES POLICY SHAPE MANAGERIAL PRACTICES?

In responsible management of restructurings, Vigeo looks at two policy aspects: the commitment to anticipate and to reach joint solutions with employee representatives.

For both aspects, stronger commitments go hand in hand with more comprehensive programs. This is not surprising. When a strong commitment or framework agreement are in place, there is already a shared commitment that the interests of both the organisation and of the employees will be taken into account. This common understanding will facilitate the implementation of programs oriented towards employee retention.

Neither the policies, nor the programs have a clear effect on the effectiveness of restructuring in terms of retained employees or avoided redundancies. A very tentative explanation is that companies that are downsizing are more likely to have elaborated procedures and guidelines to avoid human capital losses. Companies that are characterised by stable or increasing employment levels may not feel the need to formalise their positions. Some support for this argument is found in the fact that of the 33 companies that maintained or increased their employment figures, 17 do not disclose any information on their restructurings program and 18 did not disclose any commitment to planning and anticipation.

SECTOR DIFFERENCES

The highest frequencies of active measures (reduction of labour time, internal mobility, training) are noted in diversified banks, technology & hardware and automobiles sectors: more than half of the companies resort to them. The occurrence of these programs is far less frequent in insurance, retail & specialised banks and electric & gas utilities sectors.

Sector approaches

Frequency/ approach	Active	Passive
High	Diversified banks, Technology & hardware, Automobiles	Diversified banks, Electric components, Technology and hardware
Low	Insurance, Retail & specialised banks, Electric & gas utilities	Mechanical components & equipment, Chemicals, Electric & Gas utilities

Passive measures (redundancy packages, early retirement) are used the most in Diversified banks , Electric components & equipment and Technology & hardware. Sectors that only rely in a limited way on passive measures are Mechanical components & equipment, Chemicals and Electric & Gas utilities.

These findings suggest that, for most sectors, it is not a question of resorting to active measures versus relying on passive measures, but of a narrow versus a broad approach: in general, sectors tend to either fall back on a broad range of both active and passive programs, or they resort to passive measures only. This is a relevant observation when evaluating redundancy packages and early retirement. It would be unfair to classify them as the 'easy solution' : they are often used in the context of a balanced approach, in combination with programs to keep employees in the workforce. Diversified banks are illustrative for this situation: the sector is the most frequent user of active and of passive measures.

The broad approach in the diversified banks sector, is also characteristic for a number of industrial sectors: technology & hardware, electric components & equipment, energy, pharmaceuticals and mining & metals, but in only one services sector: telecommunications.

No sector relies strongly on passive measures only. In some sectors, more than one third of the companies apply all programs: (smaller) retail & specialised banks, chemicals, electric & gas utilities, mechanical components & equipment and insurance.

AUTOMOBILES AND DIVERSIFIED BANKS

Two sectors were severely impacted by the crisis: banks and automobiles. Across the board, (large) diversified banks adopted the broadest approach: they relied strongly on internal mobility (92%), but also on redundancy packages (77%) and early retirement (73%). Less than half of the banks (46%) used training. Automobiles is the only sector where reduction of labour time (69%) is applied widely. They further resort to internal mobility (62%), but far less to training (31%). Passive measures are applied in only one-third of the automobiles companies.

Both sectors strive to maintain their human capital basis. The main difference lies in the reliance on passive measures: high in diversified banks, low in automobiles. For banks, this can be explained by the relatively older workforce and the tradition to offer generous redundancy packages. In contrast to what is often believed, employees in the automobile sector are highly qualified and companies are reluctant to lose these valuable resources. Compared to other sectors, the automobiles sector is an outlier: it is the only sector that mainly relies on active measures.

Finally, the effectiveness of the restructuring programs can better be assessed in automobiles: only three (out of 13) companies provide no information on their restructuring programs, six report that they have been able to reduce layoffs, two have been able to avoid layoffs altogether and two more have been able to retain or expand employment. In the diversified banks sector, more than half of the companies (14 out of 27) do not report on the outcomes of their restructuring programs; eight report that they have been able to reduce layoffs; four have been able to avoid layoffs; and one bank has increased its employment figures.

CONCLUDING REMARKS

Vigeo's research reveals an increasing awareness of the relevance of the retention of human capital in times of restructuring. On the short term, companies tend to reproduce their approaches, and on a longer term, companies are implementing a broader range of restructuring programs. Active measures, like internal mobility and further education, are applied more widely, but are not still valorised at their full potential. Clear commitments, especially when they are formalised in an agreement with trade unions, go hand in hand with a broader approach. Sector approaches reveal two patterns of dealing with restructuring: some sectors rely on a broad range of programs, including passive and internal measures, while other mainly resort to early retirement and redundancy packages.

BEST PRACTICES

Selecting best practices in panel of some 250 companies is very arbitrary. Therefore we focus only a limited number of innovative practices.

COMMITMENT TO NEGOTIATED SOLUTIONS

32 companies have signed a framework agreement on responsible restructuring. 15 of them have done so with an international trade union. Two innovative approaches are presented below.

RWE (Electric & Gas Utilities, Germany)

RWE's European Works Council agreement on the management minimum standards that apply in the case of restructuring states that "when developing social plans early retirement, part-time work for elderly workers, voluntary severance pay, part-time work, outplacement, qualification/ training and mobility should be considered."

BNP Paribas (Diversified Banks, France)

The 'European Social Charter Employment Management' agreement with UNI Finance, states that BNP Paribas Group's European businesses will seek to avoid compulsory redundancies by offering discretionary alternatives, like amongst others looking into opportunities for transfer within the business and approaching other businesses in the country, or elsewhere within the Group, for possible openings.

ATTENTION FOR TEMPORARY AND OLDER EMPLOYEES

Only five companies refer explicitly to the rights and interests of temporary employees: Coca Cola Hellenic, GDF Suez, PSA Peugeot Citroen, Novozymes and UBI Banca. The approach of PSA is presented below. An age conscious HR management during restructurings is seldom observed. KBC is one of the few exceptions.

PSA Peugeot Citroën (Automobiles, France)

In 2013, PSA, four interim agencies, the French Job Centre (Pôle Emploi), and a local vocational training centre implemented an "experimental" initiative in Poissy, France, aiming at helping temporary employees find another job or consider more lengthy redeployment in another profession.

KBC (Diversified Banks, Belgium)

KBC offers an end of career evaluation (55 years or older), to adapt the work organisation to organisational and personal conditions. Career breaks can amount to five years for employees of 55 and older. From 50 years on, employees can transfer annually 4 working days, that may be taken up at the end of the career.

REDUCTION OF WORKING TIME AND EMPLOYABILITY TRAINING

International authorities recommend the combination of (temporary) reduction of labour time and employability training. This approach, however, is seldom observed. A noteworthy example of this combined approach is Daimler.

Daimler (Automobiles, Germany)

For Daimler Trucks, the 2900 jobs losses will be put into effect by different measures: trainings measures (individual development, job re-training, sabbaticals); transfer of personnel to other business units; voluntary exit agreements with appropriate financial settlements. In addition, in case of needed reorganisation, Daimler's management system includes flexible working-time accounts, short-time work, and working-hour reductions.

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