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Restructuring enterprises through social dialogue and labour-management agreements: Social responsibility practices in times of crisis

International Labour Office

This briefing note depicts a number of social responsibility practices in the area of enterprise restructuring in times of crisis. As a result of the crisis the initiative for recovery is generally in the hands of employers under pressure from the global markets to cut costs. This entails a consequent shift in negotiating power between employers and workers. However, the examples provided demonstrate that win-win solutions are possible and have in many cases been found through negotiated solutions based on the assumption that by protecting the labour force of the company during the crisis, the company will be in a better position to respond to the market opportunities which should emerge after the crisis. Thus socially responsible companies can ensure both the long-term viability of the enterprise itself and stability of employment for its workers. The main focus is on labour-management initiatives aimed to protect the levels as well as the terms and conditions of employment, for as long as possible, given the situation of the company. In the cases examined, company restructuring that makes workers redundant is used only as a last resort.

Several measures have been adopted with a view to curtailing employment insecurity while at the same time maintaining enterprise sustainability.

The main measures adopted by companies (with or without State incentives) during the ongoing crisis can be summed up as follows:

• **Employability** measures which consist in promoting training, establishing internal staff pools, and/or carrying out temporary transfer of workers to training agencies or "work foundations";

• **Working time** redistribution/reorganization usually consisting of temporary or long-term reduction of the work week, a greater variability in and extension of working hours without overtime premium, increased use of part-time work, and/or extension of operating hours (e.g. weekend work);

• **Workforce stabilization**, i.e., the establishment of conditions for use of fixed-term contracts and agency work, the transformation of precarious posts into more stable jobs, the provision of additional employment for specific groups (e.g. young people, the long-term unemployed), relocation of the workforce within the company, insourcing of formerly outsourced activities;

• **Process/product innovation** consisting of new forms of work organization (e.g. team work), and investment in new products or technologies; and

• **Strengthening the voice of employees** by using social dialogue mechanisms or establishing new information or consultation rights for employee representatives (Note 2).

• **Employment security in exchange for negotiated temporary wage freeze or wage cuts;**

The role of Governments has been critical in providing an enabling environment for enterprises to adjust to the crisis.

In several countries, national-level plans of action – sometimes negotiated with representatives from business, unions and civil society – have been adopted with a view to complementing or supporting these company initiatives. This note highlights that the governments of Chile, France, Germany, Singapore, and Zambia have been able to design and implement effective measures in this respect. Governments have supported threatened industries and companies headquartered in their countries, through measures such as (a) financing training programmes in exchange for job security; (b) providing or extending temporary subsidies via public unemployment funds; (c) extending legal provisions for short-time working and partial unemployment; and (d) encouraging social dialogue and collective bargaining at sectoral and enterprise levels. These measures proved to be critical in saving employment and businesses. In some countries (Belgium, Chile and Poland) tripartite agreements have been translated into laws and/or were implemented through collective bargaining at sectoral and enterprise levels.

Nonetheless, companies, in collaboration with workers' representatives and unions, are the key protagonists in designing and implementing effective, socially responsible enterprise restructuring plans.

This briefing note depicts and analyses two broad types of practices at enterprise level embodied in 16 case studies: (a) transnational company agreements (TCAs); and (b) plant/national level agreements.

The role of some TCAs in addressing restructuring related issues (including intra-firm workers' mobility and anticipation of change) has been key during the current global crisis.

By March 2010, 160 transnational company agreements signed between multinationals and unions operating at the cross-border level have stimulated global social dialogue between companies and workers' representatives – that is, both in the companies' headquarters and where they operate. Of these, 39 agreements addressed the issue of restructuring in 23 enterprises (including agreements on related issues such as intra-firm mobility and training). The vast majority of these agreements cover the European operations of multinationals. Annex I to this note provides overview information on these agreements.

The eight examples depicted in this note show that TCAs may create the appropriate conditions for protecting employment through cross-border social dialogue and the establishment of joint implementation and monitoring mechanisms. Furthermore, transnational company agreements contribute to cross-border coordination of collective bargaining policies which, in turn, may contribute to preventing a downward spiral in terms of wages and conditions of employment.

Three factors seem to have facilitated the signing of these innovative cross-border restructuring agreements.

• Trade union coordination resulted in specific mandates given to European industry unions (or the European Works Councils) to negotiate and sign agreements at the European level directly on behalf of workers of the enterprise and their affiliated unions in countries where the multinational operates; such a mandate is vital in ensuring that promises made at HQ levels are kept throughout the value chain, with no exceptions;

• Management commitment to dialogue demonstrates a willingness to create transnational structures for labour-management relations especially during the crisis;

• A joint commitment to ensuring stability and minimizing the risk of conflict during the crisis (“have dialogue before strikes erupt”), especially in major operating sites located in countries with a tradition of mobilization (e.g., Germany, France, Luxemburg and Belgium).

Plant/national-level agreements drawing from mature systems of industrial relations remain the linchpin of socially responsible restructuring during the crisis.

The industrial relations framework of the country where companies operate is a determinant factor in securing agreement to and effectively implementation of restructuring programmes with job saving components at plant level.

The presence of mature systems of industrial relations is an essential precondition for successful schemes to enable enterprises to adjust to crisis situations. Such systems allow for the functioning of independent trade union representatives and encourage companies to:

• establish a skilled human resources function;

• embark on an agreed programme of joint manager/worker training aimed at developing better understanding and promotion of dialogue; and

• negotiate a set of management systems dealing with industrial relations in a way that enhances mutual understanding and provides the means to avoid future problems.

Arguably, this may explain why France and Germany, two countries with well-established collective bargaining systems and a strong culture of labour-management consultation and co-determination, respectively, demonstrated possibly the greatest resistance to restructuring plans entailing massive lay-offs. The cases highlighted by this briefing note (notably the case of Daimler, Germany) are good illustrations of fair "job-security" pacts, showing that the recognition of mutual interests whereby wage concession is made in return for employment security, and the extension of employee participation, can lead to a win-win situation.

The success of company agreements addressing restructuring depends on several factors.

Broadly speaking, four key drivers for the successful implementation of both plant level and transnational company agreements have been identified:

• communication before, during and after the agreement so as to ensure workers' buy-in or "ownership" of the agreement;

• effective joint monitoring and follow-up procedures (ideally linking the local and the global);

• a forward-looking strategy of the company which is often summed up in a management belief in the capacity of its existing labour force to continue to be employable after the crisis; thus a commitment to in-sourcing (rather than outsourcing) and investment in job-saving measures (e.g., training, paid leave); and

• availability of income support measures.

However, two interrelated caveats should be kept in mind:

First, enterprise initiatives which consist of securing employment in exchange for sacrifices (e.g., pay freezes, pay cuts) pose a risk of deflationary wage spirals with obvious negative consequences in terms of recovery. Such developments can be prevented by complementary schemes such as government driven income support measures.

Second, as public deficits mount, it is unclear how long many governments will be able to resist pressures for an early exit from the stimulus measures undertaken.

It is essential to place the ILO Global Jobs Pact principles at the centre of companies', unions' and States' strategies for enterprise restructuring.

The abovementioned social responsibility practices are broadly in line with the principles of the Global Jobs Pact (Recovering from the Crisis: A Global Jobs Pact) adopted by the International Labour Conference in June 2009, with the participation of Government, employers' and workers' delegates from all ILO member States. The Pact assigns a key role to limiting or avoiding job losses and supporting enterprises in retaining their workforce, through well-thought out schemes, designed and implemented through social dialogue and collective bargaining at all levels.

Notes

Note 1 - This briefing note was prepared by staff of the Industrial and Employment Relations Department of the International Labour Office (ILO), Geneva under the supervision of Michael Henriques (Senior Adviser to the Director General of the ILO).
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Note 2 - Drawing on Haipeter and Lehndorff, 2009, p.10.

Further Ressources

ILO Publications

International Labour Office, 2006*Tripartite Declaration of Principles Concerning Multinational Entreprises and Social Policy* (pdf 212 KB)(Geneva, ILO).

ILO Websites

global jobcrisis observatory: social dialogue

Industrial and Employment Relations Departments: DIALOGUE

Resource Guide on Corporate Social Responsibility (CSR): INFORM